

**PUBLIC BANK BERHARD - SRI LANKA BRANCH
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2016**



KPMG
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INDEPENDENT AUDITORS' REPORT TO THE MANAGEMENT OF PUBLIC BANK BERHAD – SRI LANKA BRANCH

Report on the Financial Statements

We have audited the accompanying financial statements of Public Bank Berhad – Sri Lanka Branch, (“the Bank”), which comprise the statement of financial position as at 31st December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 3 to 50.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31st December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Chartered Accountants

6th February 2017

Colombo

PUBLIC BANK BERHAD - SRI LANKA BRANCH
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER

	Note	2016 Rs.	2015 Rs.
Interest income	5	630,562,336	491,606,256
Interest expenses	5	<u>(60,999,394)</u>	<u>(51,309,912)</u>
Net interest income		569,562,942	440,296,344
Net fee and commission income	6	21,559,714	22,809,783
Net trading income	7	15,638,520	32,952,907
Other operating income	8	<u>4,444,367</u>	<u>22,875,095</u>
Total operating income		611,205,543	518,934,129
Impairment charges for loan and advances	9	<u>(13,037,020)</u>	<u>(9,947,130)</u>
Net operating income		598,168,523	508,986,999
Personnel expenses		<u>(119,788,364)</u>	<u>(106,180,467)</u>
Premises, equipment and establishment expenses		<u>(81,519,374)</u>	<u>(68,568,613)</u>
Depreciation and amortisation		<u>(29,429,830)</u>	<u>(35,987,429)</u>
Other overhead expenses		<u>(51,084,925)</u>	<u>(43,063,587)</u>
Operating profit before Value Added Tax (VAT)	10	316,346,030	255,186,903
Value Added Tax on Financial Services		<u>(45,597,847)</u>	<u>(42,114,655)</u>
Profit before income tax		270,748,183	213,072,248
Income Tax Expenses	11	<u>(91,793,721)</u>	<u>(83,223,317)</u>
Profit for the year		<u>178,954,462</u>	<u>129,848,931</u>
Other comprehensive income, net of tax			
Items that will never be reclassified to profit or loss			
Actuarial gains /(losses) on defined benefit plans		<u>(6,844,588)</u>	5,784
Income tax (expense)/reversal on other comprehensive income		<u>1,916,485</u>	<u>(1,620)</u>
Gain on translation of FCBU		<u>16,071,185</u>	<u>26,265,807</u>
Total other comprehensive income		<u>11,143,082</u>	<u>26,269,971</u>
Total comprehensive income for the year		<u><u>190,097,544</u></u>	<u><u>156,118,902</u></u>

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Bank set out on pages 6 to 50. The report of the auditors is given on page 1.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
STATEMENT OF FINANCIAL POSITION

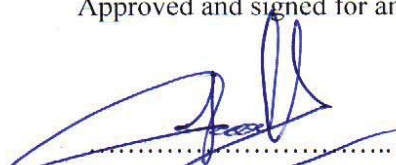
AS AT 31ST DECEMBER

	Note	2016 Rs.	2015 Rs.
ASSETS			
Cash and cash equivalents	12	1,039,584,465	376,400,772
Statutory deposit with Central Bank of Sri Lanka	13	60,944,826	51,869,392
Sri Lanka government securities	14	680,180,525	1,893,031,974
Loans and receivables	15	6,056,508,283	4,585,017,563
Property, plant and equipment	16	61,547,746	73,745,733
Intangible assets	17	10,095,873	10,095,795
Deferred tax assets	18	97,739	-
Other assets	19	72,346,976	58,252,165
		<u>7,981,306,433</u>	<u>7,048,413,394</u>
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	20	766,935,166	13,243,146
Deposits from customers	21	1,563,785,118	1,567,222,942
Current tax liability	22	53,861,977	35,076,826
Retirement benefit obligation	23	32,566,406	20,671,161
Deferred tax liabilities	18	-	4,504,344
Other liabilities	24	108,436,667	142,071,420
		<u>2,525,585,334</u>	<u>1,782,789,839</u>
Equity			
Assigned capital	25	3,792,318,132	3,792,318,132
Statutory reserve fund	26	75,275,505	66,327,782
FCBU revaluation reserve	27	151,476,809	135,405,624
Retained earnings		<u>1,436,650,653</u>	<u>1,271,572,017</u>
		<u>5,455,721,099</u>	<u>5,265,623,555</u>
Total liabilities and equity		<u>7,981,306,433</u>	<u>7,048,413,394</u>

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Bank set out on pages 6 to 50. The report of the auditors is given on page 1.

