Notes to the Financial Statements

1 Reporting entity →

DFCC Bank PLC ("Bank") is a limited liability public company incorporated and domiciled in Sri Lanka.

The Bank was incorporated in 1955 under DFCC Bank Act No. 35 of 1955 as a limited liability public company and the ordinary shares of the Bank were listed in the Colombo Stock Exchange (CSE).

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name "DFCC Bank PLC" with effect from 6 January 2015.

The Registrar General of Companies on 1 October 2015 issued the Certificate of Amalgamation in terms of Section 244 (1) (a) of the Companies Act No. 07 of 2007 that DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC in accordance with the provisions of Part VIII of the Companies Act No. 07 of 2007 with DFCC Bank PLC surviving as the amalgamated entity.

DFCC Bank PLC (DFCC) also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank.

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group companies.

Total employee population of the Bank and the Group on 31 December 2018 was 1,860 and 1,963 respectively. (31 December 2017 – 1,770 and 1,869 respectively.)

A summary of principal activities of DFCC Bank PLC, its subsidiary companies, associate company and joint venture company is as follows:

Entity	Principal Business Activity
DFCC Bank PLC	Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities and Treasury-related products
Subsidiaries	
DFCC Consulting (Pvt) Limited	Technical, financial, and other professional consultancy services in Sri Lanka and abroad.
Lanka Industrial Estates Limited	Leasing of land and buildings to industrial enterprises.
Synapsys Limited	Information technology services and information technology enabled services.
Associate	
National Asset Management Limited	Management of Unit Trust and private portfolios
Joint venture	
Acuity Partners (Pvt) Limited	Investment banking-related financial services.

There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

2 Basis of preparation →

2.1 Statement of compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank, which comprise the statement of financial position, income statement, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

2.2 Approval of Financial Statements by Directors

The Financial Statements are authorised for issue by the Board of Directors on 18 February 2019.

2.3 Consolidated and separate Financial Statements

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its Associates and joint Ventures in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures" . In addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act, No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

2.4 Basis of measurement

The consolidated and separate financial statements of the Bank have been prepared on the historical cost basis except for the following material items in the statement of financial position:

Financial instruments

Item as per LKAS 39	Item as per SLFRS 9	Basis of measurement	Note	Page
Assets held for trading	Financial assets measured at fair value through profit or loss	Fair value	28	181
Derivative assets and derivative liabilities held-for-risk management	Derivative assets and derivative liabilities held for risk management	Fair value	27	179
Financial assets available for sale	Financial assets measured at fair value through other comprehensive income	Fair value	32	188

Non-financial assets/liabilities

Item	Basis of measurement	Note	Page
Retirement benefit obligations	Present value of the defined benefit pension obligation less the net total of the pension assets maintained in DFCC Bank Pension Fund, a trust separate from the Bank.	48	205
The defined benefit statutory end of service gratuity obligations	Present value of the defined benefit gratuity obligation.	48	205

2.5 Materiality and aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.6 Functional and presentation currency

The consolidated and separate financial statements of the Bank are presented in Sri Lanka Rupees (LKR) being the, functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated.

2.7 Critical accounting estimates and judgements

2.7.1 General

In the preparation of separate financial statements and consolidated financial statements, the Bank makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses.

Management discusses with the Board Audit Committee the development, selection, and disclosure of critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

The use of available information and application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to estimates in a subsequent financial year, if any, are adjusted prospectively.

2.7.2 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

Applicable to year 2018 only:

- Note 5.3.2.2: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.
- Note 61.2: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.

Applicable to years 2018 and 2017

- Note 4: determination of control over investees.
- Going Concern: the directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the financial statements continue to be prepared on the going concern basis.

2.7.3 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment included in the following notes.

Applicable to year 2018 only

- Note 16 and note 61.2: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward looking information.

Applicable to years 2018 and 2017

- Note 60.1: determination of the fair value of financial instruments with significant unobservable inputs.
- Note 48.3.8: measurement of defined benefit obligations: key actuarial assumptions.
- Note 20 and note 42: recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be utilised.
- Note 5.3.7.3: impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.
- Note 55: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Note 16: impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

2.8. Changes in accounting policies

The Group has consistently applied the accounting policies to all periods presented in these financial statements, except for the changes arising out of transition to SLFRS – 15 "Revenue from Contracts with

Customers" and SLFRS – 9 "Financial Instruments" explained below:

2.8.1 SLFRS 15 – "Revenue from Contracts with Customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue, and cash flows arising from contracts with customers.

Entities will apply five step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

It replaces existing revenue recognition guidance, including LKAS 18 – "Revenue" and LKAS 11 – "Construction Contracts" and IFRIC 13 – "Customer Loyalty Programmes".

2.8.2 SLFRS 9 – "Financial Instruments"

The Bank has adopted SLFRS 9 – "Financial Instruments", issued in July 2014, with a date of initial application of 1 January 2018. The requirements of SLFRS 9 represent a significant change from LKAS 39 – "Financial Instruments: Recognition and Measurement." The new Standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Bank's accounting policies resulting from its adoption of SLFRS 9 are summarised below.

2.8.2.1 Classification of financial assets and financial liabilities

SLFRS 9 contains three principal classification categories for financial assets – i.e., measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing LKAS 39 categories of held to maturity, loans and receivables and available for sale. The SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39, all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

2.8.2.2 Impairment of financial assets

SLFRS 9 replaces the "incurred loss" model in LKAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets that are not measured at FVTPL and also to certain loan commitments and financial guarantee contracts but not to equity investments.

Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

2.8.2.3 Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated.

In order to recognise the impact on transition the Bank has adopted the modified retrospective approach in line with paragraph 7.2.14 – Transition of "SLFRS 9 – Financial instruments."

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018 under SLFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - (i) The determination of the business model within which a financial asset is held.
  - (ii) The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - (iii) The designation of certain investments in equity instruments not held for trading as at FVOCI.

2.8.2.4 Impact on adoption of SLFRS 9 "Financial Instruments" to the Financial Statements

The following table summarises the impact, net of tax, of transition to SLFRS 9 – "Financial Instruments" on reserves and retained earnings as at 1 January 2018.

	BANK		GROUP	
	Retained earnings LKR 000	Fair value reserve LKR 000	Retained earnings LKR 000	Fair value reserve LKR 000
Balance as per LKAS 39 as at 31 December 2017	**13,858,152**	**13,298,686**	**17,359,513**	**11,032,483**
Impact on reclassification and remeasurements:				
Classification of quoted equity securities as financial assets measured at FVTPL	4,714,753	(4,714,753)	3,871,843	(3,871,843)
Fair value of unqoted equity securities previously accounted at cost	–	163,739	–	163,739
Impact on recognition of expected credit losses:				
Expected credit losses under SLFRS 9 for				
– Loans to and receivable form Bank	(38,363)	–	(38,363)	–
– Loans to and receivable form other customers	(3,660,777)	–	(3,660,776)	–
– Financial assets at amortised cost (Debt securities)	(1,728)	–	(1,728)	–
Deferred tax impact on expected credit loss	1,004,053	–	1,004,053	–
Other group adjustment	–	–	14,588	980
Adjustment on initial application of SLFRS 9, net of tax	2,017,938	(4,551,014)	1,189,617	(3,707,124)
Restated balance as at 01 January 2018	**15,876,090**	**8,747,672**	**18,549,130**	**7,325,359**

As per the directive No 4 of 2018 issued by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments, for the purpose of calculating Capital Adequacy Ratio, Bank has considered the day 1 impact arising from the adoption of SLFRS 9 at the transition date, 1 January 2018. Accordingly, the Tier 1 Capital Adequacy Ratios as at 31 December 2018 of the Bank and Group have decreased by 0.78% and 1.20% respectively.

2.8.2.5 classification of financial assets and financial liabilities on the date of initial application of SLFRS 9 – "Financial Instruments"

The following table shows the original measurement categories as per LKAS 39 – "Financial Instruments: Recognition and Measurement" and the new measurement categories as per SLFRS 9 – "Financial Instruments" along with their carrying amounts for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

Item	Note	Classification/ measurement as per LKAS 39	Classification/ measurement as per SLFRS 9	BANK		GROUP	
				Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000	Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000
Derivative assets held for risk management	27	FVTPL measured at fair value	FVTPL measured at fair value	66,440	66,440	66,440	66,440
Financial assets measured at FVTPL/Financial assets held for trading	28						
Government Securities		HFT measured at fair value	FVTPL measured at fair value	279,094	279,094	279,094	279,094
Quoted equity investments		HFT measured at fair value	FVTPL measured at fair value	31,828	31,828	31,828	31,828

Item	Note	Classification/ measurement as per LKAS 39	Classification/ measurement as per SLFRS 9	BANK		GROUP	
				Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000	Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000
Quoted equity investments		AFS measured at fair value	FVTPL measured at fair value	6,320,867	6,320,867	6,320,867	6,320,867
Unit Trust		AFS measured at fair value	FVTPL measured at fair value	838,952	838,952	838,952	838,952
Financial assets at amortised cost - Loans to and receivables from banks	29	L & R measured at amortised cost	Amortised cost measured at amortised cost	10,984,266	10,945,903	10,984,266	10,945,903
Financial assets at amortised cost - Loans to and receivables from other customers	30	L & R measured at amortised cost	Amortised cost measured at amortised cost	213,675,866	210,015,089	213,675,866	210,015,089
Financial assets at amortised cost - Debt and other instruments/Held to maturity	31						
Quoted debentures		HTM measured at amortised cost	Amortised cost measured at amortised cost	5,131,404	5,129,676	5,131,404	5,129,676
Government Securities		HTM measured at amortised cost	Amortised cost measured at amortised cost	18,376,228	18,376,228	18,376,228	18,376,228
Financial assets measured at fair value through other comprehensive income/ Available-for-sale	32						
Government Securities		AFS measured at fair value	FVOCI measured at fair value	37,746,039	37,746,039	37,746,039	37,746,039
Quoted equity securities		AFS measured at fair value	Irrevocably elected to classified as FVOCI measured at fair value	11,874,141	11,874,141	11,874,141	11,874,141
Unquoted equity securities		AFS measured at fair value	Irrevocably elected to classified as FVOCI measured at fair value	85,555	249,294	85,555	249,294
Preference shares		AFS measured at fair value	FVOCI measured at fair value	500	500	500	500
Total financial assets				**305,411,180**	**301,874,051**	**305,411,180**	**301,874,051**

Item	Note	Classification/ measurement as per LKAS 39	Classification/ measurement as per SLFRS 9	BANK		GROUP	
				Carrying amount as per LKAS 9 LKR 000	Carrying amount as per SLFRS 9 LKR 000	Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000
Derivative liabilities held for risk management	27	FVTPL measured at fair value	FVTPL measured at fair value	367,435	367,435	367,435	367,435
Financial liabilities at amortised cost – Due to depositors	45	Amortised cost measured at amortised cost	Amortised cost measured at amortised cost	193,307,534	193,307,534	192,920,147	192,920,147
Financial liabilities at amortised cost – Due to other borrowers	46	Amortised cost measured at amortised cost	Amortised cost measured at amortised cost	41,319,591	41,319,591	41,290,874	41,290,874
Debt securities issued	47	Amortised cost measured at amortised cost	Amortised cost measured at amortised cost	24,443,767	24,443,767	24,443,767	24,443,767
Total financial liabilities				**259,438,327**	**259,438,327**	**259,022,223**	**259,022,223**

3 Basis of consolidation →

3.1 General

The consolidated financial statements are the financial statements of the Group, prepared by consistent application of consolidation procedures, which include amalgamation of the financial statements of the parent and subsidiaries and accounting for the investments in associate company and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest.

Thus, the consolidated financial statements present financial information about the Group as a single economic entity distinguishing the equity attributable to the parent (controlling interest) and attributable to minority shareholders with non-controlling interest.

3.2 Transactions eliminated on consolidation

Intra-group balances and transactions, including income, expenses, and dividend are eliminated in full.

3.3 Financial statements of subsidiaries, associate company and joint venture company included in the consolidated financial statements

Audited financial statements are used for consolidation of companies which have a similar financial year end, as the Bank and for other a special review is performed.

Financial statements of Lanka Industrial Estates Limited included in the consolidation has financial year ending 31 March.

The financial statements of DFCC Consulting (Pvt) Limited, Acuity Partners (Pvt) Limited, Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

3.4 Significant events and transactions during the period between date of financial statements of the subsidiaries, associate company and joint venture company and the date of financial statements of the Bank

No adjustments to the results of subsidiaries, associate company and joint venture company have been made as there were no significant events or transactions.

3.5 Financial statements used for computation of goodwill or negative goodwill on date of acquisition

This is based on unaudited financial statements proximate to the date of acquisition.

3.6 Taxes on the undistributed earnings of subsidiaries, associate company and joint venture company

The distribution of the undistributed earnings of the subsidiaries, associate company, and joint venture company is remote in the foreseeable future. As such, 14% withholding tax applicable on the distribution has not been treated as a tax expense in the financial statements of the Group.

4 Scope of consolidation →

All subsidiaries have been consolidated.

4.1 Subsidiary companies

Subsidiaries' are investees controlled by the Group. The Group "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Acquisition method of accounting is used when subsidiaries are acquired by the Bank. Cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange.

Acquisition-related costs are recognised as an amount of the expense in the profit or loss in the period of which they are incurred. The acquirer's identifiable assets, liabilities, and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill is measured as the excess of the aggregate consideration transferred, the amount of non-controlling interest and the fair value of Banks previously held equity interest if any, over the net of the amount of the identifiable assets acquired and the liabilities assumed.

The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquirer's identifiable net assets.

In a business combination achieved in stages, the previously held equity interest is premeasured at the acquisition date fair value with a resulting gain or loss in the income statement.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Note 33 on page 192 contains the financial information relating to subsidiaries.

4.2 Associate company

Associate company is the enterprise over which the Bank has significant influence that is neither a subsidiary nor an interest in a joint venture. The Bank has only one associate company, National Asset Management Limited. The consolidated financial statements include the Bank's share of the total comprehensive income of the associate company, on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Note 34 on page 194 contain financial information relating to the associate company.

4.3 Joint venture company

Joint venture company is an incorporated enterprise in which the Bank owns 50% of the voting shares with a contractual arrangement with the other company, who owns the balance 50% of the voting shares, in terms of which both parties have joint control over that enterprise. The results of the joint venture company are consolidated using equity method.

Note 35 on page 194 contains the financial information relating to joint venture company.

5 Principal accounting policies →

Accounting policies are the specific principles, bases, conventions, rules and practices applied consistently by the Group in presenting and preparing the financial statements. Changes in accounting policies are made, only if the Sri Lanka Accounting Standards require such changes or when a change results in providing more relevant information. New policies are formulated as appropriate to new products and services provided by the Group or new obligations incurred by the Group.

5.1 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

5.1.1 Interest income and expense

Details of interest income and expenses are given in Note 10 on pages 161 to 162.

5.1.2 Net fees and commission

Details of commission income and expenses are given in Note 11 on pages 162 to 163.

5.1.3 Net (loss)/gain from trading

Details of net (loss)/gain from trading are given in Note 12 on page 163.

5.1.4 Net fair value gains/(losses) from financial instruments at fair value through profit or loss

Details of net fair value gain/(loss) from Financial Instruments at Fair Value Through Profit or Loss are given in Note 13 on page 164.

5.1.5 Net gains from derecognition of financial assets

Details of net gains from derecognition of financial assets are given in Note 14 on page 164.

5.1.6 Net other operating income

Details of net gain/(loss) from financial instruments are given in Note 15 on page 165.

5.1.7 Foreign exchange gain/(loss)

Items included in the financial statements of the Bank are measured in Sri Lankan rupees denoted as LKR which is the currency of the primary economic environment in which the Bank operates ("the functional currency") as well as the presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the average exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the average exchange rate ruling at the reporting date (viz. date of the statement of financial position) and consequently recognised in the net other operating income in the income statement of the Bank except for qualifying cash flow hedges. The average exchange rate used is the middle rates quoted by commercial banks for purchase or sale of the relevant foreign currency.

The Bank does not have any non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency.

Foreign exchange income recognised in the income statement is presented as follows, based on the underlying classification:

(i) Foreign exchange gain/(loss) which is part of a trading activity comprising profit or loss from the sale and purchase of foreign currencies for spot exchange is included as net gain from trading (Note 12).

(ii) Foreign exchange income or loss on derivatives held-for-risk management purposes and mandatory measured at fair value through profit or loss is recognised as net gain/loss from financial instruments at fair value through profit or loss (Note 13).

The Bank does not have any foreign operation that is a subsidiary, associate, joint venture or a branch and therefore, there is no exchange differences recognised in other comprehensive income.

5.1.8 Other expenses

All other expenses are recognised on an accrual basis.

5.2 Other taxes

5.2.1 Withholding tax on dividend distributed by subsidiaries, associate company and joint venture company

Dividend distributed out of the taxable profit of the subsidiaries, associate company and joint venture company suffers a 14% deduction at source and is not available for set-off against the tax liability of the Bank. Thus the withholding tax deducted at source, is added to the tax expense of the subsidiary companies, the associate company, and joint venture company in the Group's financial statements as a consolidation adjustment.

5.2.2 Withholding tax on dividends distributed by the Bank

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised .

5.2.3 Economic services charge (ESC)

As per provisions of the Economic Services Charge (ESC) Act No. 13 of 2006 and subsequent amendments thereto, ESC is payable on aggregate turnover of the Bank at 0.5% and is deductible from income tax payable.

5.2.4 Crop insurance levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently the CIL is payable at 1% of the profit after tax.

5.3 Financial assets

5.3.1 Recognition and measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Basis of measurement applicable before 1 January 2018 and after 1 January 2018 is set out in Note 2.4

5.3.2 Classification

5.3.2.1 Policy applicable after 1 January 2018

On initial recognition, the Bank classifies financial assets as measured at:

- Amortised cost,
- Fair value through other comprehensive income (FVOCI); and,
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

5.3.2.1.1 Financial assets measured at amortised costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model (explained in Note 5.3.2.2) whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

5.3.2.1.2 Financial assets at fair value through other comprehensive income

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

5.3.2.1.3 Financial assets at fair value through profit or loss

All financial assets other than those classified at amortised costs or FVOCI are classified as measured at FVTPL.

5.3.2.1.3.1 Financial assets are mandatorily fair valued through profit and loss when the instruments

- are held for trading, or
- are managed, evaluated and reported internally on a fair value basis, or
- designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

5.3.2.1.3.2 Financial assets designated at fair value through profit or loss

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank has not designated any financial asset upon initial recognition at fair value through profit or loss as at the reporting date.

5.3.2.2 Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities

- that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

5.3.2.3 Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

5.3.2.4 Policy applicable before 1 January 2018

At the inception, a financial asset is classified and measured at fair value and classified as follows:

- **Loans and receivables** – at amortised cost.
- **Held to maturity** – non-derivative financial assets with fixed or determinable payments and fixed maturity (for example, bonds, debentures and debt instruments listed in the Colombo Stock Exchange) that the Bank has the positive intent and ability to hold to maturity are measured at amortised cost.
- **Fair value through profit or loss** – financial assets held for trade measured at fair value with changes in fair value recognised in the income statement.
- **Designated at fair value** – this is an option to deal with accounting mismatches and currently the Bank has not exercised this option.
- **Derivative assets** – are mandatorily measured at fair value with fair value changes recognised in the income statement.
- **Available for sale** – this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.

5.3.3 Reclassification

Policy applicable after 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank's changes its objective of the business model for managing such financial assets.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

5.3.3.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

5.3.3.2 Measurement of reclassification of financial assets

5.3.3.2.1 Reclassification of financial instruments at "fair value through profit or loss"

- To Fair value through other comprehensive income
  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value are recognised in OCI.

- To amortised costs the fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

5.3.3.2.2 Reclassification of financial instruments at "fair value through other comprehensive income"

- To fair value through profit or loss
  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.
- To amortised costs
  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust the reclassified fair value. The adjusted amount becomes the amortised cost. EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

5.3.3.2.3 Reclassification of financial instruments at "amortised costs"

- To Fair value through other comprehensive income
  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.
- To Fair value through profit or loss
  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

Policy applicable before 1 January 2018

The group classified its financial assets into one of the following categories:

- Loans and receivable
- Held-to-maturity
- Available for sale and
- At FVTPL, and within this category as:
  – held-for-trading: or
  – designated as at FVTPL

5.3.4 Derecognition of financial assets

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either –

- Substantially all the risks and rewards of ownership have been transferred;
  or
- Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecogntion that is created or retained by the group is recognised as a separate asset or liability.

5.3.5 Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets
If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual right to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and new financial asset is recognised at fair value plus any eligible transaction cost. Any fees received as part of the modification are accounted as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on the derecognition.

If cash flows are modified when the borrower is in financial difficulty, then the objective of the modification is usually to minimise recovery of the original contractual term rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates a gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as modification gain or loss in profit or loss. For floating- rate financial asset, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the financial asset.

5.3.6 Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as end of the reporting period during which the change has occurred.

5.3.7 Identification and measurement of impairment

5.3.7.1 Policy applicable after 1 January 2018

5.3.7.1.1 Recognition of impairment of financial assets

The Bank recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade". 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

5.3.7.1.2 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;

- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components: The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

5.3.7.2 Policy applicable before 1 January 2018

At each reporting date, the Bank assesses whether there is an objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) that can be estimated reliably.

5.3.7.2.1 Loans and advances and held-to-maturity investment securities

Objective evidence that loans and advances and held-to-maturity investment securities (e.g., debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific and collective level. Details of the individual and collective assessment of impairments are given in Note 16 on pages 166 to 169.

5.3.7.2.2 Available-for-sale financial assets

At each date of statement of financial position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a “loss event”) and that loss event (or events) have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset’s acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

5.3.7.2.3 Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date. Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers’ liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

5.3.7.2.4 Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

5.3.7.3 Impairment of intangible assets – computer application software and goodwill on consolidation

The Bank reviews on the date of the statement of financial position, whether the carrying amount is lower than the recoverable amount. In such event, the carrying amount is reduced to the recoverable amount and the reduction being an impairment loss is immediately recognised in the income statement. The recoverable amount is the value in use.

5.3.8 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under SLFRSs/LKASs or for gains and losses arising from a group of similar transactions.

5.3.9 Fiduciary assets

Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the Bank.

5.3.10 Write-off of financial assets

The Bank writes off a loan or an investment debt security, and any related allowances for impairment losses, when Bank determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

5.4 Financial liabilities

5.4.1 Recognition and measurement of financial liabilities

Policy applicable after 1 January 2018

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss,

Policy applicable before 1 January 2018

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated. A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at fair value or amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

5.4.2 Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

5.4.2.1 Financial liabilities at amortised cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in "Interest expense" in the income statement. Gains and losses too are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

5.4.2.2 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes

5.4.3 Derecognition of Financial Liabilities

Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

5.4.4 Due to Banks, customers, debt securities issued and other borrowing

Financial liabilities are recognised when Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

5.4.5 Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

5.4.6 Sale and repurchase agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ("reverse repos") are not recognised on the statement of financial position and the consideration paid is recorded in "Financial assets at amortised cost – Loans to and receivables from banks", "Financial assets at amortised cost – Loans to and receivables from other customers" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

5.5 Stated capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

5.6 Dividends Payable

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

Dividends for the year, that are approved after the reporting date and not provided for, are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standard – LKAS 10, on "Events after the reporting period" in Note 59 on page 222.

6 Statement of Cash Flows →

The cash flow has been prepared by using the "Direct Method". Cash and cash equivalents include cash balances, time deposits and Treasury Bills of three months maturity at the time of issue. For the purpose of cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

7 Directors' responsibility →

The Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards.

8 New SLFRS issued and not yet effective →

SLFRS 16 – "Leases"

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases.

Instead, there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group/Bank is assessing the potential impact on its financial statements resulting from the application of SLFRS 16.

9 Income →

For the year ended 31 December	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000
Interest income (Note 10)	**38,148,193**	32,986,590	**38,149,896**	32,994,636
Net fee and commission income (Note 11)	**2,012,563**	1,591,336	**2,012,443**	1,591,943
Net (loss)/gain from trading (Note 12)	**(366,657)**	361,963	**(366,657)**	361,963
Net fair value gains/(losses) from financial instruments at fair value through profit or loss (Note 13)	**2,650,664**	(404,586)	**2,650,664**	(404,586)
Net gains from derecognition of financial assets (Note 14)	**19,114**	1,558	**19,114**	1,558
Net other operating income (Note 15)	**(3,310,003)**	1,404,751	**(3,016,974)**	1,441,577
	39,153,874	35,941,612	**39,448,486**	35,987,091

10 Net interest income →

Accounting Policy →

Interest Income and expense for all interest-bearing financial instruments are recognised under "Interest Income" and "Interest Expense" in the income statement, using the effective interest rate of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash receipts or payments earned or paid on a financial asset or financial liability through its expected life (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, Bank estimates future cash flows considering all contractual terms of the financial instruments but not expected credit losses.

The calculation of the effective interest includes all transaction cost, premiums or discounts and fees paid or received by the Bank that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

From 1 January 2018, with the adoption of Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments" the Bank has aligned its interest recognition policy with internal risk management practices. As per the internal risk management policies of the Bank, the facilities are considered to be credit impaired when three or more instalments are in arrears and the Bank has estimated that the probability of recoverability of the interest income from such loan facilities are low. Accordingly the Bank discontinues recognition of interest income on such loan facilities and cash flows are assessed based on the amortised cost net of interest. If the asset is no longer credit impaired the calculation of interest income reverts to the gross basis.

As per LKAS 8 – "Accounting Policies, Changes in Accounting Estimate and Errors", this change is treated as a change in estimate and did not result in retrospective adjustments.

For the year ended 31 December	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Interest income				
Placements with banks	**274,164**	123,369	**275,868**	131,415
Financial assets measured at fair value through profit or loss/financial assets held for trading	**63,624**	41,523	**63,624**	41,523
Financial assets at amortised cost – Loans to and receivables from banks	**659,520**	928,176	**659,520**	928,176
Financial assets at amortised cost – Loans to and receivables from other customers	**31,196,112**	26,789,982	**31,196,112**	26,789,982
Financial assets at amortised cost – Debt and other instruments/held to maturity	**2,160,287**	2,433,596	**2,160,287**	2,433,596
Financial assets measured at fair value through other comprehensive income/financial assets available for sale	**3,794,486**	2,669,944	**3,794,485**	2,669,944
Total interest income	**38,148,193**	32,986,590	**38,149,896**	32,994,636
Interest expenses				
Due to banks	**871,842**	979,281	**871,842**	979,281
Financial liabilities at amortised cost – Due to depositors	**18,730,263**	15,293,031	**18,688,021**	15,246,422
Financial liabilities at amortised cost – Due to other borrowers	**2,179,549**	1,645,138	**2,179,549**	1,645,138
Debt securities issued	**3,951,706**	3,726,532	**3,951,707**	3,726,532
Total interest expenses	**25,733,360**	21,643,982	**25,691,119**	21,597,373
Net interest income	**12,414,833**	11,342,608	**12,458,777**	11,397,263

10.1 Net interest income from Sri Lanka Government Securities

	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Interest income	**7,124,130**	6,438,939	**7,124,130**	6,438,939
Less: Interest expenses	**629,778**	664,792	**629,778**	664,792
Net interest income from Sri Lanka Government Securities	**6,494,352**	5,774,147	**6,494,352**	5,774,147

This comprise net gain from repurchase transactions included in Note 15.

11 Net fee and commission income →

Accounting Policy →

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

The Bank has adopted SLFRS 15 on "Revenue from Contracts with Customers" from 1 January 2018. The Accounting Policy which had been applied by the Bank did not require any changes.

For the year ended 31 December	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Fee and commission income	**2,012,563**	1,591,336	**2,012,443**	1,591,943
Fee and commission expenses	**–**	–	**–**	–
Net fee and commission income	**2,012,563**	1,591,336	**2,012,443**	1,591,943
Comprising:				
Loans and advances	**708,689**	537,363	**708,569**	537,363
Credit cards	**38,311**	12,566	**38,311**	12,566
Trade and remittances	**541,248**	416,423	**541,248**	416,423
Customer accounts	**444,792**	373,214	**444,792**	373,214
Guarantees	**259,962**	206,798	**259,962**	206,798
Others (Management, consulting and other fees)	**19,561**	44,972	**19,561**	45,579
Net fee and commission income	**2,012,563**	1,591,336	**2,012,443**	1,591,943

12 Net (loss)/gain from trading →

Accounting Policy →

Results arising from trading activities include all gains and losses from realised and unrealised fair value changes, related capital gains and losses, dividend income from trading assets and trading liabilities and foreign exchange differences.

For the year ended 31 December	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Foreign exchange from banks	**402,015**	270,395	**402,015**	270,395
Government securities				
– Net marked to market (loss)/gain	**(726)**	726	**(726)**	726
– Net capital (loss)/gain	**(40,639)**	66,810	**(40,639)**	66,810
Equity securities				
Net marked to market (loss)/gain	**(1,018,554)**	5,242	**(1,018,554)**	5,242
Net capital gain	**21,000**	18,474	**21,000**	18,474
Dividend income	**270,247**	316	**270,247**	316
	(366,657)	361,963	**(366,657)**	361,963

13 Net fair value gains/(losses) from financial instruments at fair value through profit or loss →

Accounting Policy →

The Bank has non-trading derivatives held for risk management purposes (e.g., forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments, all realised and unrealised fair value changes and foreign exchange differences are included.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Forward exchange fair value changes				
– Contracts with commercial banks	**2,688,008**	(314,489)	**2,688,008**	(314,489)
– Contract with CBSL (Note 41.1)	**58,990**	(86,277)	**58,990**	(86,277)
Loss on financial assets fair value through profit or loss Equity securities	**(107,883)**	–	**(107,883)**	–
Interest rate swap fair value changes	**11,549**	(3,820)	**11,549**	(3,820)
	2,650,664	(404,586)	**2,650,664**	(404,586)

14 Net gains from derecognition of financial assets →

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Fair value through profit or loss				
Gain on sale of equity securities	**15,908**	–	**15,908**	–
Fair value through other comprehensive income				
Gain on sale of Government securities	**3,206**	1,558	**3,206**	1,558
	19,114	1,558	**19,114**	1,558

15 Net other operating income →

Accounting Policy →

Net other operating income includes realised gain or loss on sale of fair value through other comprehensive income securities (e.g., Treasury Bills and Bonds, and dividend income from ordinary shares classified as fair value through other comprehensive income financial assets, dividend income from group entities, rental income, gains on disposal of property, plant and equipment and foreign exchange gains and losses.

Rental income

Rental income and expenses are accounted on a straight-line basis over the entire period of the tenancy incorporating predetermined rent escalation during the period of the tenancy.

Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gain/(loss) from trading and net other income, net based on underlying classification of the equity investment. Where the dividend clearly represents a recovery of part of the cost of the investment, it is presented in other comprehensive income.

Dividend income from subsidiaries and joint venture is recognised when the Bank's right to receive the dividend is established.

Gains and losses on disposal of assets

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are accounted for, in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Foreign exchange gain/(loss)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Financial assets measured at fair value through other comprehensive income/financial assets available for sale				
Gain on sale of equity securities	–	1,150,368	–	948,783
Dividend income	**527,424**	798,104	**527,424**	798,104
Equities measured at fair value through profit or loss				
Dividend income	**3,400**	–	**3,400**	–
Dividend income from subsidiaries, joint venture and associate	**132,017**	91,463	–	–
Net gain from repurchase transactions	**237,005**	196,356	**237,005**	196,356
Premises rental income	**44,456**	39,383	**309,118**	262,021
Gain on sale of property, plant and equipment	**5,175**	11,299	**5,175**	11,299
Foreign exchange loss	**(4,255,763)**	(849,494)	**(4,255,763)**	(849,494)
Recovery of loans written-off	**10,460**	36,769	**13,104**	36,769
Amortisation of deferred income on Government grant – CBSL swap (Note 41.2)	**(46,990)**	(85,973)	**(46,990)**	(85,973)
Others	**32,813**	16,476	**190,553**	123,712
	(3,310,003)	1,404,751	**(3,016,974)**	1,441,577

16 Impairment for loans and other losses →

Accounting policy applicable for periods before and after 1 January 2018

Individually assessed loans and advances and held-to-maturity debt instruments

These are exposures, where evidence of impairment exists and those that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The factors considered in determining that the exposures are individually significant include –

- the size of the loan; and
- the number of loans in the portfolio.

For all loans and held-to-maturity debt instruments that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include –

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Impairment allowance on loans and advances and other financial instruments measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written-back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

Write-off of loans and advances

Loans (and the related impairment allowance) are normally written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Asset-backed-securities

These are included in loans and advances. When assessing for objective evidence of impairment, Bank considers the performance of underlying collateral.

Policy applicable from 1 January 2018

SLFRS 9 – "Financial Instruments" – Key transition impacts on impairment

The Group recognises loss allowance using Expected Credit Losses (ECL) on loans and receivables to customers and other financial assets measured at amortised cost model using dual measurement approach which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "stage 1 Financial Instruments".

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a life-time ECL is recognised but which are not credit-impaired are referred to as "stage 2 Financial Instruments", and credit impaired are referred to as "stage 3 Financial Instruments"

Measurement of impairment of financial assets

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Collective assessment:

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

These loans and advances are grouped together as per Basel Guidelines and product level according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In making an assessment of whether an investment in debt instrument is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component the Bank presents a combined loss allowance for both components The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Policy applicable before 1 January 2018

Collective assessment:

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

- → Import loans
- → Export loans
- → Corporate term loans
- → Overdraft
- → Personal loans
- → Finance leases
- → Project loans
- → Credit cards

These loans and advances are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the default rates, the timing of recoveries and the amount of loss incurred, adjusted for experience adjustment by the Management, where current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Default rates, loss rates and the expected timing of future recoveries will be regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Individually assessed loans for which, no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. This reflects impairment losses that Bank has incurred as a result of events occurring before the reporting date which the Bank is not able to identify on an individual basis and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans and held-to-maturity investment securities within the Group, these are removed from the Group and assessed on an individual basis for impairment. The collective impairment allowance is based on historical loss experience adjusted by Management's experienced judgement.

Impairment allowance on loans and advances and held-to-maturity investment securities measured at mortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Loans to and receivables from Banks				
Collective allowance for impairment (Note 29.2)	**5,088**	–	**5,088**	–
Loans to and receivables from other customers				
Specific allowance for impairment (Note 30.2.1)	**1,083,825**	724,402	**1,083,825**	724,402
Collective allowance for impairment (Note 30.2.2)	**(97,897)**	405,973	**(97,897)**	405,973
Other impairment charges				
- Investment in debt securities (Note 31.1.2)	**234**	–	**234**	–
- Investment in other equity securities	–	12,915	–	12,915
- Investment in subsidiaries (Note 33.1)	–	9,896	–	–
- Loan commitments (Note 55.1.1)	**23,196**	–	**23,196**	–
- Other debt	**41,503**	17,748	**41,503**	21,597
Write-offs – Loans to and receivables from other customers	**281**	5,479	**281**	5,479
	1,056,230	1,176,413	**1,056,230**	1,170,366

16.1 Impairment charges

For the year ended 31 December	BANK/GROUP 2018 LKR 000
Financial assets at amortised cost-Loans and receivables from Banks (Note 29.2)	
Stage 1	5,088
Financial assets at amortised cost-Loans to and receivables from other customers (Note 30.2.3)	
Stage 1	(12,651)
Stage 2	10,489
Stage 3	988,090
Financial assets at amortised cost-debt instruments (Note 31.1.2)	
Stage 1	234
Contingent liabilities and commitments (Note 55.1.1)	
Stage 1	3,489
Stage 2	19,707
Other debt	41,503
Loans write-off	281
	1,056,230

17 Personnel expenses →

Accounting Policy →

Employee benefits

Defined Benefit Plans (DBPs)

A defined benefit plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

Pension liability arising from defined benefit obligations

Description of the plan and employee groups covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g. medical expenses reimbursement).

Funding arrangement

The Bank's contributions to the trust fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees.

Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

Recognition of actuarial gains and losses

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets.

The causes for such gains or losses include changes in the discount rate, differences between the actual return and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates and increases in salary.

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

Recognition of past service cost

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Bank will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested following the introduction of or changes to a defined benefit plan, the Bank will recognise past service cost immediately.

Provision for end of service gratuity liability under a defined benefit plan

Description of the plan and employee groups covered

The Bank provides for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme provide for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of five years is served prior to termination of employment.

The Bank however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of five years or more either singly or together with consecutive contracts.

Funding arrangement

The Bank and the subsidiaries adopt a pay-as-you-go method whereby the employer makes a lump-sum payment only on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Recognition of actuarial gains and losses

The Bank recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

Recognition of past service cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan.

Defined contribution plans

This provides for a lump-sum payment on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Lump-sum payment is by an outside agency to which contributions are made.

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund Board to which the Bank contributes 15% and 3% respectively of such employee's consolidated salary.

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Salaries and other benefits	**2,953,203**	2,744,906	**3,076,879**	2,855,037
Provision for staff retirement benefits (Note 17.1)	**455,109**	396,126	**479,101**	422,279
	3,408,312	3,141,032	**3,555,980**	3,277,316

For the year ended 31 December	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000

17.1 Provision for staff retirement benefits

17.1.1 Amount recognised as expense

17.1.1.1 Funded pension liability

Current service cost	**51,282**	60,496	**51,282**	60,496
Interest on obligation	**237,225**	228,094	**237,225**	228,094
Expected return on pension assets	**(228,190)**	(233,917)	**(228,190)**	(233,917)
	60,317	54,673	**60,317**	54,673

17.1.1.2 Unfunded pension liability

Interest on obligation	**5,736**	5,794	**5,736**	5,794
	5,736	5,794	**5,736**	5,794

17.1.1.3 Unfunded end of service gratuity liability

Current service cost	**41,274**	35,041	**45,610**	41,507
Interest on obligation	**26,943**	22,096	**28,628**	23,877
	68,217	57,137	**74,238**	65,384
Total defined benefit plans	**134,270**	117,604	**140,291**	125,851

17.1.1.4 Defined contribution plan

Employer's contribution to Employees' Provident Fund	**267,366**	232,102	**281,271**	245,952
Employer's contribution to Employees' Trust Fund Board	**53,473**	46,420	**57,539**	50,476
Total defined contribution plans	**320,839**	278,522	**338,810**	296,428
Total expense recognised in the income statement	**455,109**	396,126	**479,101**	422,279

18 Other expenses →

For the year ended 31 December	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Directors' remuneration	**17,835**	17,241	**18,135**	18,117
Auditors' remuneration				
Audit fees and expenses	**5,503**	5,207	**6,366**	5,975
Audit related fees and expenses	**1,494**	1,706	**1,494**	1,889
Fees for non-audit services	**390**	4,750	**390**	4,750
Expenses on litigation	**13,189**	4,728	**13,189**	4,728
Premises, equipment, and establishment expenses	**1,499,452**	1,285,640	**1,522,968**	1,309,156
Other overhead expenses	**1,264,035**	1,040,730	**1,244,232**	1,021,343
	2,801,898	2,360,002	**2,806,774**	2,365,958

Directors emolument include fees paid to Non-Executive Directors. Remuneration paid to Executive Directors are included under salaries and other benefits in Note 17.

19 Value Added Tax, Nation Building Tax and Debt Repayment Levy on financial services →

Accounting Policy →

Value Added Tax on financial services (VAT)

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before Value Added Tax and Nation Building Tax on Financial Services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

Nation Building Tax on Financial Services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax Act No. 09 of 2009 and subsequent amendments thereto. NBT is chargeable on the same base used for calculation of VAT on financial services.

Debt Repayment Levy (DRL) on Financial Services

With effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services through an amendment to the Finance Act No. 35 of 2018. DRL is chargeable on the same base used for calculation of VAT on financial services before deducting the VAT and NBT on financial services. The levy will be charged up to 31 December 2021.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
19.1 Value Added Tax on financial services				
Value Added Tax on financial services				
– Current year	**1,100,392**	1,286,661	**1,100,392**	1,286,661
– Over provision in respect of previous year	**(590)**	–	**(590)**	–
	1,099,802	1,286,661	**1,099,802**	1,286,661
19.2 Nation Building Tax on financial services				
Nation Building Tax on financial services				
– Current year	**146,719**	171,554	**146,719**	171,554
– Under provision in respect of previous year	–	534	–	534
	146,719	172,088	**146,719**	172,088
19.3 Debt Repayment Levy				
Debt Repayment Levy – Current year	**212,549**	–	**212,549**	–
	1,459,070	1,458,749	**1,459,070**	1,458,749

20 Income tax expense →

Accounting Policy →

Income tax expense comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current taxation

Current tax comprises the expected tax payable on the taxable income for the year and any adjustment to the tax payable or receivable in respect of previous years.

The amount of current tax payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for *financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:*

- *temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;*
- *temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and*
- *taxable temporary differences arising on the initial recognition of goodwill.*

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available, against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted as at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects as at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Withholding tax on dividend distributed by subsidiaries, associate company and joint venture company

Dividend distributed out of the taxable profit of the subsidiaries, associate company and joint venture company suffers a 14% deduction (before 1 April 2018 – 10%) at source and is not available for set off against the tax liability of the Bank. Thus the withholding tax deducted at source is added to the tax expense of the subsidiary companies, the associate company and joint venture company in the Group financial statements as a consolidation adjustment.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
20.1 Composition				
Current tax	**1,877,096**	1,321,584	**1,964,993**	1,388,734
Over provision in previous years	**(101,486)**	(20,655)	**(101,571)**	(20,627)
	1,775,610	1,300,929	**1,863,422**	1,368,107
Deferred tax – origination and reversal of temporary differences (Note 42)	**(311,128)**	76,420	**(257,246)**	89,546
	1,464,482	1,377,349	**1,606,176**	1,457,653

20.1.1 Reconciliation of effective tax rate with income tax rate

For the year ended 31 December	BANK				GROUP			
	2018		2017		**2018**		2017	
	%	**LKR 000**	%	LKR 000	**%**	**LKR 000**	%	LKR 000
Tax using 28% tax rate on profit before tax (PBT)	**28.00**	**1,185,145**	28.00	1,621,847	**28.00**	**1,309,393**	28.00	1,648,943
Adjustment in respect of current income tax of prior periods	**(2.40)**	**(101,486)**	(0.35)	(20,665)	**(2.16)**	**(101,571)**	(0.34)	(20,627)
Non-deductible expenses	**21.05**	**891,027**	15.25	883,454	**19.27**	**900,767**	15.13	890,726
Allowable deductions	**(8.71)**	**(368,834)**	(5.01)	(290,324)	**(7.94)**	**(371,192)**	(4.97)	(292,919)
Dividend income	**(5.00)**	**(211,753)**	(3.66)	(212,156)	**(4.53)**	**(211,753)**	(3.60)	(212,156)
Tax incentives/adjustments	**5.12**	**216,555**	(10.26)	(594,350)	**4.60**	**215,166**	(10.16)	(598,048)
Taxable timing difference from capital allowances on assets	**3.90**	**164,956**	(1.50)	(86,877)	**3.57**	**164,956**	(1.48)	(86,939)
Tax losses from prior year	–	–	–	–	**(0.17)**	**(7,936)**	(0.01)	(470)
Taxed at different rates	–	–	–	–	**0.06**	**2,902**	–	–
Adjustments	–	–	–	–	**(0.81)**	**(37,310)**	0.67	39,597
Current tax expense	**41.96**	**1,775,610**	22.47	1,300,929	**39.89**	**1,863,422**	23.24	1,368,107

The Bank/Group has applied the provisions of Inland Revenue Act No. 10 of 2006 and amendments there to for the three months ended 31 March 2018 and the provisions of Inland Revenue Act No. 24 of 2017 for the nine months ended 31 December 2018.