The Management is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Management.



Ajith Lanerolle
Head of Finance



Angelo Fernando
Country Head

6th February 2017
Colombo

PUBLIC BANK BERHAD - SRI LANKA BRANCH
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER

	Assigned Capital	Statutory Reserve Fund	FCBU Revaluation Reserve	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1 st January 2015	3,170,318,132	59,835,335	109,139,817	1,148,211,369	4,487,504,653
Profit for the Year	-	-	-	129,848,931	129,848,931
<i>Other comprehensive income</i>					
Actuarial gain on defined benefit plans	-	-	-	5,784	5,784
Deferred tax expense on other comprehensive income	-	-	-	(1,620)	(1,620)
Gain on translation of FCBU	-	-	26,265,807	-	26,265,807
Total Comprehensive Income	-	-	26,265,807	129,853,095	156,118,902
Transfer to statutory reserve fund	-	6,492,447	-	(6,492,447)	-
Capital infusion	622,000,000	-	-	-	622,000,000
Total transactions recorded directly in equity	622,000,000	6,492,447	-	(6,492,447)	622,000,000
Balance as at 31 st December 2015	<u>3,792,318,132</u>	<u>66,327,782</u>	<u>135,405,624</u>	<u>1,271,572,017</u>	<u>5,265,623,555</u>
Balance as at 1st January 2016	3,792,318,132	66,327,782	135,405,624	1,271,572,017	5,265,623,555
Profit for the Year	-	-	-	178,954,462	178,954,462
<i>Other comprehensive income</i>					
Actuarial loss on defined benefit plans	-	-	-	(6,844,588)	(6,844,588)
Deferred tax reversal on other comprehensive income	-	-	-	1,916,485	1,916,485
Gain on translation of FCBU	-	-	16,071,185	-	16,071,185
Total Comprehensive Income	-	-	16,071,185	174,026,359	190,097,544
Transfer to statutory reserve fund	-	8,947,723	-	(8,947,723)	-
Total transactions recorded directly in equity	-	8,947,723	-	(8,947,723)	-
Balance as at 31 st December 2016	<u>3,792,318,132</u>	<u>75,275,505</u>	<u>151,476,809</u>	<u>1,436,650,653</u>	<u>5,455,721,099</u>

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Bank set out on pages 6 to 50. The report of the auditors is given on page 1.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER

	2016	2015
	Rs.	Rs.
Cash flows from operating activities		
Profit before income tax	270,748,183	213,072,248
Adjustments for:		
Depreciation and amortisation	29,429,830	35,987,429
Net impairment loss on loans and advances	13,037,020	9,947,130
Net interest income	(569,562,942)	(440,296,344)
Provision for retirement benefit obligation	5,576,785	4,285,457
Dividend income	(382,500)	(319,500)
Gain on sale of property, plant and equipment	(55,935)	-
	<u>(251,209,559)</u>	<u>(177,323,580)</u>
Increase in Statutory Deposits with Central Bank of Sri Lanka (CBSL)	(9,075,434)	(464,143)
(Increase)/decrease in loans and advances to customers	(1,467,707,168)	359,553,301
Increase in other assets	(14,094,811)	(6,979,128)
Increase in deposits from banks	753,692,020	7,468,153
Increase/(decrease) in deposits from customers	(3,437,824)	258,417,723
Decrease in other liabilities and provisions	(33,634,753)	(19,558,457)
	<u>(1,025,467,529)</u>	<u>421,113,869</u>
Interest received	613,741,764	488,018,417
Dividends received	382,500	319,500
Interest paid	(60,999,394)	(51,309,912)
Tax paid	(63,606,205)	(58,279,061)
Gratuity paid	(526,128)	(744,491)
Net cash flows from/ (used in) operating activities	<u>(536,474,992)</u>	<u>799,118,322</u>
Cash flows from investing activities		
Net (Purchase of) / Proceeds from sale of Sri Lanka Government Securities	1,200,763,486	(1,283,217,093)
Acquisition of property, plant and equipment	(9,148,469)	(19,578,409)
Proceeds from the sale of property, plant and equipment	185,000	-
Acquisition of intangible assets	(8,212,517)	(1,040,754)
Net cash flows from/ (used in) investing activities	<u>1,183,587,500</u>	<u>(1,303,836,256)</u>
Cash flows from financing activities		
Capital infusion	-	622,000,000
Net cash flows from financing activities	<u>-</u>	<u>622,000,000</u>
Net increase in cash and cash equivalents	647,112,508	117,282,066
Cash and cash equivalents at the beginning of the year	376,400,772	232,852,899
Effect of exchange rate fluctuations on cash and cash equivalents held	16,071,185	26,265,807
Cash and cash equivalents at end of the year (Note 12)	<u>1,039,584,465</u>	<u>376,400,772</u>