21 Basic earnings per ordinary share →

Basic earnings per share of the Bank has been calculated by dividing the profit after income tax by the weighted average number of shares in issue during the financial year.

Basic group earnings per share has been calculated by dividing the profit after income tax attributable to the equity holders of the Bank by the weighted average number of shares in issue during the financial year.

For the year ended 31 December	BANK		GROUP	
	2018	2017	**2018**	2017
Profit attributable to equity holders of the Bank (LKR 000)	**2,768,179**	4,414,964	**3,011,018**	4,362,407
Number of ordinary shares (Note 51)	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Basic earnings per ordinary share – LKR	**10.44**	16.65	**11.36**	16.46

22 Dividend per share →

For the year ended 31 December	BANK		GROUP	
	2018	2017	**2018**	2017
Dividend per share (LKR)	**3.50**	5.00	**3.50**	5.00

The Board of Directors of the Bank has approved the payment of a first and final dividend of LKR 3.50 per share for the year ended 31 December 2018.

23 Analysis of Financial Instrument by Measurement Basis →

The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

As at 31 December 2018	Fair value through profit or loss LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Total LKR 000
23.1 Bank				
Financial assets				
Cash and cash equivalents	–	–	5,039,629	5,039,629
Balances with Central Bank of Sri Lanka	–	–	11,841,814	11,841,814
Placements with banks	–	–	425,087	425,087
Derivative assets held-for-risk management	3,414,549	–	–	3,414,549
Financial assets measured at fair value through profit or loss	6,078,862	–	–	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	–	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	–	–	249,733,718	249,733,718
Financial investments	–	55,313,553	22,874,088	78,187,641
Due from subsidiaries	–	–	9,505	9,505
Other assets	–	–	3,431,061	3,431,061
Total	9,493,411	55,313,553	306,209,782	371,016,746
Financial liabilities				
Due to Banks	–	–	9,446,464	9,446,464
Derivative liabilities held-for-risk management	121,373	–	–	121,373
Financial liabilities at amortised cost – Due to depositors	–	–	242,237,596	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	–	–	47,413,727	47,413,727
Debt securities issued	–	–	8,898,441	8,898,441
Other liabilities	–	–	4,211,304	4,211,304
Subordinated term debt	–	–	16,855,352	16,855,352
Total	121,373	–	329,062,884	329,184,257

As at 31 December 2017	Fair value through profit or loss LKR 000	Fair value held for trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held to maturity LKR 000	Total LKR 000
23.2 Bank						
Financial assets						
Cash and cash equivalents	–	–	–	4,106,225	–	4,106,225
Balances with Central Bank of Sri Lanka	–	–	–	10,557,688	–	10,557,688
Placement with banks	–	–	–	6,691,381	–	6,691,381
Derivative assets held-for-risk management	66,440	–	–	–	–	66,440
Other financial asset held for trading	–	310,922	–	–	–	310,922
Loans to and receivables from banks	–	–	–	10,984,266	–	10,984,266
Loans to and receivables from other customers	–	–	–	213,675,866	–	213,675,866
Financial investments	–	–	56,866,054	–	23,507,632	80,373,686
Due from subsidiaries	–	–	–	12,083	–	12,083
Government grant receivable	642,583	–	–	–	–	642,583
Other assets	–	–	–	2,775,742	–	2,775,742
Total	709,023	310,922	56,866,054	248,803,251	23,507,632	330,196,882
Financial liabilities						
Due to banks	–	–	–	9,640,735	–	9,640,735
Derivative liabilities held-for-risk management	367,435	–	–	–	–	367,435
Due to other customers	–	–	–	193,307,534	–	193,307,534
Other borrowings	–	–	–	41,319,591	–	41,319,591
Debt securities issued	–	–	–	24,443,767	–	24,443,767
Other liabilities	–	–	–	4,078,984	–	4,078,984
Subordinated term debt	–	–	–	9,202,870	–	9,202,870
Total	367,435	–	–	281,993,481	–	282,360,916

As at 31 December 2018	Fair value through profit or loss LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Total LKR 000

23.3 Group

Financial assets				
Cash and cash equivalents	–	–	5,049,823	5,049,823
Balances with Central Bank of Sri Lanka	–	–	11,841,814	11,841,814
Placements with banks	–	–	439,727	439,727
Derivative assets held-for-risk management	3,414,549	–	–	3,414,549
Financial assets measured at fair value through profit or loss	6,078,862	–	–	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	–	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	–	–	249,733,718	249,733,718
Financial investments	–	55,313,553	22,874,088	78,187,641
Other assets	–	–	3,478,566	3,478,566
Total	9,493,411	55,313,553	306,272,616	371,079,580
Financial liabilities				
Due to Banks	–	–	9,446,464	9,446,464
Derivative liabilities held-for-risk management	121,373	–	–	121,373
Financial liabilities at amortised cost – Due to depositors	–	–	241,914,870	241,914,870
Financial liabilities at amortised cost – Due to other borrowers	–	–	47,388,679	47,388,679
Debt securities issued	–	–	8,898,441	8,898,441
Other liabilities	–	–	4,379,370	4,379,370
Subordinated term debt	–	–	16,855,352	16,855,352
Total	121,373	–	328,883,176	329,004,549

As at 31 December 2017	Fair value through profit or loss LKR 000	Fair value held for trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held to maturity LKR 000	Total LKR 000
23.4 Group						
Financial assets						
Cash and cash equivalents	–	–	–	4,120,230	–	4,120,230
Balances with Central Bank of Sri Lanka	–	–	–	10,557,688	–	10,557,688
Placements with banks	–	–	–	6,712,131	–	6,712,131
Derivative assets held-for-risk management	66,440	–	–	–	–	66,440
Other financial assets held-for-trading	–	310,922	–	–	–	310,922
Loans to and receivables from banks	–	–	–	10,984,266	–	10,984,266
Loans to and receivables from other customers	–	–	–	213,675,866	–	213,675,866
Financial investments	–	–	56,866,054	–	23,507,632	80,373,686
Government grant receivable	642,583	–	–	–	–	642,583
Other assets	–	–	–	2,804,798	–	2,804,798
	709,023	310,922	56,866,054	248,854,979	23,507,632	330,248,610
Financial liabilities						
Due to banks	–	–	–	9,640,735	–	9,640,735
Derivative liabilities held-for-risk management	367,435	–	–	–	–	367,435
Due to other customers	–	–	–	192,920,147	–	192,920,147
Other borrowing	–	–	–	41,290,874	–	41,290,874
Debt securities issued	–	–	–	24,443,767	–	24,443,767
Other liabilities	–	–	–	4,195,940	–	4,195,940
Subordinated term debt	–	–	–	9,202,870	–	9,202,870
	367,435	–	–	281,694,333	–	282,061,768

24 Cash and cash equivalents →

Accounting Policy →

For the purpose of the Statement of Cash Flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with three months or less than three months' maturity from the date of acquisition.

Cash and cash equivalents include cash and short-term Treasury Bills with maximum three months' maturity from date of acquisition.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Cash in hand	**3,856,512**	3,603,883	**3,870,517**	3,617,888
Balances with banks	**1,183,117**	502,342	**1,179,306**	502,342
	5,039,629	4,106,225	**5,049,823**	4,120,230

25 Balances with Central Bank of Sri Lanka →

Accounting Policy →

Balances with central bank are carried at amortised cost in the Statement of Financial Position.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Statutory balances with Central Bank of Sri Lanka	**11,841,814**	10,557,688	**11,841,814**	10,557,688

As required by the provisions of Section 93 of Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka, The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of rupee deposit liabilities. The percentage is varied from time to time. Applicable minimum rate was 6.00% with effect from 16 November 2018 (minimum rate was 7.5 % up to 16 November 2018). Central Bank introduced average 100% margin requirements against letters of credit for importation of motor vehicles and non-essential consumer goods, with effect from 29 September 2018. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

26 Placements with banks →

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Central Bank of Sri Lanka	**425,087**	100,060	**425,087**	100,060
Nation Trust Bank PLC	–	1,422,089	–	1,422,089
Seylan Bank PLC	–	1,000,670	–	1,000,670
Cargills Bank Ltd	–	250,168	–	250,168
Emirates NBD PJSC	–	537,696	–	537,696
Muslim Commercial Bank	–	921,808	–	921,808
Union Bank of Colombo PLC	–	2,458,890	–	2,458,890
Commercial Bank of Ceylon PLC	–	–	**14,640**	20,750
	425,087	6,691,381	**439,727**	6,712,131

27 Derivatives held-for-risk management →

Accounting Policy →

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the Statement of Financial Position.

Up to 1 January 2018 the Bank has not designated any derivative held-for-risk management purposes as a qualifying hedge relationship and therefore the Bank has not adopted hedge accounting. However from 1 January 2018 the Bank has applied hedge accounting principles of SLFRS 9 on financial instruments.

The Group designates certain derivatives held-for-risk management as well as certain non derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the income statement and OCI. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a Central Counterparty (CCP) by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

The Bank uses cross currency swaps (CCS) to hedge the interest rate risk and exchange rate risk arising from a floating rate borrowing denominated in foreign currencies. The hedging relationship is designated as cash flow hedge since the Bank is expecting to hedge the variability arise by the interest rate risk and exchange rate risk, where the USD borrowing can be identified as the hedged item, the CCS can be identified as the hedge instrument and interest rate risk and exchange rate risk can be identified as the hedged risk.

Derivatives are classified as assets, when their fair value is positive or as liabilities, when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset, if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The following table describes the fair values of derivatives held-for-risk management purposes by type of instrument:

27.1 Assets

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Instrument type				
Interest rate				
Interest rate swap	**7,165**	–	**7,165**	–
Interest rate and foreign exchange				
Cross currency swap	**892,967**	–	**892,967**	–
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	**2,472,889**	65,552	**2,472,889**	65,552
– Other	**41,528**	888	**41,528**	888
	3,414,549	66,440	**3,414,549**	66,440

27.2 Liabilities

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Interest rate				
Interest rate swap	–	6,028	–	6,028
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	**36,940**	355,580	**36,940**	355,580
– Other	**84,433**	5,827	**84,433**	5,827
	121,373	367,435	**121,373**	367,435

28 Financial assets measured at fair value through profit or loss/ financial assets held for trading →

Accounting Policy →

Policy applicable from 1 January 2018

Financial assets measured at FVTPL are measured initially at fair value and subsequently recorded in the statement of financial position at fair value. Changes in fair value are recognised in income statement.

Policy applicable before 1 January 2018

Financial assets are classified as held-for-trading if:

- → *they are acquired principally for the purpose of selling or repurchasing in the near term; or*
- → *they hold as a part of a portfolio that is managed together for short-term profit or position taking;*

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss. Interest and dividend income are recorded in "Interest Income" and "Net Gains/(Losses) form Trading" respectively in the Income Statement, according to the terms of the contract, or when the right to receive the payment has been established.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Government of Sri Lanka Treasury Bonds (Note 28.4)	–	279,094	–	279,094
Equity securities				
Quoted (Note 28.1)	**5,386,889**	31,828	**5,386,889**	31,828
Quoted units in unit trust (Note 28.2)	**169,025**	–	**169,025**	–
Unquoted units in unit trust (Note 28.3)	**522,948**	–	**522,948**	–
	6,078,862	310,922	**6,078,862**	310,922

28.1 Quoted ordinary shares – Bank/Group

As at	31.12.2018			31.12.2017		
	Number of ordinary shares	**Cost LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
Commercial Bank of Ceylon PLC – voting	**46,965,028**	**1,854,812**	**5,386,889**	234,032	26,586	31,828
		1,854,812	**5,386,889**		26,586	31,828

28.2 Quoted units in unit trust Bank/Group

As at	31.12.2018			31.12.2017		
	Number of units	**Cost LKR 000**	**Fair value LKR 000**	Number of units	Cost LKR 000	Fair value LKR 000
NAMAL Acuity Value Fund	**2,112,810**	**106,070**	**169,025**	–	–	–
		106,070	**169,025**	–	–	–

28.3 Unquoted units in unit trust Bank/Group

As at	31.12.2018			31.12.2017		
	Number of units	**Cost LKR 000**	**Fair value LKR 000**	Number of units	Cost LKR 000	Fair value LKR 000
NAMAL Growth Fund	**2,125,766**	**251,539**	**241,215**	–	–	–
NAMAL Income Fund	**1,981,068**	**20,226**	**29,066**	–	–	–
National Equity Fund	**250,000**	**2,657**	**6,736**	–	–	–
Guardian Acuity Equity Fund	**9,052,505**	**150,000**	**145,932**	–	–	–
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**99,999**	–	–	–
		524,422	**522,948**	–	–	–

28.4 By collateralisation

	BANK		GROUP	
	2018 LKR 000	**2017 LKR 000**	**2018 LKR 000**	**2017 LKR 000**
Pledged as collateral	–	–	–	–
Unencumbered	–	279,094	–	279,094
	–	279,094	–	279,094

29 Financial assets at amortised cost – Loans to and receivables from banks →

Accounting Policy →

Loans and receivables from Bank include amount due from Banks, investment by the Bank in any bonds which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the Statement of Financial Position.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Gross loans and receivables	**12,898,331**	10,984,266	**12,898,331**	10,984,266
Accumulated impairment under stage 1 (Note 29.2)	**(43,451)**	–	**(43,451)**	–
Net loans and receivables	**12,854,880**	10,984,266	**12,854,880**	10,984,266

29.1 Analysis

29.1.1 By product

Refinanced loans-Plantation development project	–	27,977	–	27,977
Sri Lanka development bonds	**12,898,331**	10,956,289	**12,898,331**	10,956,289
Gross loans and receivables	**12,898,331**	10,984,266	**12,898,331**	10,984,266

29.1.2 By currency

Sri Lankan Rupee	–	27,977	–	27,977
United States Dollar	**12,898,331**	10,956,289	**12,898,331**	10,956,289
Gross loans and receivables	**12,898,331**	10,984,266	**12,898,331**	10,984,266

As at	BANK/GROUP 31.12.2018 LKR 000
29.2 Movement in impairment during the year	
Stage 1	
Balance at beginning	**38,363**
Charge to income statement	**5,088**
Balance on 31 December	**43,451**

30 Financial assets at amortised cost – Loans to and receivables from other customers →

Accounting Policy →

Loans to and receivables from other customers include loans and advances and lease receivables of the Group.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Loans and receivables from other customers are normally written off, either partially or in full, when there is no realistic prospect of recovery and all possible steps have been executed in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of the security. If the write-off is later recovered, the recovery is credited to "Net other operating income".

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Gross loans and receivables	**261,299,294**	221,309,571	**261,299,294**	221,309,571
Specific allowance for impairment (Note 30.2.1)	**(5,959,266)**	(5,388,754)	**(5,959,266)**	(5,388,754)
Collective allowance for impairment (Note 30.2.2)	**(5,606,310)**	(2,244,951)	**(5,606,310)**	(2,244,951)
Net loans and receivables	**249,733,718**	213,675,866	**249,733,718**	213,675,866

30.1 Analysis

30.1.1 By product

Overdrafts	**40,785,975**	40,204,544	**40,785,975**	40,204,544
Trade finance	**39,942,531**	29,778,452	**39,942,531**	29,778,452
Lease rentals receivable (Note 30.1.1.1)	**18,312,071**	16,493,374	**18,312,071**	16,493,374
Credit cards	**504,613**	276,432	**504,613**	276,432
Pawning	**3,194,318**	2,597,441	**3,194,318**	2,597,441
Staff loans	**1,966,944**	1,544,400	**1,966,944**	1,544,400
Term loans	**155,150,990**	129,086,941	**155,150,990**	129,086,941
Commercial papers and asset back notes	**1,329,352**	1,140,487	**1,329,352**	1,140,487
Preference shares unquoted	**112,500**	187,500	**112,500**	187,500
Gross loans and receivables	**261,299,294**	221,309,571	**261,299,294**	221,309,571

30.1.1.1 Lease rentals receivable

Gross investment in leases:				
Lease rentals receivable				
– within one year	**9,333,666**	8,167,382	**9,333,666**	8,167,382
– one to five years	**13,040,987**	11,774,307	**13,040,987**	11,774,307
	22,374,653	19,941,689	**22,374,653**	19,941,689
Less: Deposit of rentals	**10,411**	12,551	**10,411**	12,551
Unearned income on rentals receivable				
– within one year	**2,045,398**	1,720,165	**2,045,398**	1,720,165
– one to five years	**2,006,773**	1,715,599	**2,006,773**	1,715,599
	18,312,071	16,493,374	**18,312,071**	16,493,374

30.1.2 By currency

Sri Lankan Rupee	**227,858,928**	199,579,777	**227,858,928**	199,579,777
United States Dollar	**32,636,916**	20,885,187	**32,636,916**	20,885,187
Great Britain Pound	**566,915**	511,472	**566,915**	511,472
Australian Dollar	**42,077**	16,099	**42,077**	16,099
Euro	**194,458**	317,036	**194,458**	317,036
Gross loans and receivables	**261,299,294**	221,309,571	**261,299,294**	221,309,571

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

30.1.3 By industry

Agriculture, forestry and fishing	**27,308,657**	23,249,946	**27,308,657**	23,249,946
Manufacturing	**56,123,392**	51,376,632	**56,123,392**	51,376,632
Tourism	**12,805,091**	12,866,278	**12,805,091**	12,866,278
Transportation and storage	**9,407,724**	7,125,366	**9,407,724**	7,125,366
Construction	**30,722,021**	26,391,706	**30,722,021**	26,391,706
Infrastructure development	**22,422,062**	16,712,603	**22,422,062**	16,712,603
Wholesale and retail trade	**48,884,603**	45,756,584	**48,884,603**	45,756,584
Information technology and communication services	**986,397**	1,722,424	**986,397**	1,722,424
Financial services	**13,633,490**	10,090,282	**13,633,490**	10,090,282
Professional, scientific and technical activities	**951,079**	134,552	**951,079**	134,552
Arts, entertainment and recreation	**812,394**	626,832	**812,394**	626,832
Education	**1,456,169**	1,276,834	**1,456,169**	1,276,834
Health care, social services and support services	**3,680,771**	2,685,755	**3,680,771**	2,685,755
Consumption	**24,778,839**	19,687,803	**24,778,839**	19,687,803
Lending to ministry of finance	**298,195**	361,706	**298,195**	361,706
Lending to overseas entities	**7,028,410**	1,244,268	**7,028,410**	1,244,268
Gross loans and receivables	**261,299,294**	221,309,571	**261,299,294**	221,309,571

30.2 Movements in specific and collective allowance for impairment

30.2.1 Specific allowance for impairment

Balance at beginning	**5,388,754**	4,778,752	**5,388,754**	4,778,752
Currently assessed under collective impairment	**(8,927)**	–	**(8,927)**	–
Charge to income statement	**1,083,825**	724,402	**1,083,825**	724,402
Effect of foreign currency movement	**170,927**	21,782	**170,927**	21,782
Write-off of loans and receivables	**(675,313)**	(136,182)	**(675,313)**	(136,182)
Balance on 31 December	**5,959,266**	5,388,754	**5,959,266**	5,388,754

30.2.2 Collective allowance for impairment

Balance at beginning	**2,244,951**	1,890,798	**2,244,951**	1,890,798
Impact of adoption of SLFRS 9 as of 1 January 2018	**3,486,390**	–	**3,486,390**	–
Previously assessed under individual impairment	**8,927**	–	**8,927**	–
Adjusted balance at beginning (SLFRS 9)	**5,740,268**	–	**5,740,268**	–
(Reversal)/charge to income statement	**(97,897)**	405,973	**(97,897)**	405,973
Effect of foreign currency movement	**(4,233)**	382	**(4,233)**	382
Transfer to dues on terminated leases*	**(1,669)**	(4,671)	**(1,669)**	(4,671)
Write-off of loans and receivables	**(30,159)**	(47,531)	**(30,159)**	(47,531)
Balance on 31 December	**5,606,310**	2,244,951	**5,606,310**	2,244,951
Total	**11,565,576**	7,633,705	**11,565,576**	7,633,705

** Included in debtors in other assets Note 43.*

30.2.3 Movements in impairment during the year

As at	BANK/GROUP 31.12.2018 LKR 000
Stage 1	
Balance at beginning	805,471
Write back to income statement	(12,651)
Write-off during the year	(6,659)
Balance on 31 December	786,161
Stage 2	
Balance at beginning	2,347,630
Charge to income statement	10,489
Write-off during the year	(2,161)
Balance on 31 December	2,355,958
Stage 3	
Balance at beginning	7,966,994
Charge to income statement	988,090
Effect of foreign currency movement	166,694
Write-off during the year	(696,652)
Other movements	(1,669)
Balance on 31 December	8,423,457
Total impairment	**11,565,576**

31 Financial assets at amortised cost – Debt and other instruments/ financial assets held to maturity →

Accounting Policy →

Policy applicable from 1 January 2018

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- *The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and*
- *The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.*

Policy applicable before 1 January 2018

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Bank positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in there classification of all investment securities as available-for-sale for the current and the subsequent two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- *Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;*
- *Sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and*
- *Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.*

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Quoted debentures (Note 31.1)	**4,390,285**	5,131,404	**4,390,285**	5,131,404
Sri Lanka Government Securities (Note 31.2)				
Treasury Bills	**236,135**	941,938	**236,135**	941,938
Treasury Bonds	**18,247,668**	17,434,290	**18,247,668**	17,434,290
Total	**22,874,088**	23,507,632	**22,874,088**	23,507,632

31.1 Quoted debentures

Quoted debentures (Note 31.1.1)	**4,392,248**	5,131,404	**4,392,248**	5,131,404
Accumulated impairment under stage 1 (Note 31.1.3)	**(1,963)**	–	**(1,963)**	–
	4,390,285	5,131,404	**4,390,285**	5,131,404

As at	31.12.2018 Number of Debentures	31.12.2018 Cost of investment LKR 000	31.12.2017 Number of Debentures	31.12.2017 Cost of investment LKR 000
31.1.1 Quoted debentures				
Access Engineering PLC	**2,500,000**	**252,961**	2,500,000	253,031
Alliance Finance Company PLC	**4,221,693**	**461,755**	4,221,693	461,755
Central Finance Company PLC	–	–	1,793,900	191,604
Commercial Credit & Finance PLC	**4,500,000**	**461,911**	4,500,000	461,913
Hemas Holdings PLC	**827,900**	**85,055**	827,900	85,055
Lanka Orix Leasing Company PLC	**3,000,000**	**306,806**	3,000,000	306,806
LB Finance PLC	**1,155,200**	**116,344**	1,155,200	116,344
Lion Brewery (Ceylon) PLC	**1,412,500**	**144,018**	1,440,900	173,420
People's Leasing and Finance PLC	**12,500,000**	**1,285,295**	13,326,300	1,391,594
Senkadagala Finance PLC	**3,650,000**	**371,981**	3,650,000	371,981
Singer (Sri Lanka) PLC	**2,500,000**	**256,961**	6,441,900	668,738
Siyapatha Finance Ltd	**2,000,000**	**217,800**	2,000,000	217,802
Softlogic Finance PLC	**706,500**	**72,431**	706,500	72,431
Vallibel Finance PLC	**3,500,000**	**358,930**	3,500,000	358,930
Total investments in quoted debentures – Bank/Group		**4,392,248**		5,131,404

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
31.1.2 By collateralisation				
Pledged as collateral	**973,086**	1,275,436	**973,086**	1,275,436
Unencumbered	**3,417,199**	3,855,968	**3,417,199**	3,855,968
	4,390,285	5,131,404	**4,390,285**	5,131,404

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
31.2 By collateralisation				
31.2.1 Treasury bills				
Pledged as collateral	–	–	–	–
Unencumbered	**236,135**	941,938	**236,135**	941,938
	236,135	941,938	**236,135**	941,938
31.2.2 Treasury bonds				
Pledged as collateral	**4,082,975**	17,434,290	**4,082,975**	17,434,290
Unencumbered	**14,164,693**	–	**14,164,693**	–
	18,247,668	17,434,290	**18,247,668**	17,434,290

As at	Bank/Group 31.12.2018 LKR 000
31.1.3 Movement in impairment during the year	
Stage 1	
Balance at beginning	**1,729**
Charge to income statement	**234**
Balance on 31 December	**1,963**

32 Financial assets measured at fair value through other comprehensive income/ financial assets available for sale →

Accounting Policy →

Policy applicable from 1 January 2018

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as FVTPL:

- → *The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and*
- → *The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.*
- → *On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment – by investment basis.*

Policy applicable before 1 January 2018

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or not classified as another category of financial assets. These include Treasury Bills, Bonds, Debt Securities and unquoted and quoted equity securities. They are carried at fair value except for unquoted equity securities whose fair value cannot reliably be measured and therefore carried at cost.

Interest income is recognised in profit or loss, using the effective interest method. Dividend income was recognised in profit or loss when the Bank become entitled to the dividend.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, where upon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as are classification adjustment.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Government of Sri Lanka Treasury bills (Note 32.7)	**17,851,707**	19,484,244	**17,851,707**	19,484,244
Government of Sri Lanka Treasury bonds (Note 32.8)	**26,180,697**	18,261,795	**26,180,697**	18,261,795
Sri Lanka sovereign bonds – unencumbered	**876,579**	–	**876,579**	–
	44,908,983	37,746,039	**44,908,983**	37,746,039
Equity securities				
Quoted (Note 32.1)	**10,215,281**	18,195,008	**10,215,281**	18,195,008
Unquoted (Note 32.2)	**188,789**	85,555	**188,789**	85,555
Preference shares (Note 32.3)	**500**	500	**500**	500
Quoted units in Unit Trust (Notes 32.4)	**–**	194,590	**–**	194,590
Unquoted units in Unit Trust (Notes 32.5)	**–**	644,362	**–**	644,362
	10,404,570	19,120,015	**10,404,570**	19,120,015
Total	**55,313,553**	56,866,054	**55,313,553**	56,866,054

32.1 Quoted ordinary Shares

As at	31.12.2018 Number of ordinary shares	31.12.2018 Cost* LKR 000	31.12.2018 Fair value LKR 000	31.12.2017 Number of ordinary shares	31.12.2017 Cost* LKR 000	31.12.2017 Fair value LKR 000
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – voting	**81,250,621**	**3,208,869**	**9,319,446**	126,696,192	4,839,953	17,230,682
Commercial Bank of Ceylon PLC – non-voting	**262,182**	**21,254**	**25,405**	257,805	20,790	27,070
National Development Bank PLC	**2,864,868**	**449,041**	**306,542**	2,076,280	364,017	283,412
		3,679,164	**9,651,393**		5,224,760	17,541,164
Beverages, Food and Tobacco						
Ceylon Tobacco Company PLC	**–**	**–**	**–**	34,532	1,949	33,154
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	**247,900**	**14,131**	**9,792**	247,900	14,131	16,535
Chemical Industries (Colombo) PLC – non-voting	**389,400**	**15,577**	**11,682**	389,400	15,577	20,249
		29,708	**21,474**		29,708	36,784
Construction and Engineering						
Access Engineering PLC	**923,000**	**16,920**	**13,014**	473,000	9,737	11,163
Colombo Dockyard PLC	**160,000**	**12,160**	**8,880**	160,000	12,160	14,048
		29,080	**21,894**		21,897	25,211
Diversified Holdings						
Carson Cumberbatch PLC	**46,967**	**7,745**	**8,078**	46,967	7,745	8,454
Hayleys PLC	**7,333**	**2,225**	**1,371**	7,333	2,225	1,760
Hemas Holdings PLC	**894,777**	**57,189**	**79,635**	496,560	16,297	62,567
John Keells Holdings PLC	**672,758**	**86,368**	**106,969**	219,907	18,362	32,700
Melstacorp PLC	**2,069,940**	**90,053**	**104,118**	1,669,940	69,829	99,361
Richard Pieris & Co. PLC	**1,612,956**	**15,563**	**16,936**	612,956	5,047	7,907
		259,143	**317,107**		119,505	212,749

As at	31.12.2018			31.12.2017		
	Number of ordinary shares	**Cost* LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000
Healthcare						
Ceylon Hospitals PLC – Voting	–	–	–	100,000	2,306	8,300
Ceylon Hospitals PLC – Non-voting	–	–	–	240,000	4,167	15,672
		–	–		6,473	23,972
Hotels and Travels						
Dolphin Hotels PLC	**100,000**	**964**	**2,480**	100,000	964	2,900
Investment Trusts						
Ceylon Guardian Investment Trust PLC	**152,308**	**5,918**	**10,585**	152,308	5,918	13,251
Ceylon Investment PLC	**288,309**	**9,428**	**11,244**	288,309	9,428	12,887
		15,346	**21,829**		15,346	26,138
Telecommunications						
Dialog Axiata PLC	**2,550,000**	**24,602**	**25,755**	2,050,000	18,860	26,855
Manufacturing						
ACL Cables PLC	**40,000**	**2,278**	**1,480**	40,000	2,278	1,688
Ceylon Grain Elevators PLC	**148,997**	**9,197**	**8,865**	148,997	9,197	9,834
Chevron Lubricants Lanka PLC	**761,628**	**27,907**	**55,218**	761,628	27,907	90,634
Kelani Tyres PLC	**75,000**	**4,538**	**2,700**	75,000	4,538	3,330
Piramal Glass Ceylon PLC	**5,000,000**	**14,024**	**19,000**	5,000,000	14,024	29,000
Royal Ceramics Lanka PLC	**139,800**	**16,996**	**10,443**	139,800	16,996	16,007
Teejay Lanka PLC	**75,000**	**3,141**	**2,438**	75,000	3,141	2,550
Tokyo Cement Company (Lanka) PLC – voting	**120,000**	**5,734**	**3,000**	120,000	5,734	7,920
Tokyo Cement Company (Lanka) PLC – non-voting	**1,472,515**	**25,759**	**34,605**	1,472,515	25,759	86,878
		109,574	**137,749**		109,574	247,841
Power and Energy						
Vallibel Power Erathna PLC	**2,400,000**	**6,400**	**15,600**	2,400,000	6,400	18,240
Total quoted ordinary shares – Bank		**4,153,981**	**10,215,281**		5,555,436	18,195,008
Commercial Bank of Ceylon PLC – Equity Adjustment	–	**1,454,863**	–	–	2,297,772	–
Total quoted ordinary shares – Group		**5,608,844**	**10,215,281**		7,853,208	18,195,008

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

** Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

As at	31.12.2018			31.12.2017		
	Number of ordinary shares	**Cost* LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000

32.2 Unquoted ordinary shares

Credit Information Bureau of Sri Lanka	**9,184**	**918**	**171,661**	9,184	918	918
Durdans Medical & Surgical Hospital (Pvt) Limited	–	–	–	1,273,469	16,029	16,029
Fitch Ratings Lanka Limited	–	–	–	62,500	625	625
Lanka Clear (Private) Limited	**100,000**	**1,000**	**12,578**	100,000	1,000	1,000
Lanka Financial Services Bureau Limited	**100,000**	**1,000**	**1,165**	100,000	1,000	1,000
Samson Reclaim Rubber Limited	**116,700**	–	–	116,700	–	–
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	**3,385**	6	3,385	3,385
Sun Tan Beach Resorts Limited	**9,059,013**	–	–	9,059,013	62,598	62,598
The Video Team (Private) Limited	**30,000**	–	–	30,000	–	–
Total unquoted ordinary shares – Bank/Group		**6,303**	**188,789**		85,555	85,555

** Cost is reduced by write off of diminution in value other than temporary in respect of investments.*

As at	31.12.2018			31.12.2017		
	Number of preference shares	**Cost LKR 000**	**Fair value* LKR 000**	Number of preference shares	Cost LKR 000	Fair value LKR 000

32.3 Unquoted irredeemable preference shares

Arpico Finance Company PLC	**50,000**	**500**	**500**	50,000	500	500
Total investments in unquoted irredeemable preference shares – Bank/Group		**500**	**500**		500	500

As at	31.12.2018			31.12.2017		
	Number of units	**Cost LKR 000**	**Fair value* LKR 000**	Number of units	Cost LKR 000	Fair value LKR 000

32.4 Quoted Units in Unit Trust

NAMAL Acuity Value Fund	–	–	–	2,112,810	106,070	194,590
Total investments in quoted unit – Bank/Group		–	–		106,070	194,590

32.5 Unquoted Units in Unit Trust

NAMAL Growth Fund	–	–	–	2,125,766	251,539	288,256
NAMAL Income Fund	–	–	–	5,810,424	59,322	80,778
National Equity Fund	–	–	–	250,000	2,657	8,417
Guardian Acuity Equity Fund	–	–	–	9,052,505	150,000	154,486
JB Vantage Value Equity Fund	–	–	–	5,224,660	100,000	112,425
Total investments in unquoted unit trusts – Bank/Group		–	–		563,518	644,362

Unit Trust investments have been reclassified as financial assets measured at fair value thought profit or loss in Note 28.3.

As at	Ordinary Shares Quoted LKR 000	Ordinary Shares Unquoted LKR 000	Preference shares Unquoted LKR 000	Total 31.12.2018 LKR 000	Total 31.12.2017 LKR 000

32.6 Equity securities

32.6.1 Composition*

32.6.1.1 Bank

Performing investments	10,215,281	188,789	500	**10,404,570**	18,755,114
Non-performing investments	–	–	–	**–**	364,901
	10,215,281	188,789	500	**10,404,570**	19,120,015

32.6.1.2 Group

Performing investments	10,215,281	188,789	500	**10,404,570**	18,755,114
Non-performing investments	–	–	–	**–**	364,901
	10,215,281	188,789	500	**10,404,570**	19,120,015

** Disclosure as per the Direction on the prudential norms for classification, valuation and operation of the Bank's investment portfolio.*

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

32.7 By collateralisation

Pledged as collateral	**3,364,984**	5,378,996	**3,364,984**	5,378,996
Unencumbered	**14,486,723**	14,105,248	**14,486,723**	14,105,248
	17,851,707	19,484,244	**17,851,707**	19,484,244

32.8 By collateralisation

Pledged as collateral	**2,137,208**	51,060	**2,137,208**	51,060
Unencumbered	**24,043,489**	18,210,735	**24,043,489**	18,210,735
	26,180,697	18,261,795	**26,180,697**	18,261,795

33 Investments in subsidiaries →

Accounting Policy →

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement, if there has been a change in the estimates used to determine the recoverable amount of the investment.

As at	DFCC Consulting (Pvt) Limited ownership 100% LKR 000	Lanka Industrial Estates Limited ownership 51.16% LKR 000	Synapsys Limited ownership 100% LKR 000	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000
Balance at beginning	5,000	97,036	135,000	**237,036**	172,036
Investment during the year	–	–	–	–	65,000
Less: Allowance for impairment (Note 33.1)	–	–	70,000	**70,000**	70,000
Balance net of impairment	5,000	97,036	65,000	**167,036**	167,036

As at	DFCC Consulting (Pvt) Limited ownership 100% LKR 000	Lanka Industrial Estates Limited ownership 51.16% LKR 000	Synapsys Limited ownership 100% LKR 000	BANK **31.12.2018** **LKR 000**	BANK 31.12.2017 LKR 000

33.1 Movements in impairment allowance

Balance at beginning				70,000	60,104
Charge to income statement				–	9,896
Balance on 31 December				70,000	70,000

Investment in Synapsys Limited is classified as non-performing (no dividend for three consecutive years).

33.2 Non-controlling interest (NCI) in subsidiaries

Accounting Policy →

The Non-controlling Interest are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes to in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

	Percentage of ownership interest held by NCI	Percentage of voting rights held by NCI	Share of total comprehensive income of NCI for the year ended 31 December		NCI as at		Dividends paid to NCI for the year ended 31 December	
	31.12.2018 %	31.12.2017 %	**2018 LKR 000**	2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Lanka Industrial Estates Limited	**48.84**	48.84	**59,352**	71,572	**258,224**	276,872	**54,600**	54,600
			59,352	71,572	**258,224**	276,872	**54,600**	54,600

33.3 Summarised financial information of subsidiaries

Lanka Industrial Estates Limited

As at	**31.12.2018 LKR 000**	**31.12.2017 LKR 000**
Assets	**849,394**	782,569
Liabilities	**320,732**	215,730
Equity	**528,662**	566,839

For the year ended 31 December	**2018 LKR 000**	**2017 LKR 000**
Revenue	**353,125**	322,223
Expenses	**120,879**	116,322
Income tax	**111,026**	59,822
Profit after tax	**121,220**	146,079
Other comprehensive income	**293**	459
Total comprehensive income	**121,513**	146,538

34 Investments in associate (unquoted) →

Accounting Policy →

Investment in associate is recognised using the equity method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets. Unrealised gains and losses on transactions between Bank and its associates are eliminated to the extent of Bank's interest in the respective associate.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	**35,270**	35,270	**67,266**	64,873
Share of profit after tax	**–**	–	**2,429**	9,414
Share of other comprehensive (expenses)/income	**–**	–	**(8,588)**	479
Dividend received – Elimination on consolidation	**–**	–	**(30,000)**	(7,500)
Balance on 31 December	**35,270**	35,270	**31,107**	67,266

34.1 Summarised financial information of associate

National Asset Management Limited

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Assets	**112,689**	238,743
Liabilities	**9,050**	14,576
Equity	**103,639**	224,167

For the year ended 31 December	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Revenue	**86,962**	128,102
Profit after tax	**8,096**	31,380
Other comprehensive (expenses)/income	**(28,625)**	1,596
Total comprehensive (expenses)/income	**(20,528)**	32,976

35 Investments in joint venture (unquoted) →

Accounting Policy →

Investments in joint venture is recognised using the equity method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets. Unrealised gains and losses on transactions between Bank and its joint ventures are eliminated to the extent of Bank's interest in the respective joint venture.

As at	**31.12.2018 Cost of investment LKR 000**	31.12.2017 Cost of investment LKR 000
35.1 Investments in joint venture – Bank		
Acuity Partners (Pvt) Limited (ownership 50%)	**755,000**	755,000
	755,000	755,000

As at	31.12.2018 LKR 000	31.12.2017 LKR 000

35.2 Investment in joint venture – Group

Share of identifiable asset and liabilities of joint venture as at the beginning of the year	**1,801,399**	1,562,942
Share of unrealised profit on disposal of investments	**(184,688)**	(184,688)
Balance at beginning	**1,616,711**	1,378,254
Adjustment on initial application of SLFRS 9	**15,568**	–
Share of profit, net of tax	**304,789**	175,616
Share of other comprehensive income/(expenses)	**49,498**	(21,416)
Change in holding – through subsidiary of joint venture	**4,109**	117,477
Dividend received during the year	**(33,220)**	(33,220)
Group's share of net assets	**1,957,455**	1,616,711

35.3 Summarised financial information of joint venture – Acuity Partners (Pvt) Limited

For the year ended 31 December	**2018 LKR 000**	2017 LKR 000
Revenue	**858,296**	808,127
Expenses	**710,453**	654,739
Share of profit of equity accounted investees	**516,783**	447,614
Other gains/losses	**12,734**	14,119
Income tax reversal/expense	**222,463**	(50,241)
Profit after tax	**899,823**	564,880
Other comprehensive income/(expenses)	**272,046**	(69,456)
Total comprehensive income	**1,171,869**	495,424

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Current assets	**7,055,575**	5,241,692
Non-current assets	**10,084,538**	9,299,827
Current liabilities	**9,452,066**	7,688,029
Non-current liabilities	**990,956**	1,025,766

	BANK	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000

36 Due from subsidiaries →

DFCC Consulting (Pvt) Limited	**1,854**	906
Synapsys Limited	**7,651**	11,177
	9,505	12,083

37 Investment property

Accounting Policy

Investment property of the Bank/Group is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. The Bank/Group has chosen the cost model instead of fair value model and therefore investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Income Statement.

Depreciation is provided on a straightline basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Cost				
Balance at beginning	–	–	**464,348**	363,329
Acquisition	–	–	**280,371**	165,336
Transferred from property, plant and equipment (Note 38.1)	**9,879**	–	**(79,200)**	(64,317)
Cost as at 31 December	**9,879**	–	**665,519**	464,348
Less: Accumulated depreciation				
Balance at beginning	–	–	**145,695**	131,977
Charge for the year	–	–	**23,265**	13,718
Accumulated depreciation as at 31 December	–	–	**168,960**	145,695
Carrying amount as at 31 December	**9,879**	–	**496,559**	318,653

37.1 Details of investment properties

As at 31 December 2018	Buildings sq.ft	Extent of Land perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Carrying amount LKR 000	Fair value LKR 000	Date of Valuation
4 A, 4th Cross Lane, Borupana, Ratmalana	–	20.0	2,600	–	2,600	15,000	31.12.2017
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.5	7,279	–	7,279	88,800	20.05.2018
Bank	–		9,879	–	9,879	103,800	
Pattiwila Road, Sapugaskanda, Makola	465,150	21,920	655,640	168,960	486,680	5,413,750	31.12.2017
Group			665,519	168,960	496,559	5,517,550	

**1 perch – 25.2929 m^2; 1Sq.ft = 0.0929 m^2*

The fair value of investment property as at 31 December 2018 situated at Pattiwela Road, Sapugaskanda, Makola was based on market valuations carried out on 31 December 2017 by independent qualified valuer Mr K T D Tissera, Fellow Members of Institute of Valuers (Sri Lanka), Chartered Valuer.

The fair value of investment properties situated at Borupana, Ratmalana and Bambarakelle, Nuwara-Eliya valued by independent qualified valuer Mr A A M Fathihu – Former Government Chief Valuer and Mr J S M I B Karunatilaka. Associate Member of the Institute of Valuers of Sri Lanaka.