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes, which form a part of the financial statements of the Bank set out on pages 6 to 50. The report of the auditors is given on page 1.

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 REPORTING ENTITY

1.1 Reporting Entity

Public Bank Berhad –Colombo Branch, (the “Bank”), is a registered Branch of Public Bank Berhad, a limited liability Company incorporated in Malaysia. Public Bank Berhad – Colombo Branch commenced its business in January 1992 and is approved to carry out both domestic & off- shore banking under the Banking Act No 30 of 1988 of Sri Lanka.

The registered office of the Bank and the principal place of business are both located at No. 340, R.A.De Mel Mawatha, Colombo 03.

1.1.1 Principal Activities

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, corporate and retail banking, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, project finance, dealing in government securities, etc.

There have been no significant changes to these principal activities during the financial year.

1.1.2 Number of employees

The number of employees of the Bank as at 31st December 2016 was 62 (2015: 63).

2 BASIS OF PREPARATION

2.1. Statement of Compliance

The financial statements of the Bank have been prepared in accordance with new Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Banking Act No 30 of 1988 and amendments thereto.

The financial statements were authorised for issue by the Management on 2nd February 2017.

The Bank maintains separate books for Domestic Banking Unit and Foreign Currency Banking Unit. Accompanying financial statements have been prepared by consolidating the financial statements of the Domestic Banking Unit and Foreign Currency Banking Unit.

2.2 Basis of Measurement

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

- Liability for defined benefit obligation is recognised as the present value of the defined benefit obligation less the net total of the plan assets, as explained in Note 3.9

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PRAPARATION (CONTINUED)

2.3 Functional and presentation currency

These financial statements are presented in Sri Lankan rupees, which is the Bank's functional currency.

2.4 Use of Estimates and Judgements

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKASs) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgements and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future any periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Impairment losses on loans, advances and financing (Note 3.3.7)
- Impairment of other assets (Note 3.6)
- Income taxes (Note 3.17)
- Defined Benefit Plan (Note 3.9)
- Provisions (Note 3.7.1)

2.5 Materiality and Aggregation

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Foreign Currency Translation

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

**PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign Currency Translation (Continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available for-sale equity instruments, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2 Translation of Measurement Currency

The Bank uses Sri Lankan Rupees as their measurement currency for Domestic Banking Unit and United State Dollars as their measurement currency for Foreign Currency Banking Unit books,

For consolidation purposes, accompanying financial statements have been prepared in Sri Lankan Rupees after converting the Foreign Currency Banking Unit financial statements in to Sri Lankan Rupees.

The translation is performed based on the guidelines in the LKAS 21 “The Effects of Changes in Foreign Exchange Rates” stated below:

- All current assets and current liabilities (i.e including comparatives) are translated at the closing rate of each reporting date
- Income and expense items for all periods (i.e including comparatives) are translated at month end exchange rates pertaining to each period
- Equity items other than the net profit or loss for the period are translated at the historical rate existing at the date of each transaction
- All exchange differences resulting from translation in accordance with the above are recognised in the equity through other comprehensive income.

ASSETS AND BASES OF THEIR VALUATION

3.3 Financial assets and financial liabilities

3.3.1 Recognition and Initial Measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated.

All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial assets and financial liabilities (Continued)

3.3.2 Classification

Financial assets

The Bank classifies its financial assets into loans and receivables and held to maturity.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

3.3.3 Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or when the rights to receive further cash flows from the assets have been transferred to a third party and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they are redeemed or extinguished.