Rental income from investment property of Group for 2018 – LKR 226 Mn (2017 – LKR 225 Mn)
Operating expenses on investment property of Group for 2018 – LKR 38 Mn (2017 – LKR 29 Mn)

38 Property, plant and equipment →

Accounting Policy →

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Subsequent costs

Subsequent expenditure is capitalised only when its probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

Capital work-in-progress

There are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. When it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Depreciation

Items of property, plant and equipment are depreciated from the month they are available-for-use up to the month of disposal. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20
Office equipment and motor vehicles	5
Fixtures and fittings	10

Derecognition

The carrying amount of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use of the gain or loss arising from the derecognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

38.1 Composition: Bank

	Land and buildings LKR 000	Office equipment LKR 000	Furniture and fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2018 LKR 000**	Total 31.12.2017 LKR 000
Cost at beginning	479,185	2,043,681	924,934	261,082	**3,708,882**	3,151,128
Acquisitions	199,679	285,860	86,895	98,595	**671,029**	605,297
Less: Transferred to investment property	9,879	–	–	–	**9,879**	–
Less: Disposals	–	13,826	2,512	4,863	**21,201**	47,543
Cost as at 31 December	668,985	2,315,715	1,009,317	354,814	**4,348,831**	3,708,882
Accumulated depreciation at beginning	233,374	1,380,606	591,587	230,065	**2,435,632**	2,223,271
Depreciation for the year	12,246	219,055	66,102	15,852	**313,255**	259,548
Less: Accumulated depreciation on disposals	–	13,511	2,057	4,863	**20,431**	47,187
Accumulated depreciation as at 31 December	245,620	1,586,150	655,632	241,054	**2,728,456**	2,435,632
Carrying amount as at 31 December	423,365	729,565	353,685	113,760	**1,620,375**	1,273,250

As at 31 December 2018	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation LKR 000	Carrying amount LKR 000

38.1.2 List of freehold lands and buildings

73/5, Galle Road, Colombo 3	57,200	104.45	85,518	77,162	8,356
5, Deva Veediya, Kandy	4,600	12.54	16,195	7,583	8,612
73, W A D Ramanayake Mawatha, Colombo 2	21,400	45.00	197,268	135,882	61,386
No. 454, Main Street, Negombo	19,087	29.00	170,325	24,993	145,332
No. 77, Colombo Road, Kurunegala**		30.00	199,679	–	199,679
			668,985	245,620	423,365

**1 perch - 25.2929 m2; 1Sq.ft = 0.0929 m2*

***cost includes stamp duty*

	LKR Mn	Date of valuation

38.1.3 Market value of properties

73/5, Galle Road, Colombo 3	1,509	31.12.2017
5, Deva Veediya, Kandy	125	31.12.2017
73, W A D Ramanayake Mawatha, Colombo 2	705	31.12.2017
No. 454, Main Street, Negombo	275	18.05.2018
No. 77, Colombo Road, Kurunegala – purchased during the year	192	29.01.2018

Valued by the independent qualified valuers Mr A A M Fathihu – Former Government Chief Valuer and Mr J S M I B Karunatilaka, Associate Member of the Institute of Valuers of Sri Lanka.

38.1.4 Fully depreciated property, plant and equipment – Bank

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows:

	BANK	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Buildings	**199,702**	79,312
Office equipment	**1,205,302**	1,007,584
Furniture and fittings	**344,280**	267,954
Motor vehicles	**215,328**	199,691
	1,964,612	1,554,541

38.2 Composition – Group

	Land and buildings LKR 000	Office equipment LKR 000	Furniture and fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2018 LKR 000**	Total 31.12.2017 LKR 000
Cost at beginning	710,062	2,092,417	938,573	312,409	**4,053,461**	3,486,510
Acquisitions	222,203	286,633	86,932	98,595	**694,363**	615,312
Less: Transferred to investment property	9,879	–	–	–	**9,879**	–
Less: Disposals	–	13,825	2,512	4,863	**21,200**	48,361
Cost as at 31 December	922,386	2,365,225	1,022,993	406,141	**4,716,745**	4,053,461
Accumulated depreciation at beginning	388,075	1,416,751	609,380	268,094	**2,682,300**	2,443,891
Depreciation for the year	23,006	224,384	66,731	21,851	**335,972**	286,424
Less: Accumulated depreciation on disposals	–	13,511	2,057	4,863	**20,431**	48,015
Accumulated depreciation as at 31 December	411,081	1,627,624	674,054	285,082	**2,997,841**	2,682,300
Carrying amount as at 31 December	511,305	737,601	348,939	121,059	**1,718,904**	1,371,161

39 Intangible assets →

Accounting Policy →

Intangible assets – Computer application software

All software licenses used by the Bank, not constituting an integral part of related hardware are included in the statement of financial position under the category intangible assets and carried at cost less cumulative amortisation and any impairment losses.

The initial acquisition cost comprises licence fee paid at the inception, import duties, non-refundable taxes and levies, cost of customising the software to meet the specific requirements of the Bank and other directly attributable expenditure in preparing the asset for its intended use.

The initial cost is enhanced by subsequent expenditure incurred by further customisation to meet ancillary transaction processing and reporting requirements tailor-made for the use of the Bank constituting an improvement to the software.

The cost is amortised, using the straight-line method, at the rate of 20% per annum commencing from the date the application software is available for use. The amortised amount is based on the best estimate of its useful life, such that the cost is amortised fully at the end of the useful life during which the Bank has legal right of use. The amortisation cost is recognised as an expense.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Software (Note 39.1)	**642,829**	369,777	**645,395**	374,104
Software under development (Note 39.2)	**26,005**	128,307	**40,893**	128,307
Total	**668,834**	498,084	**686,288**	502,411

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
39.1 Software				
Cost at beginning	**1,300,058**	1,024,450	**1,307,859**	1,031,330
Acquisitions	**255,050**	275,608	**255,091**	276,529
Transferred from work-in-progress	**167,091**	–	**167,091**	–
Cost as at 31 December	**1,722,199**	1,300,058	**1,730,041**	1,307,859
Accumulated amortisation at beginning	**930,282**	820,708	**933,755**	822,948
Amortisation for the year	**149,088**	109,573	**150,891**	110,807
Accumulated amortisation as at 31 December	**1,079,370**	930,281	**1,084,646**	933,755
Carrying amount as at 31 December	**642,829**	369,777	**645,395**	374,104
39.2 Software under development				
As at beginning	**128,307**	–	**128,307**	–
Addition to work-in-progress	**64,789**	128,307	**79,677**	128,307
Transfers/adjustments	**(167,091)**	–	**(167,091)**	–
As at 31 December	**26,005**	128,307	**40,893**	128,307

40 Goodwill on consolidation →

Accounting Policy →

Goodwill arises on the acquisition of subsidiaries, when the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceed the amount of the identifiable assets and liabilities acquired. If the amount of the identifiable assets and liabilities acquired is greater, the difference is recognised immediately in the income statement. Goodwill arises on the acquisition of interests in joint venture and associate when the cost of investment exceeds Bank's share of the net fair value of the associate's or joint venture's identifiable assets and liabilities.

As at	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
DFCC Vardhana Bank PLC	**146,603**	146,603
Lanka Industrial Estates Limited	**9,623**	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets. Therefore DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial status.

41 Government Grant Receivable/Deferred Income – CBSL SWAP →

Government grants are recognised initially as deferred income at fair value, when there is a reasonable assurance that they will be received and Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis in the period in which the expenses/(losses) are recognised.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
41.1 Government grant – Receivable				
Fair value at beginning	**642,583**	861,915	**642,583**	861,915
Change in fair value on termination/renewal of contract	**(701,573)**	(133,055)	**(701,573)**	(133,055)
Change in fair value during the year (Note 13)	**58,990**	(86,277)	**58,990**	(86,277)
Fair value at 31 December	**–**	642,583	**–**	642,583
41.2 Government grant – Deferred income				
Fair value at beginning	**654,583**	701,665	**654,583**	701,665
Change in fair value on termination/renewal of contract	**(701,573)**	(133,055)	**(701,573)**	(133,055)
Change in fair value during the year	**58,990**	(86,277)	**58,990**	(86,277)
Foreign exchange (loss)/gain on revaluation	**(12,000)**	172,250	**(12,000)**	172,250
Amortisation of deferred income on Government grant – CBSL Swap (Note 15)	**46,990**	85,973	**46,990**	85,973
Fair value at 31 December	**–**	654,583	**–**	654,583

DFCC Bank PLC in October 2013 raised USD 100 Mn by Issue of Notes abroad. The proceeds of this note issue are to be deployed predominantly in LKR denominated monetary assets. In order to hedge the resulting net open foreign currency liability position, DFCC Bank PLC has entered in to a annually renewable currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability. Accordingly this contract was renewed in November 2017.

The currency SWAP arrangement, pursuant to Government policy for the principal amount only is designed to reimburse DFCC Bank by CBSL for any exchange loss incurred and conversely for DFCC Bank to pay CBSL any exchange gain arising from depreciation of LKR vis-a-vis USD or appreciation of LKR vis-a-vis USD respectively.

Although USD denominated notes are repayable at the end of five years, the currency SWAP arrangement contract is renewed annually up to the date of repayment of the notes so as to exchange cash flow arising from movement in USD/LKR spot exchange rate that occurs at the time of renewal of the annual contract.

The currency SWAP arrangement with CBSL provides for SWAP of LKR to USD at the end of the contract at the same spot rate as the initial SWAP of USD to LKR at the commencement of the annual contract. (i.e. CBSL SWAP arrangement amounts to a full discount to USD/LKR spot rate at the end of the contract).

The hedging instrument for currency swap is deemed to be a derivative asset recognised at the fair value at the inception of the contract. The fair value of this derivative asset is measured by reference to forward exchange quotes for USD purchase contracts by commercial banks, who are the normal market participants. Thus the fair value gain at the inception of the contract is the full amount of the forward premium quote at the end of one year.

The subsequent change in fair value is recognised in the income statement.

CBSL normally does not enter in to forward exchange contracts with market participants providing 100% discount to the USD/LKR spot rate at the time of the maturity of the contract. Thus this arrangement has features of both derivative instrument and Government grant through the agency of CBSL.

The initial gain by reference to forward price of an equivalent forward exchange dollar purchase contract is recognised as a Government grant and deferred income.

The deferred income is amortised on a systematic basis over the period in which the Bank recognises the fall in value of derivative which the grant is intended to compensate.

DFCC Bank PLC repaid Notes Issue abroad amounting to USD 100 million in October 2018. Accordingly, currency SWAP arrangement with Central Bank of Sri Lanka was matured in October 2018.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

42 Deferred tax asset/liability →

Deferred tax liability (Note 42.1)	–	1,194,027	**90,402**	1,232,478
Deferred tax asset (Note 42.2)	**491,523**	–	**492,678**	3,160
Net total	**491,523**	1,194,027	**402,276**	1,229,318

42.1 Deferred tax liability

Balance at beginning	**1,269,468**	991,492	**1,307,919**	1,013,742
Recognised in income statement	**(175,254)**	87,393	**(121,172)**	103,594
Recognised in other comprehensive income	**(167,185)**	190,583	**(167,185)**	190,583
	927,029	1,269,468	**1,019,562**	1,307,919
Offset against deferred tax asset	**(927,029)**	(75,441)	**(929,160)**	(75,441)
Balance as at 31 December	–	1,194,027	**90,402**	1,232,478

42.2 Deferred tax asset

Balance at beginning	**75,441**	139,830	**78,601**	140,458
Adjustment on initial application of SLFRS 9	**1,004,053**	–	**1,004,053**	–
Recognised in income statement	**135,874**	10,973	**136,074**	14,048
Recognised in other comprehensive income	**203,184**	(75,362)	**203,110**	(75,905)
	1,418,552	75,441	**1,421,838**	78,601
Offset against the deferred tax liability	**(927,029)**	(75,441)	**(929,160)**	(75,441)
Balance as at 31 December	**491,523**	–	**492,678**	3,160

42.3 Recognised deferred tax assets and liabilities

Assets				
Property, equipment and software	–	–	**(1,227)**	(898)
Gratuity liability and actuarial losses on defined benefit plans	**97,477**	75,441	**101,990**	79,499
Fair value changes of FVOCI/AFS financial assets	**193,970**	–	**193,970**	–
Expected credit loss	**1,127,105**	–	**1,127,105**	–
	1,418,552	75,441	**1,421,838**	78,601
Liabilities				
Property, equipment and software	**186,883**	176,168	**251,204**	200,418
Finance leases	**716,748**	902,717	**716,748**	902,717
Fair value changes of FVOCI/AFS financial assets	–	190,583	–	190,583
Cross currency swap	**23,398**	–	**23,398**	–
Undistributed profits of the group	–	–	**28,212**	14,201
	927,029	1,269,468	**1,019,562**	1,307,919

With the adoption of SLFRS 9 the Bank has recognised deferred tax asset arising from impairment losses from loans and receivables and debt instruments which are not deducted from current tax computation.

The deferred tax asset relating to day one adjustment have been recognised against the retained earnings in the statement of changes in equity as at 1 January 2018.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

42.4 Unrecognised deferred tax assets

Accumulated tax losses				
DFCC Consulting (Pvt) Limited – Subsidiary	–	–	–	5,956
Synapsys Limited – Subsidiary	–	–	**8,791**	6,972
	–	–	**8,791**	12,928

43 Other assets

Refundable deposits and advances	**551,684**	370,300	**553,452**	372,070
Debtors	**1,038,863**	805,204	**1,084,599**	834,334
Clearing account balances	**1,840,512**	1,600,238	**1,840,512**	1,600,238
Receivable from pension fund	**143,217**	181,820	**143,217**	181,820
	3,574,276	2,957,562	**3,621,780**	2,988,462

44 Due to banks

Balances with foreign banks	**803,188**	1,067,474	**803,188**	1,067,474
Borrowing – local banks	**4,947,133**	8,573,261	**4,947,133**	8,573,261
Securities sold under repurchase (Repo) agreements	**3,696,143**	–	**3,696,143**	–
	9,446,464	9,640,735	**9,446,464**	9,640,735

45 Financial liabilities at amortised cost – Due to depositors

Total amount due to depositors	**242,237,596**	193,307,534	**241,914,870**	192,920,147

45.1 Analysis

45.1.1 By product

Demand deposits (current accounts)	**4,340,818**	4,468,869	**4,340,528**	4,468,192
Savings deposits	**45,840,477**	36,660,313	**45,826,819**	36,657,366
Fixed deposits	**188,938,547**	151,284,299	**188,629,769**	150,900,536
Certificate of deposits	**553,593**	477,711	**553,593**	477,711
Other deposits	**2,564,161**	416,342	**2,564,161**	416,342
	242,237,596	193,307,534	**241,914,870**	192,920,147

45.1.2 By currency

Sri Lanka Rupee	**180,708,645**	151,552,198	**180,397,137**	151,172,107
United States Dollar (USD)	**58,332,363**	37,950,742	**58,321,145**	37,943,446
Great Britain Pound (GBP)	**1,082,211**	1,044,429	**1,082,211**	1,044,429
Others	**2,114,377**	2,760,165	**2,114,377**	2,760,165
	242,237,596	193,307,534	**241,914,870**	192,920,147

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

46 Financial liabilities at amortised cost – Due to other borrowers →

Repayable in foreign currency				
Borrowing sourced from				
Multilateral institutions	**3,081,358**	3,281,998	**3,081,358**	3,281,998
Bilateral institutions	**18,292,688**	11,266,708	**18,292,688**	11,266,708
	21,374,046	14,548,706	**21,374,046**	14,548,706
Repayable in rupees				
Borrowing sourced from				
Multilateral institutions	**18,809,537**	19,395,507	**18,809,537**	19,395,507
Bilateral institutions	**1,250,544**	1,369,093	**1,250,544**	1,369,093
Central Bank of Sri Lanka – secured refinance loans (Note 46.1)	**130,355**	199,625	**130,355**	199,625
Securities sold under repurchase (Repo) agreements	**5,849,245**	5,806,660	**5,824,197**	5,777,943
	26,039,681	26,770,885	**26,014,633**	26,742,168
Total	**47,413,727**	41,319,591	**47,388,679**	41,290,874

46.1 Assets pledged as security

Nature	**Amount 31.12.2018 LKR 000**
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	**130,355**

47 Debt securities issued →

Year of Issuance	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31.12.2018 LKR 000	BANK/GROUP 31.12.2017 LKR 000
Issued by Bank							
i. Debenture issue (LKR)							
– Listed	3,000,000	9.10	5 years	10 Jun. 2015	10 Jun. 2020	**3,142,542**	3,136,708
	5,315,450	10.63	3 years	18 Mar. 2016	18 Mar. 2019	**5,755,899**	5,747,779
ii. Notes issue (USD)	15,360,000	9.63	5 years	31 Oct. 2013	31 Oct. 2018	–	15,559,280
	23,675,450					**8,898,441**	24,443,767
Due within one year						**5,755,899**	15,559,280
Due after one year						**3,142,542**	8,884,487
						8,898,441	24,443,767

Carrying values are the discounted amounts of principal and interest.

47.1 Details of debt securities issued

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of comparative Government securities (Gross) p.a. %	**Balance as at 31.12.2018 LKR 000**	Market price			Yield last traded %
					Highest	Lowest	Last traded	
Fixed rate								
2015-2020	Annually	9.10	9.62	**3,142,542**	N/T	N/T	N/T	N/A
2016-2019	Annually	10.63	9.29	**5,755,899**	N/T	N/T	N/T	N/A

N/T – Not traded

Other Ratios	**31.12.2018**	31.12.2017
Debt to equity ratio	**1.88**	1.77
Interest cover	**0.89**	0.99
Liquid asset ratio (%)	**23.9**	26.8

	BANK		**GROUP**	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
48 Retirement benefit obligation →				
Defined benefit – unfunded pension (Note 48.1)	**60,573**	61,147	**60,573**	61,147
– unfunded end of service gratuity (Note 48.2)	**348,131**	269,431	**372,742**	291,563
	408,704	330,578	**433,315**	352,710

	BANK/GROUP	
As at	**2018 LKR 000**	2017 LKR 000

48.1 Unfunded pension liability

Balance at beginning	**61,147**	61,728
Interest on obligation	**5,736**	5,794
Benefits paid	**(6,995)**	(6,995)
Actuarial experience loss	**685**	620
Present value of defined benefit pension obligations	**60,573**	61,147

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

48.2 Unfunded end of service gratuity

Balance at beginning	**269,431**	220,956	**291,563**	244,812
Liability transferred	–	2,414	–	–
Current service cost	**41,274**	35,041	**45,857**	41,507
Interest on obligation	**26,943**	22,096	**28,694**	23,877
Benefits paid	**(22,427)**	(20,363)	**(23,264)**	(24,652)
Actuarial experience loss	**32,910**	9,287	**29,892**	6,019
Present value of defined benefit pension obligations	**348,131**	269,431	**372,742**	291,563

As at	BANK/GROUP 2018 LKR 000	BANK/GROUP 2017 LKR 000

48.3 Funded pension liability/(asset)

Present value of defined benefit pension obligations (Note 48.3.1)	**2,503,310**	2,372,248
Fair value of pension assets (Note 48.3.2)	**(2,646,527)**	(2,554,068)
Defined benefit liability/(asset)	**(143,217)**	(181,820)

As per LKAS 19 – "Employee Benefits" if a plan is in surplus, then the amount recognised as an asset in the Statement of Financial Position is limited to the "asset ceiling". The asset ceiling is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. By analysing all the future economic benefits available to the DFCC Pension Fund, the independent actuary Mr Piyal S Goonetilleke of Priyal S Goonetilleke & Associate has estimated the asset ceiling as at 31 December 2018 to be LKR 255.5 Mn in his report dated 23 January 2019.

As at	BANK/GROUP 2018 LKR 000	BANK/GROUP 2017 LKR 000

48.3.1 Movement in defined pension obligation

Present value of defined benefit pension obligations at the beginning	**2,372,248**	2,280,943
Current service cost	**51,282**	60,496
Interest on obligation	**237,225**	228,094
Benefits paid	**(166,793)**	(197,770)
Actuarial experience loss	**9,348**	485
Present value of defined benefit pension obligations	**2,503,310**	2,372,248

48.3.2 Movement in pension assets

Pension assets at the beginning	**2,554,068**	2,446,306
Expected return on pension assets	**228,190**	233,917
Employer's contribution	–	28,823
Benefits paid	**(166,793)**	(197,770)
Actuarial experience gain	**31,062**	42,792
Pension assets	**2,646,527**	2,554,068

As at	BANK/GROUP 2018 LKR 000	2017 LKR 000
48.3.3 Plan assets consist of the following		
Debentures	**195,563**	119,184
Government bonds	**–**	231,899
Fixed deposits	**2,483,417**	2,211,589
Others	**(32,453)**	(8,604)
	2,646,527	2,554,068

As at	Unfunded pension liability* 31.12.2018 LKR 000	Unfunded end of service gratuity* 31.12.2018 LKR 000	Funded pension liability* 31.12.2018 LKR 000
48.3.4 The expected benefit payout in the future years to the defined benefit obligation – Bank			
Within next 12 months	**6,995**	**33,705**	**180,170**
Between 2 and 5 years	**27,980**	**163,118**	**892,902**
Beyond 5 years	**34,975**	**421,486**	**1,508,426**

** Based on expected benefits payout in next 10 years*

48.3.5 Unfunded pension liability

This relates to pension liability of an ex-employee, not funded through the DFCC Bank PLC Pension Fund. The liability covers the pension benefit to retiree and survivors.

48.3.6 Actuarial valuation

Actuarial valuation was carried out by Mr Piyal S Goonetilleke, Fellow of the Society of Actuaries USA of Piyal S Goonetilleke & Associates, on 31 December 2018.

48.3.7 Actuarial valuation method

Projected unit credit method was used to allocate the actuarial present value of the projected benefits earned by employees to date of valuation.

As at	31 December 2018		31 December 2017	
	Pension benefit (%)	End of service gratuity (%)	Pension benefit (%)	End of service gratuity (%)
48.3.8 Principal actuarial Assumptions				
Discount rate per annum				
Pre-retirement	**10**	**10**	10	10
Post-retirement	**10**	**Not applicable**	10	Not applicable
Future salary increases per annum	**10.5**	**10.5**	10.5	10.5
Expected rate of return on pension assets	**10**	**–**	10	–
Actual rate of return on pension assets	**11.2**	**–**	16.2	–
Mortality	**UP 1984 mortality table**	**RP-2000 mortality table**	UP 1984 mortality table	RP-2000 mortality table
Retirement age	**55 years**	**55 years**	55 years	55 years
Normal form of payment:	**lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)**	**lump sum**	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate –				
Age				
20	**10.0**	**10.0**	10.0	10.0
25	**10.0**	**10.0**	10.0	10.0
30	**10.0**	**10.0**	10.0	10.0
35	**7.5**	**7.5**	7.5	7.5
40	**5.0**	**5.0**	5.0	5.0
45	**2.5**	**2.5**	2.5	2.5
50/55	**1.0**	**1.0**	1.0	1.0

The principal actuarial assumptions in the previous year has not changed. The discount rate is the yield rate on 31 December 2018 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 22.3 years for pension and 10.6 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments will continue.

48.3.9 Principal actuarial assumptions – Group

The subsidiaries have used discount rates ranging 10% – 11% and the salary increment rate ranging 5% – 7.01%.

The differences in the rate of future annual salary increases reflect the remaining working life of participants for each plan.

48.3.10 Sensitivity of assumptions used in the actuarial valuation

The Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rates and salary increment rate is given below:

	Effect on income statement increase/(decrease) LKR 000	Effect on defined benefit obligation increase/(decrease) LKR 000
Funded pension liability		
Discount rate		
1%	200,887	(200,887)
-1%	(233,885)	233,885
Salary increment rate		
1%	(43,468)	43,468
-1%	41,216	(41,216)
Unfunded pension liability		
Discount rate		
1%	3,823	(3,823)
-1%	(4,326)	4,326
Unfunded end of service gratuity*		
Discount Rate		
1%	35,286	(35,286)
-1%	(41,428)	41,428
Salary increment rate		
1%	(39,893)	39,893
-1%	34,706	(34,706)

** Salary increment not applicable for ex-employees.*

48.3.11 Historical information

As at	31.12.2017 LKR 000	31.12.2016 LKR 000	31.12.2015 LKR 000	31.03.2015 LKR 000	31.03.2014 LKR 000
Present value of the defined benefit obligation	2,372,248	2,280,943	2,296,454	2,141,648	1,866,434
Fair value of plan assets	(2,554,068)	(2,446,306)	(2,237,646)	(2,139,052)	(2,027,664)
(Surplus)/deficit in the plan	(181,820)	(165,363)	58,808	2,596	(161,230)

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
49 Other liabilities				
Accruals	**946,959**	416,079	**957,447**	420,742
Prior year's dividends	**48,970**	47,318	**48,970**	47,318
Security deposit for leases	**200**	4,065	**76,959**	81,544
Prepaid loan and lease rentals	**49,836**	56,836	**85,473**	108,980
Provisions for undrawn commitments (Note 49.1)	**197,581**	–	**197,581**	–
Account payables	**2,766,168**	3,086,110	**2,846,986**	3,120,922
Other provisions (Note 49.2)	**449,007**	525,412	**449,007**	525,412
	4,458,721	4,135,820	**4,662,423**	4,304,918

49.1 Provisions for undrawn commitments

This Provisions relates to impairment for undrawn commitments and off-balance sheet facilities computed using the relevant credit conversion factors. The impairment relating to Day one adjustment has been reported under retained earnings as at 1 January 2018.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
49.2 Other provisions				
Balance at beginning	**525,412**	468,364	**525,412**	468,364
Provisions for the financial year	**449,007**	525,412	**449,007**	525,412
Provisions used during the year	**(479,955)**	(452,256)	**(479,955)**	(452,256)
Provisions reversed during the year	**(45,457)**	(16,108)	**(45,457)**	(16,108)
Balance as at 31 December	**449,007**	525,412	**449,007**	525,412

	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
50 Subordinated term debt									
Listed debentures									
Issued by Bank	6,043,140	12.75	7 years	09-Nov-2016	09-Nov-2023	**6,132,187**	6,129,480	**6,132,187**	6,129,480
	956,860	12.15	5 years	09-Nov-2016	09-Nov-2021	**970,618**	970,023	**970,618**	970,023
	4,086,530	13.00	7 years	29-Mar-2018	29-Mar-2025	**4,470,024**	–	**4,470,024**	–
	2,913,470	12.60	5 years	29-Mar-2018	29-Mar-2023	**3,178,651**	–	**3,178,651**	–
Transferred on amalgamation	2,000,000	9.4	5 years	10-Jun-2015	10-Jun-2020	**2,103,872**	2,103,367	**2,103,872**	2,103,367
	16,000,000					**16,855,352**	9,202,870	**16,855,352**	9,202,870
Due after one year	–	–	–	–	–	**16,855,352**	9,202,870	**16,855,352**	9,202,870

50.1 Details of subordinated term debt

Debenture category	Interest rate frequency %	Applicable interest rate	Interest rate of comparative Government Securities (Gross) p.a. %	**Balance as at 31.12.2018 LKR 000**	Market price Highest	Market price Lowest	Market price Last traded	Yield last traded %
Fixed rate								
2015-2020	Annually	9.40	10.75	**2,103,872**	94.54	94.54	94.54	13.5
2016-2021	Annually	12.15	10.85	**970,618**	N/T	N/T	N/T	N/A
2016-2023	Annually	12.75	11.20	**6,132,187**	100.5	100	100	12.71
2018-2025	Annually	13.00	11.40	**4,470,024**	N/T	N/T	N/T	N/A
2018-2023	Annually	12.60	11.18	**3,178,651**	100.05	100.05	100.05	12.58
				16,855,352				

N/T – Not traded

Debt equity ratio, interest cover and liquid asset ratio is given in Note 47.1

As at	BANK/GROUP **31.12.2018 LKR 000**	31.12.2017 LKR 000
51 Stated capital →		
Balance as at 31 December (Number of shares – 265,097,688)	**4,715,814**	4,715,814

52 Statutory reserves →

Reserve fund

	BANK **31.12.2018 LKR 000**	BANK 31.12.2017 LKR 000	GROUP **31.12.2018 LKR 000**	GROUP 31.12.2017 LKR 000
Balance at beginning	**2,224,275**	2,004,275	**2,224,275**	2,004,275
Transfers	**134,000**	220,000	**134,000**	220,000
Balance as at 31 December	**2,358,275**	2,224,275	**2,358,275**	2,224,275

Five percent (5%) of profit after tax is transferred to the reserve fund as per Direction issued by Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

53 Retained earnings →

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Balance at beginning	**13,858,152**	10,800,251	**17,359,513**	14,231,009
Adjustment on initial application of SLFRS 9, net of tax	**2,017,938**	–	**1,189,617**	–
Restated balance	**15,876,090**	10,800,251	**18,549,130**	14,231,009
Profit for the year	**2,768,179**	4,414,964	**3,011,018**	4,362,407
Other comprehensive (expense)/income net of tax	**(2,666)**	34,999	**(2,766)**	40,681
Transfers	**(134,000)**	(220,000)	**(134,000)**	(220,000)
Dividend	**(1,325,489)**	(1,192,940)	**(1,325,489)**	(1,192,940)
Forfeiture of unclaimed dividends	**5,073**	20,878	**5,073**	20,878
Disposal of equity investments	**75**	–	**75**	–
Change in holding through joint venture	–	–	**4,109**	117,478
Balance as at 31 December	**17,187,262**	13,858,152	**20,107,150**	17,359,513

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 928 Mn. The balance is retained and reinvested in the business of the Bank.

54 Other reserves →

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
General reserve	**13,779,839**	13,779,839	**13,779,839**	13,779,839
Fair value reserve	**5,745,025**	13,298,686	**4,293,847**	11,032,483
Hedging reserve	**60,168**	–	**60,168**	–
Exchange equalisation reserve	–	–	**82,835**	13,061
	19,585,032	27,078,525	**18,216,689**	24,825,383

55 Contingent liabilities and commitments →

Accounting Policy →

Commitments and contingencies

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the Financial Statements but are disclosed unless the probability of settlement is remote.

Financial guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

As discussed in Note 49 with the adoption of SLFRS 9 from 1 January 2019 impairment losses have been computed against undrawn facilities and guarantees using the relevant credit conversion factors.

As at	BANK		GROUP	
	31.12.2018 LKR 000	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000

55.1 Contingent liabilities and commitments

Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	**112,091**	135,464	**112,091**	135,464
Companies in respect of indebtedness of customers of the Bank	**9,595,123**	9,297,340	**9,595,123**	9,297,340
Principal collector of customs (duty guarantees)	**356,374**	276,587	**356,374**	276,587
Shipping guarantees	**2,180,336**	2,939,459	**2,180,336**	2,939,459
Documentary credit	**12,520,899**	15,098,107	**12,520,899**	15,098,107
Bills for collection	**3,810,321**	2,305,466	**3,810,321**	2,305,466
Performance bonds	**3,893,464**	3,922,424	**3,893,464**	3,922,424
Forward exchange contracts	**36,956,995**	38,118,013	**36,956,995**	38,118,013
Commitments in ordinary course of business – Commitments for unutilised credit facilities	**66,860,600**	62,852,575	**66,860,600**	62,852,575
Capital expenditure approved by the Board of Directors				
Contracted	**219,598**	288,635	**219,598**	288,635
Not contracted	**637,867**	337,254	**637,867**	337,254
	137,143,668	135,571,324	**137,143,668**	135,571,324

As at	Bank/Group **31.12.2018 LKR 000**

55.1.1 Movement in impairment during the year

Balance at beginning	**174,385**
Charge to income statement	**23,196**
Balance on 31 December	**197,581**

55.2 Litigation against the Bank

55.2.1 A client has filed action against five defendants including the Bank in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the *parate* process to be set aside, and also claiming LKR 6 Mn as damages from the Bank. The Bank is defending the case before the District Court.

55.2.2 There are four cases filed in the District Court of Kandy and one case filed in the District Court of Negombo and another case in the District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the cases before the respective District Courts.

55.2.3 There is one case filed in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the case before the respective District Court.

55.2.4 There is one case filed in the District Court of Theldeniya, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the case before the District Court of Theldeniya.

55.2.5 A client has filed a case in the District Court of Matara claiming damages from the Bank stating as the loan was not disbursed in lump sum but on that instalment based on the client's progress, his business went into decline and he suffered losses. The Bank is defending the case before the District Court of Matara.

55.2.6 The Bank has appealed to the High Court to set aside an award made in favour of an ex-employee by the Labour Tribunal.

55.2.7 Case filed in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank.

55.2.8 Case filed in the Labour Tribunal of Galle, by an ex-employee of the Bank, claiming compensation and reinstatement by the Bank.

No material losses are anticipated as a result of the aforesaid actions.

55.3 Tax assessments against the Bank

The income tax assessment received by the Bank for the Year of Assessment 2010/11, which was determined by the Commissioner General of Inland Revenue amounting to LKR 760 Mn has been appealed to the Tax Appeal Commission for their determination.

The Bank is of the view that the above assessments will not have any significant impact on the Financial Statements.

56 Related party transactions →

56.1 The Group's related parties include associate, subsidiaries, trust established by the Bank for post-employment retirement plan, joint venture, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by Key Management Personnel or their close family members.

56.2 Parent and ultimate controlling party

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

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
56.3 Transactions with subsidiaries		
56.3.1 Statement of Financial Position – Bank		
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**313,631**	380,431
Financial liabilities at amortised cost – Due to other borrowers	**25,054**	28,058
	338,685	408,489
Contingent liabilities and commitments	**150**	54

For the year ended 31 December	**2018 LKR 000**	2017 LKR 000
56.3.2 Income Statement – Bank		
Interest income	**353**	23
Interest expenses	**38,541**	45,710
Fee and commission income	**54**	33
Net other operating income	**71,883**	51,879
Other operating expenses net of reimbursements	**99,906**	106,067
56.3.3 Other transactions – Bank		
Payments made for purchase of computer software	**38,432**	43,782

As at	31.12.2018 LKR 000	31.12.2017 LKR 000

56.4 Transactions with joint venture

56.4.1 Statement of Financial Position – Bank

Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	**108,708**	127,522
	108,708	127,522
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**159**	442
	159	442

For the year ended 31 December	2018 LKR 000	2017 LKR 000

56.4.2 Income statement – Bank

Interest income	**15,763**	18,258
Fee and commission income	**5**	1
Net other operating income	**33,220**	33,220
Other operating expenses	**9,841**	–

As at	31.12.2018 LKR 000	31.12.2017 LKR 000

56.5 Transactions with associate

56.5.1 Statement of Financial Position – Bank

Liabilities		
Financial liabilities at amortised cost – Due to depositors	**25**	306
	25	306

For the year ended 31 December	2018 LKR 000	2017 LKR 000

56.5.2 Income Statement – Bank

Fee and commission income	**17**	15
Net other operating income	**27,036**	6,777

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000

56.6 Transaction with entities in which Directors of the Bank have significant influence

56.6.1 Statement of Financial Position – Bank

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	–	63,803
	–	63,803
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**45,743**	1,158
Debt securities issued	**118,239**	118,239
	163,982	119,397

56.6.2 Income Statement – Bank

For the year ended 31 December	**2018 LKR 000**	2017 LKR 000
Interest income	**12,389**	250
Interest expenses	**13,653**	10,248
Fee and commission income	**2,166**	973
Other operating expenses	**417**	30

56.7 Transactions with Key Management Personnel

56.7.1 Key Management Personnel

Key Management Personnel are the Board of Directors of the Bank including Chief Executive, Deputy Chief Executive, Executive Vice President Strategic Planning and Subsidiaries, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice President Treasury and Resource Mobilisation for the purpose of Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures".

56.7.2 Compensation of Directors and other Key Management Personnel

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Number of persons	**16**	14	**18**	16
Short-term employment benefits	**153,304**	139,434	**169,857**	155,950
Post-employment benefits – Pension	**1,757**	1,931	**1,757**	1,931
– Others	**17,837**	17,528	**18,292**	17,983
	172,898	158,893	**189,906**	175,864

As at	31.12.2018		31.12.2017	
	Number of KMPs	**LKR 000**	Number of KMPs	LKR 000

56.7.3 Other transactions with Key Management Personnel and their close family members

56.7.3.1 Statement of Financial Position – Bank

	Number of KMPs (2018)	LKR 000 (2018)	Number of KMPs (2017)	LKR 000 (2017)
Assets				
Financial assets at amortised cost – Loans to and receivables from other customers	**15**	**26,920**	4	22,994
Liabilities				
Financial liabilities at amortised cost – Due to depositors	**25**	**301,585**	18	270,569
Financial liabilities at amortised cost – Due to other borrowers	**–**	**–**	1	32,489
Debt securities issued	**1**	**2,168**	1	2,168
		303,753		305,226

For the year ended 31 December	**2018 LKR 000**	2017 LKR 000

56.7.3.2 Income Statement – Bank

	2018 LKR 000	2017 LKR 000
Interest income	**1,770**	1,265
Interest expenses	**31,011**	30,575
Fee and commission income	**37**	5

56.7.4 Transactions with DFCC Bank Pension Fund – Trust

DFCC Bank Pension Fund constituted as a trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Contribution prepaid as at beginning	**181,820**	165,363
Contribution due for the financial year recognised as expense in income statement	**(60,317)**	(54,673)
Recognition of actuarial gains in the other comprehensive income	**21,714**	42,307
Contribution paid by the Bank	**–**	28,823
Contribution prepaid (Note 48.3)	**143,217**	181,820

56.8 Transactions with Government of Sri Lanka (GOSL) and its related entities

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard – LKAS 24 "Related Party Disclosure" has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL – related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

56.8.1 Individually significant transactions included in the Statement of Financial Position

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
56.8.1.1 Statement of Financial Position – Bank		
Assets		
Balances with Central Bank of Sri Lanka	**11,841,814**	10,557,688
Placements with banks	**425,089**	100,060
Financial assets measured at fair value through profit or loss/ financial assets held for trading	–	279,094
Financial assets at amortised cost – Loans to and receivables from banks	**12,898,332**	10,956,289
Financial assets at amortised cost – Loans to and receivables from other customers	**9,582,437**	7,130,529
Financial assets at amortised cost – Debt and other instruments/held to maturity	**18,524,971**	18,376,228
Financial assets measured at fair value through other comprehensive income/ financial assets available for sale	**44,908,983**	37,746,039
Government grant receivable	–	642,582
	98,181,626	85,788,509
Liabilities		
Due to Banks	**5,233,952**	7,315,012
Financial liabilities at amortised cost – Due to depositors	**2,393,850**	3,952,692
Financial liabilities at amortised cost – Due to other borrowers	**23,290,043**	23,351,882
Debt securities issued	**2,154,010**	2,138,927
Government grant deferred income	–	654,582
Subordinated term debt	**5,439,044**	3,528,506
	38,510,899	40,941,601
Commitments		
Undrawn credit facilities	**7,633,207**	8,740,754

For the year ended 31 December	**2018 LKR 000**	2017 LKR 000
56.8.1.2 Income Statement – Bank		
Interest income	**7,396,060**	6,418,084
Interest expenses	**3,144,112**	3,156,669
Fee and commission income	**1,174**	2,889
Net (loss)/gain from trading	**(8,740)**	2,231
Other income – net	**364**	–

There are no other transactions that are collectively significant with Government-related entities.

56.9 Disclosure requirement under Section 9.3.2 (a) and 9.3.2 (b) of the CSE Listing Rules

As per rule No. 9.3.2 (a) the Bank does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the Audited Financial Statements of the Bank.

As per rule No. 9.3.2 (b) the Bank does not have any recurrent related party transactions carried out during the financial year under review with value exceeding 10% of the gross revenue/income, as per the latest Audited Financial Statements of the Bank".

56.10 Pricing policy and terms for transactions with related parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

57 Business segment information →

Business segment results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. Unallocated items include corporate assets, head office expenses and tax assets and liabilities.

For the year ended 31 December 2018	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Group							
Revenue							
Interest income	35,750,403	2,397,790	–	43,946	–	(42,243)	38,149,896
Net fees and commission income	2,012,562	–	–	–	–	(119)	2,012,443
Net (loss)/gain from trading	360,897	–	(727,554)	–	–	–	(366,657)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	2,650,664	–	–	–	–	–	2,650,664
Net gains from derecognition of financial assets	–	–	19,114	–	–	–	19,114
Net other operating income	(3,972,843)	–	662,841	583,892		(290,863)	(3,016,974)
Total income	36,801,683	2,397,790	(45,599)	627,838	–	(333,225)	39,448,486
Percentage*	93	5	–	2	1	(1)	100
Expense							
Segment losses	936,505	119,726	–	–	–	–	1,056,231
Depreciation	–	–	–	47,588	–	–	47,588
Other operating and interest expense	28,835,080	1,928,550	–	311,703	–	(201,207)	30,874,126
	29,771,585	2,048,276	–	359,291	–	(201,207)	31,977,945
Result	7,030,098	349,514	(45,599)	268,547	–	(132,018)	7,470,541
Unallocated expenses							1,642,287
Value added tax, nation building tax and debt repayment levy on financial services							1,459,070
							4,369,185
Share of profits of associate and joint venture							307,218
Profit before tax							4,676,403
Income tax expense							1,606,176
Profit for the year							3,070,227
Other comprehensive expenses net of tax							(2,841,520)
Total comprehensive income							228,707
Total comprehensive income – non-controlling interests							59,352
Profit for the equity holders of the Bank							169,355
Assets	286,377,759	18,312,071	36,253,445	1,033,043	33,330,558	(533,427)	374,773,449
Percentage*	76	5	11	–	8	–	100
Investments in associate and joint venture							1,988,562
							376,762,011
Liabilities	257,739,983	16,480,864	–	382,571	56,868,564	(366,122)	331,105,859
Capital expenditure – additions	–	–	–	303,746	1,093,170	–	1,396,916

* *Net of eliminations.*

For the year ended 31 December 2017	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Group							
Revenue							
Interest income	30,912,425	2,074,165	–	54,654	–	(46,608)	32,994,636
Net fees and commission income	1,591,336			607			1,591,943
Net gain/(loss) from trading	361,963						361,963
Net fair value gain/(losses) from financial instruments at fair value through profit or loss	(404,586)						(404,586)
Net gains from derecognition of financial assets	–		1,558				1,558
Net other operating income	(633,942)	–	2,038,693	497,772		(460,946)	1,441,577
Total income	31,827,196	2,074,165	2,040,251	553,033	–	(507,554)	35,987,091
Percentage*	88	6	5	2	–	(1)	100
Expense							
Segment losses	1,121,003	32,598	22,811	3,850		(9,896)	1,170,366
Depreciation	–	–	–	41,836			41,836
Other operating and interest expense	24,782,926	1,591,444	–	326,677		(231,054)	26,470,493
	25,903,929	1,624,042	22,811	372,363		(240,950)	27,682,695
Result	5,923,267	450,123	2,017,440	180,670		(266,604)	8,304,396
Unallocated expenses							1,139,267
Value added tax and Nation Building Tax							1,458,749
							5,706,380
Share of profits of associate and joint venture							185,030
Profit before tax							5,891,410
Income tax expense							(1,457,653)
Profit for the year							4,433,757
Other Comprehensive Income net of tax							(1,032,435)
Total comprehensive income							3,401,322
Total comprehensive income – non-controlling interests							71,572
Profit for the equity holders of the Bank							3,329,750
Assets	269,505,984	16,493,374	19,201,495	915,651	27,271,249	(603,868)	332,783,885
Percentage*	81	5	6	–	8	–	100
Investments in associate and joint venture							1,683,977
							334,467,862
Liabilities	242,555,385	14,844,037	–	258,360	27,845,355	(437,132)	285,066,005
Capital expenditure – additions				176,272	880,905	–	1,057,177

* *Net of eliminations.*

57.1 Revenue and expenses attributable to the incorporated business segment f industrial estate management, information technology services and constancy services are included in the column for others.

57.2 Property and equipment depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.

57.3 Eliminations are the consolidation adjustments for intercompany transactions, dividend and dividend payable attributable to minority shareholders.

58 Comparative figures

58.1 Reclassification of comparative figures

The following information has been reclassified with the current year's classification in order to provide a better presentation:

	Current presentation		As disclosed previously	
	Bank LKR 000	Group LKR 000	Bank LKR 000	Group LKR 000
Income Statement				
Net (loss)/gain from trading	361,963	361,963	361,647	361,647
Net gain from financial investments	–	–	2,238,166	1,945,118
Net gain from derecognition of financial assets	1,558	1,558	–	–
Net other operating income	1,404,751	1,441,577	(831,541)	(501,667)
Personnel expenses	3,141,032	3,277,316	3,166,509	3,302,793
Other expenses	2,729,123	2,776,907	2,703,646	2,751,430
Statement of Financial Position				
Retirement benefit obligation	330,578	352,710	–	–
Other liabilities	4,135,820	4,304,918	4,466,398	4,657,628

59 Events after the reporting period

59.1 First and final dividend

The Directors have approved the payment of a first and final dividend of LKR 3.50 per share for the year ended 31 December 2018.

The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and has obtained the certificate from the Auditors.

59.2 Proposed rights issue

The Bank will issue 106,039,075 shares (two shares for every five shares held) each at LKR 72 per share to raise LKR 7,634,813,400 to increase the Tier 1 capital of the Bank.

The rights issue is subject to the Colombo Stock Exchange approving in principle the issue and listing of shares and obtaining shareholders approval at an Extraordinary General Meeting on a date to be advised in due course.

No other circumstances have arisen which would require disclosure or adjustment to the financial statements.

60 Fair value measurement

60.1 Determining fair value

The determination of fair value for financial assets and financial liabilities, for which there is no observable market price, requires the use of valuation techniques as described in Note 5.3.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The Group's accounting policy on fair value measurements is discussed in Note 5.3.6. The Group measures fair values, using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like Government Securities, interest rate and currency swaps that use mostly observable market data and require little Management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, Government Securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for Management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Management judgements and estimations are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

60.2 Valuation framework

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle Office has overall responsibility for independently verifying the results of trading and investment operation.

Specific controls include –

- Verification of observable pricing
- Review and approval process for new models and changes to models involving both product control and group market risk
- Calibration and back testing of models
- Stress Testing

When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes –

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

Any changes to the fair value methodology is reported to the Bank's Audit Committee.

60.3 Fair value by level of the fair value hierarchy – Bank

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial assets					
Derivative assets held-for-risk management	27				
Forward foreign exchange contracts		–	3,414,549	–	3,414,549
Financial assets measured at fair value through profit or loss	28				–
Government of Sri Lanka Treasury Bonds		–	–	–	–
Equity securities – Quoted		5,386,889	–	–	5,386,889
Units in Unit Trusts – Quoted		169,025	–	–	169,025
Units in Unit Trusts – Unquoted			522,948	–	522,948
Financial assets measured at fair value through other comprehensive income	32				–
Government of Sri Lanka Treasury Bills and Bonds		44,031,404	–	–	44,031,404
Sri Lanka sovereign bonds		876,579	–	–	876,579
Quoted ordinary shares		10,215,281	–	–	10,215,281
Units in Unit Trusts – Quoted		–	–	–	–
Units in Unit Trusts – Unquoted		–	–	–	–
Unquoted shares		–	–	189,289	189,289
Government grant receivable	41	–	–	–	–
Total		**60,680,178**	3,937,497	**189,289**	**64,806,964**
Financial Liabilities					
Derivative liabilities held-for-risk management	27				
Forward foreign exchange contracts		–	121,373	–	121,373
Total		–	121,373	–	121,373

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	27				
Forward foreign exchange contracts		–	66,440	–	66,440
Financial assets held for trading	28				
Government of Sri Lanka Treasury Bonds		279,094	–	–	279,094
Equity securities – Quoted		31,828	–	–	31,828
Financial assets – available for sale	32				
Government of Sri Lanka Treasury Bills and Bonds		37,746,039	–	–	37,746,039
Quoted ordinary shares		18,195,008	–	–	18,195,008
Units in Unit Trusts – Quoted		194,590	–	–	194,590
Units in Unit Trusts – Unquoted		–	644,362	–	644,362
Unquoted shares		–	–	86,055	86,055
Government grant receivable	41	–	642,583	–	642,583
Total		56,446,559	1,353,385	86,055	57,885,999
Financial liabilities					
Derivative liabilities held-for-risk management	27				
Forward foreign exchange contracts		–	367,435	–	367,435
Total		–	367,435	–	367,435

As Treasury Bills/Bonds are valued using Central Bank published rates, investments in Treasury Bills/Bonds are classified under Level 1. Other securities which are listed in Colombo Stock Exchange are also classified as Level 1 assets by referring to the quoted prices.

60.4 Fair value by level of the fair value hierarchy – Group

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial assets					
Derivative assets held-for-risk management	27				
Forward foreign exchange contracts		–	3,414,549	–	3,414,549
Financial assets measured at fair value through profit or loss	28				–
Government of Sri Lanka Treasury Bonds		–	–	–	–
Equity securities – Quoted		5,386,889	–	–	5,386,889
Units in Unit Trusts – Quoted		169,025	–	–	169,025
Units in Unit Trusts – Unquoted			522,948		522,948
Financial assets measured at fair value through other comprehensive income	32				–
Government of Sri Lanka Treasury Bills and Bonds		44,031,404	–	–	44,031,404
Sri Lanka sovereign bonds		876,579	–	–	876,579
Quoted ordinary shares		10,215,281	–	–	10,215,281
Units in Unit Trusts – Quoted		–	–	–	–
Units in Unit Trusts – Unquoted		–	–	–	–
Unquoted shares		–	–	189,289	189,289
Government grant receivable	41	–	–	–	–
Total		60,680,178	3,937,497	189,289	64,806,964
Financial liabilities					
Derivative liabilities held-for-risk management	27				
Forward foreign exchange contracts		–	121,373	–	121,373
Total		–	121,373	–	121,373

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial assets					
Derivative assets held-for-risk management	27				
Forward foreign exchange contracts		–	66,440	–	66,440
Financial assets held for trading	28				
Government of Sri Lanka Treasury Bonds		279,094	–	–	279,094
Equity securities – Quoted		31,828	–	–	31,828
Financial assets – available for sale	32				
Government of Sri Lanka Treasury Bills and Bonds		37,746,039	–	–	37,746,039
Quoted ordinary shares		18,195,008	–	–	18,195,008
Units in Unit Trusts – Quoted		194,590	–	–	194,590
Units in Unit Trusts – Unquoted		–	644,362	–	644,362
Unquoted shares		–	–	86,055	86,055
Government grant receivable	41	–	642,583	–	642,583
Total		56,446,559	1,353,385	86,055	57,885,999

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial liabilities					
Derivative liabilities held-for-risk management	27				
Forward foreign exchange contracts		–	367,435	–	367,435
Total		–	367,435	–	367,435

60.5 Fair value of financial instruments carried at amortised cost – Bank

The following table summarises the carrying amounts and the Bank's estimate of fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	24	–	5,039,629	–	5,039,629	5,039,629
Balances with Central Bank of Sri Lanka	25	–	11,841,814	–	11,841,814	11,841,814
Placements with banks	26	–	425,087	–	425,087	425,087
Financial assets at amortised cost – Loans to and receivables from banks	29	–	12,854,880	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	245,484,907	245,484,907	249,733,718
Financial assets at amortised cost – Debt and other instruments	31	16,846,671	21,147,755	–	18,994,426	22,874,088
Due from subsidiaries	36	–	–	9,505	9,505	9,505
Other assets		–	–	3,431,061	3,431,061	3,431,061
Total		16,846,671	51,309,165	248,925,473	298,081,309	306,209,782
Liabilities						
Due to banks	44	–	9,446,464	–	9,446,464	9,446,464
Financial liabilities at amortised cost – Due to depositors	45	–	–	241,998,898	241,998,898	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,413,727	47,413,727	47,413,727
Debt securities issued	47	–	8,137,682	–	8,137,682	8,898,441
Other liabilities		–	–	4,211,304	4,211,304	4,211,304
Subordinated term debt	50	–	16,397,686	–	16,397,686	16,855,352
Total		–	33,981,832	293,623,929	327,605,761	329,062,884

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	24	–	4,106,225	–	4,106,225	4,106,225
Balances with Central Bank of Sri Lanka	25	–	10,557,688	–	10,557,688	10,557,688
Placements with banks	26	–	6,691,381	–	6,691,381	6,691,381
Financial assets at amortised cost – Loans to and receivables from banks	29	–	10,984,266	–	10,984,266	10,984,266
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	208,781,978	208,781,978	213,675,866
Held-to-maturity	31	22,518,347	1,498,338	–	24,016,685	23,507,632
Due from subsidiaries	36	–	–	12,083	12,083	12,083
Other assets		–	–	2,775,741	2,775,741	2,775,741
Total		22,518,347	33,837,898	211,569,802	267,926,047	272,310,882
Liabilities						
Due to banks	44	–	9,640,735	–	9,640,735	9,640,735
Due to other customers	45	–	–	193,185,964	193,185,964	193,307,534
Other borrowings	46	–	–	41,319,591	41,319,591	41,319,591
Debt securities issued	47	–	24,435,795	–	24,435,795	24,443,767
Other liabilities		–	–	4,078,984	4,078,984	4,078,984
Subordinated term debt	50	–	8,938,245	–	8,938,245	9,202,870
Total		–	43,014,775	238,584,539	281,599,314	281,993,481

60.6 Fair value of financial instruments carried at amortised cost – Group

The following table summarises the carrying amounts and the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market:

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	**24**	–	**5,049,823**	–	**5,049,823**	**5,049,823**
Balances with Central Bank of Sri Lanka	**25**	–	**11,841,814**	–	**11,841,814**	**11,841,814**
Placements with banks	**26**	–	**439,727**	–	**439,727**	**439,727**
Financial assets at amortised cost – Loans to and receivables from banks	**29**	–	**12,854,880**	–	**12,854,880**	**12,854,880**
Financial assets at amortised cost – Loans to and receivables from other customers	**30**	–	–	**245,484,907**	**245,484,907**	**249,733,718**
Financial assets at amortised cost – Debt and other instruments	**31**	**16,846,671**	**2,147,755**	–	**18,994,426**	**22,874,088**
Other assets		–	–	**3,478,566**	**3,478,566**	**3,478,566**
Total		**16,846,671**	**32,333,999**	**248,963,473**	**298,144,143**	**306,272,616**

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Liabilities						
Due to banks	**44**	–	**9,446,464**	–	**9,446,464**	**9,446,464**
Financial liabilities at amortised cost – Due to depositors	**45**	–	–	**241,676,172**	**241,676,172**	**241,914,870**
Financial liabilities at amortised cost – Due to other borrowers	**46**	–	–	**47,388,679**	**47,388,679**	**47,388,679**
Debt securities issued	**47**	–	**8,137,682**	–	**8,137,682**	**8,898,441**
Other liabilities		–	–	**4,379,370**	**4,379,370**	**4,379,370**
Subordinated term debt	**50**	–	**16,397,686**	–	**16,397,686**	**16,855,352**
Total		–	**33,981,832**	**293,444,221**	**327,426,053**	**328,883,176**

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	24	–	4,120,230	–	4,120,230	4,120,230
Balances with Central Bank of Sri Lanka	25	–	10,557,688	–	10,557,688	10,557,688
Placements with banks	26	–	6,712,131	–	6,712,131	6,712,131
Financial assets at amortised cost – Loans to and receivables from banks	29	–	10,984,266	–	10,984,266	10,984,266
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	208,781,978	208,781,978	213,675,866
Held-to-maturity	31	22,518,347	1,498,338	–	24,016,685	23,507,632
Other assets		–	–	2,804,798	2,804,798	2,804,798
Total		22,518,347	33,872,653	211,586,776	267,977,776	272,362,611
Liabilities						
Due to banks	44	–	9,640,735	–	9,640,735	9,640,735
Due to other customers	45	–	–	192,798,577	192,798,577	192,920,147
Other borrowing	46	–	–	41,290,874	41,290,874	41,290,874
Debt securities issued	47	–	24,435,795	–	24,435,795	24,443,767
Other liabilities		–	–	4,195,940	4,195,940	4,195,940
Subordinated term debt	50	–	8,938,245	–	8,938,245	9,202,870
Total		–	43,014,775	238,285,391	281,300,166	281,694,333

Given below is the basis adopted by the Bank/Group in order to establish the fair values of the financial instruments.

60.7 Cash and cash equivalents and placements with banks

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

60.8 Financial assets at amortised cost – Loans to and receivables from banks and other customers

60.8.1 Lease rentals receivable – Bank

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities. The finance lease portfolio is at fixed interest rates and the fair value calculated on this basis as at 31 December 2018 was LKR 17,218 Mn as against a carrying value of LKR 18,312 Mn. (as at 31 December 2017 – fair value calculated on this basis was LKR 15,531 Mn as against a carrying value of LKR 16,493 Mn).

60.8.2 Other loans – Bank

Composition:

	%
Floating rate loan portfolio	58
Fixed rate loans	
– With remaining maturity less than one year	24
– Others	18
Total	100

Since the floating rate loans can be repriced monthly, quarterly and semi-annually in tandem with market rates fair value of these loans is approximately same as the carrying value. Carrying amount of fixed rate loans with a remaining maturity of less than one year approximates the fair value.

Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

60.9 Financial assets at amortised cost – debt and other instruments/held to maturity

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

60.10 Due to banks

Carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year from the reporting date.

60.11 Financial Liabilities at amortised cost – due to depositors

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates, therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

60.12 Financial Liabilities at amortised cost – due to other borrowers

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi-annually and rates are revised in line with changes in market rates. Hence the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

60.13 Debt securities issued

Debts issued comprise the LKR debentures, which are fair valued by reference to current Government Treasury Bond rates with a risk premium.

61 Financial Risk Management →

61.1 Introduction and overview

Bank has exposure to the following key risks from financial instruments:

→ Credit risk
→ Liquidity risk
→ Operational risk
→ Market risk

This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risks.

Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. It has setup a Board Integrated Risk Management Committee (BIRMC) with three Non-Executive Directors including the Chairman, one Executive Director and Chief Risk Officer (CRO) as members. CRO represents at the BIRMC the supervision and the management of the broad risk categories including credit, liquidity, market risk, and strategic risk. As per the Board approved Charter, BIRMC assists the Board to manage these risks prudently. Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and to monitor adherence to limits. Risk management policies and systems are reviewed at least annually to reflect changes in market conditions, business strategy, products and services offered.

61.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

With the adoption of SLFRS 9 – Financial Instruments, the Bank manages credit quality using a three stage approach which is in-line with the new standard requirements as well.

Stage 1 – 12-month expected credit losses (ECL)

This is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Stage 2 – Lifetime expected credit losses (ECL) – Not credit impaired

These are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit impaired are referred to as "Stage 2 financial instruments".

Stage 3 – Lifetime expected credit losses (ECL) – Credit impaired

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

61.2.1 Qualitative disclosures

Management of credit risk includes the following elements:

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities.
3. Limiting concentration of exposures to counterparties and industries.
4. Developing and maintaining Bank's risk grading models in order to categorise exposures according to the degree of risk of financial loss and to focus management on the attendant risks.
5. Independent risk assessment, monitoring, recommending and reporting by the IRMD.
6. Reviewing compliance through regular audits by internal audit.

61.2.2 Credit quality analysis and collateral held

The following table stratify the credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to value of the collateral. the value of the collateral is based on valuation made by independent professional valuers.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Individually impaired				
Stage 3				
Less than 50%	**5,432,347**	4,301,986	**5,432,347**	4,301,986
51%-70%	**576,929**	658,113	**576,929**	658,113
71%-90%	**613,758**	338,217	**613,758**	338,217
More than 90%	**2,219,159**	1,141,633	**2,219,159**	1,141,633
Total	**8,842,193**	6,439,949	**8,842,193**	6,439,949
Collectively impaired				
Stage 1				
Less than 50%	**91,176,807**	78,321,143	**91,176,807**	78,321,143
51%-70%	**3,426,394**	4,544,358	**3,426,394**	4,544,358
71%-90%	**4,730,924**	5,638,907	**4,730,924**	5,638,907
More than 90%	**94,541,360**	77,897,337	**94,541,360**	77,897,337
Total	**193,875,485**	166,401,745	**193,875,485**	166,401,745
Stage 2				
Less than 50%	**15,294,181**	14,149,973	**15,294,181**	14,149,973
51%-70%	**3,252,023**	1,754,329	**3,252,023**	1,754,329
71%-90%	**1,620,537**	1,787,230	**1,620,537**	1,787,230
More than 90%	**32,157,649**	24,146,435	**32,157,649**	24,146,435
Total	**52,324,390**	41,837,967	**52,324,390**	41,837,967
Stage 3				
Less than 50%	**2,607,590**	3,288,667	**2,607,590**	3,288,667
51%-70%	**261,213**	204,407	**261,213**	204,407
71%-90%	**251,437**	349,885	**251,437**	349,885
More than 90%	**3,136,986**	2,786,951	**3,136,986**	2,786,951
Total	**6,257,226**	6,629,910	**6,257,226**	6,629,910
Carrying amount – amortised cost	**261,299,294**	221,309,571	**261,299,294**	221,309,571

61.2.3 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macroeconomic factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macroeconomic indicators include: GDP growth, benchmark interest rates, inflation, unemployment and exchange rate. Based on consideration of a variety of external actual and forecast information, the Bank formulates a "base case" view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – Financial instruments. The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

Definition of default

The Bank considers a financial asset to be in default when:

→ the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or

→ the assessment of the external rating agencies indicates a default grading of the borrower; or

→ all credit facilities listed in 1.3 of Annex 1 of the directive No. 04 of 2018 issued by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standard SLFRS 9: Financial Instruments

In assessing whether a borrower is in default, the Bank considers indicators that are:

→ qualitative – e.g. breaches of covenant;

→ quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and

→ based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information. The Bank formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables credit risk and credit losses. The economic variables used by the Bank based on the statistical significance include the followings.

Unemployment Rate Interest Rate GDP Growth Rate Inflation Rate Exchange Rate	Base case scenario along with two other scenarios has been used (Best Case and Worst Case)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PD is discussed above under the "Generating the term structure of PD". LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, type of product and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The following table shows a reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance for credit losses and reflect the measurement basis under LKAS 39.

Financial assets at amortised cost – Loans to and receivables from banks

	2018	
	Stage 1	Total
Balance at beginning	38,363	38,363
Net remeasurement of loss allowance	5,088	5,088
Balance on 31 December	43,451	43,451

Financial assets at amortised cost – Loans to and receivables from other customers

Balance as at 1 January	2018 (SLFRS 9)				2017 (LKAS 39)		
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective	Total
Balance at beginning	805,471	2,347,630	7,966,994	11,120,095	4,778,752	1,890,798	6,669,550
Transfer to Stage 1	424,482	(355,313)	(69,169)	–	–	–	–
Transfer to Stage 2	(150,485)	206,085	(55,600)	–	–	–	–
Transfer to Stage 3	(14,410)	(179,913)	194,323	–	–	–	–
Net remeasurement of loss allowance	(738,289)	(374,098)	524,057	(588,330)	724,402	405,973	1,130,375
New financial assets originated or purchased	466,051	713,728	394,479	1,574,258	–	–	–
Write-off	(6,659)	(2,161)	(696,652)	(705,472)	(136,182)	(47,531)	(183,713)
Foreign exchange and other movement	–	–	165,025	165,025	21,782	(4,289)	17,493
Balance as at 31 December	786,161	2,355,958	8,423,457	11,565,576	5,388,754	2,244,951	7,633,705

Financial assets at amortised cost debt and other instruments/held to maturity

	2018	
	Stage 1	Total
Balance at beginning	**1,729**	**1,729**
Net remeasurement of loss allowance	**234**	**234**
Balance on 31 December	**1,963**	**1,963**

61.3 Liquidity risk

61.3.1 Qualitative disclosures

Liquidity risk is the risk that the Bank will not have sufficient financial resources to meet Bank's obligations as they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

a. Taking steps to ensure, as far as possible, that the Bank will always have sufficient financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

b. The Asset and Liability Committee (ALCO) is mandated to execute liquidity management policies, procedures and practices approved by the Board of Directors, effectively.

c. Monitoring of potential liquidity requirements and availability using the maturity analysis and cash flow forecast under normal and stressed conditions using a flow approach.

d. Monitoring the Bank's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) and Liquidity Coverage Ratios using a stock approach.

e. Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Bank.

61.3.2 Quantitative disclosures

61.3.2.1 Regulatory Liquidity (Bank)

As at	31.12.2018	31.12.2017
Statutory liquid assets (LKR 000)	**74,659,159**	71,672,283
Statutory liquid assets ratio (minimum requirement 20%)		
Domestic banking unit (%)	**22.2**	24.3
Off-shore banking unit (%)	**44.3**	67.7
Liquidity coverage ratio (minimum requirement 90% in 2018 and 80% in 2017)		
All currencies (%)	**113.5**	108.5
Rupee only (%)	**195.7**	127.8

61.3.2.2 Maturity profile of the Bank

As at 31 December 2018	Up to 3 months LKR 000	3 to 12 months LKR 000	1 to 3 years LKR 000	3 to 5 years LKR 000	> 5 years LKR 000	Total LKR 000	Carrying value LKR 000
Liabilities with contractual maturity (Interest-bearing liabilities)							
Due to banks	7,321,990	2,124,948	–	–	–	9,446,938	9,446,464
Financial liabilities at amortised cost – Due to depositors	88,375,674	84,366,980	12,141,582	10,886,112	39,758,345	235,528,693	235,354,004
Financial liabilities at amortised cost – Due to other borrowers	5,042,533	7,454,562	12,854,025	11,775,945	10,290,935	47,418,000	47,413,727
Debt securities issued	5,758,994	149,100	2,997,441	–	–	8,905,535	8,898,441
Subordinated term debt	681,781	227,138	2,939,798	8,942,732	4,083,575	16,875,024	16,855,352
Total	**107,180,972**	**94,322,728**	**30,932,846**	**31,604,789**	**54,132,855**	**318,174,190**	**317,967,988**

As at 31 December 2018	Up to 3 months LKR 000	3 to 12 months LKR 000	1 to 3 years LKR 000	3 to 5 years LKR 000	> 5 years LKR 000	Total LKR 000	Carrying value LKR 000
Other liabilities (Non-interest bearing liabilities)							
Due to banks	–	–	–	–	–	–	–
Derivative liabilities held for risk management	114,209	–	–	–	–	114,209	121,373
Financial liabilities at amortised cost – Due to depositors	3,643,409	2,154,980	–	1,085,205	–	6,883,594	6,883,592
Retirement benefit obligation	–	–	–	–	408,704	408,704	408,704
Current tax liability	1,135,988	–	–	–	–	1,135,988	1,221,117
Deferred tax liability	829,552	–	–	–	–	829,552	–
Other liabilities	3,095,625	919,158	38,949	92,921	508,173	4,654,826	4,458,721
Total equity	–	–	–	–	38,673,473	38,673,473	43,846,383
Total	8,818,783	3,074,138	38,949	1,178,126	39,590,350	52,700,346	56,939,890
Total liabilities and equity	**115,999,755**	**97,396,866**	**30,971,795**	**32,782,915**	**93,723,205**	**370,874,536**	**374,907,878**

61.3.2.3 Maturity profile of the Group

As at 31 December 2018	Up to 3 months LKR 000	3 to 12 months LKR 000	1 to 3 years LKR 000	3 to 5 years LKR 000	> 5 years LKR 000	Total LKR 000	Carrying value LKR 000
Liabilities with Contractual Maturity (Interest-bearing liabilities)							
Due to banks	7,321,990	2,124,948	–	–	–	9,446,938	9,446,464
Financial liabilities at amortised cost – Due to depositors	88,290,174	84,158,272	12,141,582	10,886,109	39,758,345	235,234,482	235,045,575
Financial liabilities at amortised cost – Due to other borrowers	5,014,533	7,454,562	12,854,025	11,775,945	10,290,935	47,390,000	47,388,679
Debt securities issued	5,758,994	149,100	2,997,441	–	–	8,905,535	8,898,441
Subordinated term debt	681,781	227,138	2,939,798	8,942,732	4,083,575	16,875,024	16,855,352
Total	**107,067,472**	**94,114,020**	**30,932,846**	**31,604,786**	**54,132,855**	**317,851,979**	**317,634,511**
Other liabilities (Non-interest bearing liabilities)							
Due to banks	–	–	–	–	–	–	–
Derivative liabilities held for risk management	114,209	–	–	–	–	114,209	121,373
Financial liabilities at amortised cost – Due to depositors	3,637,689	2,149,975	–	1,081,629	–	6,869,293	6,869,295
Retirement benefit obligation	–	–	–	–	408,704	408,704	433,315
Current tax liability	1,135,988	–	–	–	–	1,135,988	1,294,540
Deferred tax liability	829,552	–	–	–	–	829,552	90,402
Other liabilities	3,297,841	915,524	38,949	92,921	508,173	4,853,408	4,662,423
Total equity	–	–	–	–	38,673,473	38,673,473	45,656,152
Total	9,015,279	3,065,499	38,949	1,174,550	39,590,350	52,884,627	59,127,500
Total liabilities and equity	**116,082,751**	**97,179,519**	**30,971,795**	**32,779,336**	**93,723,205**	**370,736,606**	**376,762,011**

61.4 Market risk

61.4.1 Qualitative disclosures

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables, such as interest rates, equity prices, foreign exchange rates, and commodity prices which will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank' s market risk management is to manage and control market risk exposures within acceptable parameters, in order to ensure the Bank's solvency and the income growth, while optimising the return on risk.

61.4.1.1 Management of market risks

The following policy frameworks stipulate the policies and practices for management, monitoring, and reporting of market risk:

a. Market risk management framework

b. ALCO charter

c. Treasury trading guidelines and limits system

d. Treasury manual

e. Overall risk limits for market risk management

f. New product development policy

Overall authority for managing market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits and segregation of reporting responsibilities of Treasury Front Office, Middle Office and Back Office.

Exposure to market risk arises from two sources viz trading portfolios from positions arising from market-making activities, and non-trading portfolios from positions arising from financial investments measured at fair value through other comprehensive income (FVOCI) and financial investments at amortised cost and from derivatives held for risk management purposes.

61.4.2 Quantitative disclosures

In the case of interest rate and foreign exchange risk the following analysis is in respect of the Bank.

61.4.2.1 Interest rate risk

61.4.2.1.1 Duration analysis as at 31 December 2018

Portfolio	Face value LKR 000	Marked-to-market value LKR 000	Duration	Interpretation of duration
Treasury Securities measured at FVOCI/LKR Bonds	44,705,512	44,032,404	1.86	Portfolio value will decline approximately by 1.86% as a result of 1% increase in the interest rates
Treasury Securities measured at FVOCI/Sovereign Bonds	914,900	876,579	2.90	Portfolio value will decline approximately by 2.90% as a result of 1% increase in the interest rates

Market risk exposure for interest rate risk in the trading portfolio as at 31 December 2018 is Nil. Market risk exposure for interest rate risk in the FVOCI Rupee portfolio as at 31 December 2018 is depicted by duration of 1.86%.

This level of interest rate risk exposure in the Rupee FVOCI portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 817.2 Mn, as at 31 December 2018.

Market risk exposure for interest rate risk in the FVOCI US Dollar portfolio as at 31 December 2018 is depicted by duration of 2.90%.

This level of interest rate risk exposure in the FVOCI US Dollar portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 25.5 Mn, as at 31 December 2018

61.4.2.1.2 Potential impact to NII due to change in market interest rates

Overall up to the 12-month time bucket, the Bank carried a net liability sensitive position. This sensitivity will vary for each time bucket up to the 12-month period where up to one month there is a net asset sensitive position. The interest rate risk exposure as at 31 December 2018 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

	0 to 1 month LKR 000	Over 1 – up to 3 months LKR 000	Over 3 – up to 6 months LKR 000	Over 6 – up to 12 months LKR 000	Over 12 months LKR 000
Total interest-bearing assets	144,720,020	13,355,395	22,426,008	28,874,550	118,640,110
Total interest-bearing liabilities	92,921,335	60,544,157	52,309,575	30,436,373	81,962,748
Net rate sensitive assets (liabilities)	51,798,685	(47,188,762)	(29,883,567)	(1,561,823)	36,677,362
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	
Impact	258,993	(432,564)	(336,190)	(15,618)	
Total net impact if interest rates increase				(525,379)	
Total net impact if interest rates decline				525,379	

The Bank has assumed that the assets and liabilities are repriced at the beginning of each time bucket and has also taken into account the remaining time from the repricing date up to one year.

61.4.2.2 Foreign exchange risk in net open position (NOP)/unhedged position of Bank

The following table indicates the DFCC's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2018, DFCC carried a USD equivalent net open/unhedged "Oversold" position of LKR 2.196 Mn. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(12,000)
Value of position in LKR 000	(2,196)
Exchange rate (USD/LKR) as at 31 December 2018	182.98
Possible potential loss to Bank – LKR 000	
– If Exchange rate (USD/LKR) depreciates by 1%	(22)
– If exchange rate depreciates by 10%	(220)
– If exchange rate depreciates by 15%	(329)

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

61.4.2.3 Equity price risk

Equity prices risk is part of market risk which is defined as the risk of possible losses arising from the equity market investments due to changes in the market prices of the invested shares. The Bank is exposed to equity prices risk through its investments in the equity market which has been shown in the FVOCI/AFS portfolio and the trading portfolio.

Financial Assets measured at Fair Value Through Other Comprehensive Income/Financial Assets Available for Sale portfolio

Parameter	Position as at 31 December 2018 LKR 000	Position as at 31 December 2017 LKR 000
Marked-to-market value of the total quoted equity portfolio	**10,215,281**	18,195,008
Value-at-risk (under 99% probability for a quarterly time horizon)	**17.80%**	20.55%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VAR over a quarterly period	**1,818,320**	3,739,074
Unrealised gains in the FVOCI/AFS equity portfolio reported in the fair value reserve	**6,061,300**	12,639,572

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical four-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by DFCC Bank. This VAR computation for the equity FVOCI/AFS portfolio considers a quarterly time horizon.

Note: DFCC Bank transferred part of the Commercial Bank voting shares to the equity trading portfolio from AFS portfolio in 2018.

Financial Assets measured at Fair Value Through Profit or Loss Portfolio

Parameter	Position as at 31 December 2018 LKR 000	Position as at 31 December 2017 LKR 000
Marked-to-market value of the total quoted equity portfolio	**6,078,862**	31,828
Value-at-risk (under 99% probability for a quarterly time horizon)	**22.74%**	23.40%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VAR over a quarterly period	**1,382,333**	7,448
Unrealised gains in the trading equity portfolio reported in the fair value reserve	**3,593,558**	5,242

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical four-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity Trading portfolio considers a quarterly time horizon.

61.4.2.4 Market risk exposures of DFCC Group for regulatory capital assessment as at 31 December 2018

Under the standardised approach of Basel III with effect from July 2017, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 December 2018 are as follows:

	Risk-weighted assets LKR 000	Quantified possible exposure LKR 000
Interest rate risk	**8,975,245**	**1,065,810**
Equity price risk	**5,874,401**	**697,585**
Foreign exchange and gold risk	**53,936**	**6,405**
Total	**14,903,582**	**1,769,800**

61.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank relating to processes, personnel, technology and infrastructure, and from external factors.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness whilst avoiding control procedures that restrict initiative and creativity.

61.5.1 Qualitative disclosures

The following are included in the process of the operational risk management in the Bank.

a. Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop Risk and Control Self-Assessments to identify the risk exposure of all processes.
b. Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.
c. Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the ORMC and the BIRMC meetings in an operational risk perspective.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions.
b. Requirements for reconciliation and monitoring of transactions.
c. Compliance with regulatory and other legal requirements.
d. Documentation of controls and procedures.
e. Requirements for periodic assessment of operational risks faced and the adequacy of controls and procedures to address the identified risks.
f. Requirements for reporting of operational losses and propose remedial action.
g. Development of contingency plans.
h. Training and professional development to establish ethics and business standards.
i Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the business unit to which they relate, with summaries submitted to the Audit Committee and Senior Management.

61.6 Capital management

61.6.1 Qualitative disclosures

The Bank manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
c. Ensure above industry average Capital Adequacy Ratio is maintained.
d. Ensure maintaining of quality capital.
e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
f. Ensure capital consumption by business actions are adequately priced.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III requirements in respect of regulatory capital commencing from July 2017. The Bank currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are planned to be implemented on a phased in basis by 2019 starting from mid 2017, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on domestic systematically important banks. DFCC Bank started reporting capital computations under the Basel III requirements from mid 2017 as per the regulatory requirements.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor, and market confidence to sustain future development of the business. DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the year.

61.6.2 Key regulatory ratios – capital adequacy

Item	31.12.2018		31.12.2017	
	Bank	Group	Bank	Group
Regulatory capital (LKR 000)				
Common equity Tier 1	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Tier 1 capital	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Total capital	**47,203,364**	**47,676,859**	41,993,352	43,187,613
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio minimum requirement 2018 – 6.375% (2017 – 5.75%)	**10.766**	**10.888**	12.681	13.093
Tier 1 capital ratio minimum requirement 2018 – 7.875% (2017 – 7.25%)	**10.766**	**10.888**	12.681	13.093
Total capital ratio minimum requirement 2018 – 11.875% (2017 – 11.25%)	**16.065**	**16.168**	16.128	16.529

Basel III computation of capital ratios

Item	Amount (LKR 000)			
	31.12.2018		31.12.2017	
	Bank	Group	Bank	Group
Common equity Tier 1 (CET 1) capital after adjustments	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Common equity Tier 1 (CET 1) capital	**38,041,191**	**40,961,078**	38,035,888	41,884,674
Equity capital (stated capital)/assigned capital	**4,715,814**	**4,715,814**	4,715,814	4,715,814
Reserve fund	**2,358,275**	**2,358,275**	2,224,275	2,224,275
Published retained earnings/(accumulated retained losses)	**17,187,263**	**20,107,150**	13,858,152	17,357,048
Published accumulated other comprehensive income (OCI)	–	–	3,457,808	3,807,698
General and other disclosed reserves	**13,779,839**	**13,779,839**	13,779,839	13,779,839
Unpublished current year's profit/loss and gains reflected in OCI	–	–	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to CET 1 capital	**6,407,980**	**8,854,372**	5,018,718	7,673,243
Goodwill (net)	–	**156,226**	–	156,226
Intangible assets (net)	**668,834**	**686,288**	498,084	502,411
Others (investment in capital of banks and financial institutions)	**5,739,146**	**8,011,858**	4,520,634	7,014,606

Item	Amount (LKR 000)			
	31.12.2018		31.12.2017	
	Bank	Group	Bank	Group
Additional Tier 1 (AT1) capital after adjustments				
Additional Tier 1 (AT1) capital				
Qualifying Additional Tier 1 capital instruments	–	–	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to AT1 capital				
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
Tier 2 capital after adjustments	**15,570,153**	**15,570,153**	8,976,182	8,976,182
Tier 2 capital	**15,570,153**	**15,570,153**	8,976,182	8,976,182
Qualifying Tier 2 capital instruments	**14,417,256**	**14,417,256**	8,008,628	8,008,628
Revaluation gains	–	–	–	–
Loan Loss Provisions	**1,152,897**	**1,152,897**	967,554	967,554
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to Tier 2				
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
CET1 capital	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Total Tier 1 capital	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Total capital	**47,203,364**	**47,676,859**	41,993,352	43,187,613
Total Risk Weighted Assets (RWA)				
RWAs for credit risk	**262,979,953**	**263,746,741**	237,481,831	237,671,154
RWAs for market risk	**14,903,582**	**14,903,582**	8,109,913	8,109,913
RWAs for operational risk	**15,940,116**	**16,228,641**	14,783,335	15,508,584
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**10.766**	**10.888**	12.681	13.093
of which: Capital Conservation Buffer (%)	**1.875**	**1.875**	1.25	1.25
of which: Countercyclical Buffer (%)	**N/A**	**N/A**	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	**N/A**	**N/A**	N/A	N/A
Total Tier 1 Capital Ratio (%)	**10.766**	**10.888**	12.681	13.093
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	**16.065**	**16.168**	16.128	16.529
of which: Capital Conservation Buffer (%)	**1.875**	**1.875**	1.25	1.25
of which: Countercyclical Buffer (%)	**N/A**	**N/A**	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	**N/A**	**N/A**	N/A	N/A

Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosure Requirements	Description	Page No.
1. Information about the Significance of Financial Instruments for Financial Position and Performance		
1.1 Statement of Financial Position		
1.1.1 Disclosures on categories of financial assets and financial liabilities.	Notes to the financial statements: Note 23 – Analysis of financial instruments by measurement basis	175 – 178
1.1.2 Other Disclosures		
i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not designated Principal accounting policies: Note 5.3.2.1.3.2 – Financial assets designated at fair value through profit or loss	154
	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
ii. Reclassifications of financial instruments from one category to another.	Principal accounting policies: Note 5.3.3 – Reclassification of financial assets	155
iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the financial statements: Note 46.1 – Assets pledged as security	204
iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note the financial statements: Note 30.2 – Movement in specific and collective allowance for impairment	185 – 186
v. Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have compound financial instruments with multiple embedded derivatives	
vi. Breaches of terms of loan agreements.	None	
1.2 Statement of Comprehensive Income		
1.2.1 Disclosures on items of income, expense, gains and losses.	Notes to the financial statements: Notes 9 to 21	161 – 174
1.2.2 Other Disclosures		
i. Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Notes to the financial statements: Note 10 – Net interest income	161
ii. Fee income and expense.	Notes to the financial statements: Note 11 – Net fee and commission income	162 – 163
iii. Amount of impairment losses by class of financial assets.	Notes to the financial statements: Note 16 – Impairment for loans and other losses	166 – 169
iv. Interest income on impaired financial assets.	The Bank has discontinued the recognition of interest income on impaired financial assets as given in Note 10 – Net interest income	161
1.3 Other Disclosures	Principal accounting policies:	
1.3.1 Accounting policies for financial instruments.	Note 5.3 – Financial assets	153 – 159
1.3.2 Information on hedge accounting.	Notes to the financial statements: Note 27 – Derivates held for risk management	179 – 180
1.3.3 Information about the fair values of each class of financial asset and financial liability, along with:		
i. Comparable carrying amounts.	Notes the financial statements: Notes 60.1 to 60.4 – Fair value measurement	222 – 227
ii. Description of how fair value was determined.	Notes to the financial statements: Note 60 – Fair value measurement	222 – 223
iii. The level of inputs used in determining fair value.	Notes to the financial statements: Notes 60.1 – Determining fair value	222 – 223
iv. a. Reconciliations of movements between levels of fair value measurement hierarchy. b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were no movements between level s of fair value hierarchy during the year under review	
v. Information if fair value cannot be reliably measured.	Notes to the financial statements: Notes 60.7 to 60.13	230 – 231

Disclosure Requirements	Description	Page No.
2. Information about the Nature and Extent of Risks Arising from Financial Instruments		
2.1 Qualitative Disclosures		
2.1.1 Risk exposures for each type of financial instrument.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
2.1.2 Management's objectives, policies, and processes for managing those risks.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
2.1.3 Changes from the prior period.	Notes to the financial statements: Note 58.1 – Reclassification of comparative figures	222
2.2 Quantitative Disclosures		
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.		
i. Credit Risk		
a. Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Notes to financial statements: Note 30.1.3 – By industry (Financial assets at amortised cost – Loans to and receivables from other customers)	185
b. For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	Notes to the financial statements: Note 61.2.2 – Credit quality analysis and collateral held Note 61.2.3 – Amounts arising from ECL	232 232 – 234
c. Information about collateral or other credit enhancements obtained or called.	Notes to the financial statements: Note 61.2.2 – Credit quality analysis and collateral held	232
d. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 61.2. – Credit risk (Financial risk management)	231
ii. Liquidity Risk		
a. A maturity analysis of financial liabilities.	Notes to the financial statements: Notes – 61.3.2.2 to 61.3.2.3 – Maturity analysis of financial liabilities	232 – 234
b. Description of approach to risk management.	Notes to the financial statements: Note 61.3 - Financial risk management	235 – 236
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 61.3 – Liquidity risk (Financial risk management)	235 – 236
iii. Market Risk		
a. A sensitivity analysis of each type of market risk to which the entity is exposed.	Notes to the financial statement: Note 61.4 – Market risk (Financial risk management)	237 – 239
b. Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	None	
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statement: Note 61.4 – Market risk (Financial risk management)	237 – 239
iv. Operational Risk Please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 61.5 – Operational risk (Financial risk management)	240
v. Equity Risk in the Banking Book		
a. Qualitative Disclosures		
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the financial statements: Note 61.4.2.3 – Equity price risk	238 – 239
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 4.1, 4.2 and 4.3 – Scope of consolidation	152

Disclosure Requirements	Description	Page No.
b. Quantitative Disclosures		
● Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Notes to the financial statements: Note 28 – Financial assets measured at fair value through profit or loss Note 32 – Financial assets measured at fair value through other comprehensive income	181 – 182 188 – 192
● The types and nature of investments. The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the financial statements: Note 12 – Net (loss)/gain from trading Note 14 – Net gains from derecognition of financial assets Note 15 – Net other operating income	163 164 165
vi. Interest Rate Risk in the Banking Book		
a. Qualitative Disclosures ● Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
b. Quantitative Disclosures ● The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Notes to the financial statements: Note 61 – Financial risk management Note 61.4.2.1.2 – Potential impact on NII due to change in market interest rates	231 – 240 238
2.2.3 Information on concentrations of risk.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
3. Other Disclosures		
3.1 Capital		
3.1.1 Capital Structure		
i. Qualitative Disclosures. Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Notes to the financial statements: Note 61.6.2 – Key regulatory ratios – capital adequacy	241
ii. Quantitative Disclosure a.The amount of Tier 1 capital, with separate disclosure of: ● Paid-up share capital/common stock ● Reserves ● Non-controlling interests in the equity of subsidiaries ● Innovative instruments ● Other capital instruments ● Deductions from Tier 1 capital b. The total amount of Tier 2 and Tier 3 capital c. Other deductions from capital d. Total eligible capital	Notes to the financial statements: Note 61.6.2 – Key regulatory ratios – capital adequacy	241
3.1.2 Capital adequacy		
i. Qualitative Disclosures A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Notes to the financial statements: Note 61.6.1 – Qualitative disclosures (capital management)	241
ii. Quantitative Disclosures		
a. Capital requirements for credit risk, market risk and operational risk	Notes to the financial statements: Note 61.6 – Capital management	240 – 241
b. Total and Tier 1 capital ratio	Notes to the financial statements: Note 61.6.2 – Key regulatory ratios – capital adequacy	241