Collateral furnished by the Bank under repurchase agreements are not derecognised as the Bank retains substantially all the risks and rewards on the basis of the pre-determined repurchase price, and hence the criteria for derecognition are not met.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

3.3.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRS/LKAS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3.3.5 Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or 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 recognised and the maturity amount, minus any reduction for impairment.

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial assets and financial liabilities (Continued)

3.3.6 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.

3.3.7 Identification and measurement of impairment

a. Loans and advances

Specific allowance for impairment

For the determination of impairment on loans, the Bank assess at each reporting date whether there is any objective evidence that a loan or a group of loans is impaired. A loan or a group of loans is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (i.e. an “incurred loss event”) and that loss event has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment include:

- i. any significant financial difficulty of the obligor;
- ii. a breach of contract, such as a default or delinquency in interest or principal payments;
- iii. a high probability of bankruptcy or other financial reorganisation of the obligor;

**PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial assets and financial liabilities (Continued)

3.3.8 Identification and measurement of impairment (Continued)

a. Loans and advances (Continued)

Specific allowance for impairment

- iv. concerns over the viability of the obligor's business operations and its capacity to trade successfully out of financial difficulties and to generate sufficient cash flows to service its debt obligations; and
- v. any adverse news or developments affecting the local economic conditions or business environment which will adversely affect the repayment capacity of the borrower.

The Bank first assess individually whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows. The carrying amount of the loan is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. Where appropriate, the calculation of the present value of estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective allowance for impairment

Collective assessment of loans of the Bank which are not subject to this transitional arrangement is computed via grouping of these loans on the basis of similar credit risk characteristics. Future cash flows of each of these groups of loans are estimated on the basis of historical loss experience for such assets and discounted to present value. Collective assessment impairment allowance is made on any shortfall in these discounted cash flows against the carrying value of the group of loans.

Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the income statement.

b. Financial Investments Held-to-Maturity

The Bank assess at each reporting date whether objective evidence of impairment of financial investments held-to-maturity exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

**PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial assets and financial liabilities (Continued)

3.3.9 Identification and measurement of impairment (Continued)

b. Financial Investments Held-to-Maturity

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised.

3.3.10 Cash and cash equivalents

‘Cash and cash equivalents’ include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Statutory deposits with Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees.

3.3.11 Loans and advances

‘Loans and advances’ are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances to banks and customers are classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Bank chooses to designate the loans and advances as measured at fair value through profit or loss, they are measured at fair value with face value changes recognised immediately in profit or loss.

3.3.12 Held-to-maturity

‘Held-to-maturity investments’ are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial assets and financial liabilities (Continued)

3.3.12 Held-to-maturity

- 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 that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

3.4 Property, plant and equipment

Recognition and measurement

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

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

Subsequent costs

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

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

The estimated useful lives of significant items of property and equipment are as follows:

Office Renovation	5 years
Computer Equipment	5 years
Furniture, Fixture & Fittings	10 years
Air Conditioners & Equipment	6 2/3years
Motor Vehicle	5 years

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

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Intangible Assets

Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.6 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss.

LIABILITIES AND PROVISIONS

3.7 Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of debt funding.

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Deposits, debt securities issued and subordinated liabilities (Continued)

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (sale and repurchase agreement), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

3.7.1 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.8 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.9 Employee benefits

3.9.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Employee benefits (Continued)

3.10.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit and loss when incurred.

3.10.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19 – Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability recognised in the Statement in financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date.

The Bank measures the present value of retirement benefits of gratuity using an internally generated model based on formula as recommended by LKAS 19 – Employee Benefits. Any actuarial gain and losses arising are recognised immediately in Other Comprehensive Income.

The liability is not externally funded nor actuarially valued.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

3.11 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received 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.

Interest income and expense presented in the statement of comprehensive income includes the interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Fees and commission

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

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.13 Dividends

Dividend income is recognised when the right to receive income is established. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

3.14 Profit/loss from sale of Property, plant & equipment

Profit/loss from sale of property, plant and equipment is recognised in the period in which the sale occurred and is classified as other income.

3.15 Other expenses

The expenditure incurred on personnel cost, premises, equipment and establishment has been apportioned between the FCBU and the DBU at the rate of 10% and 90% respectively.

3.16 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.17 Income tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

3.17.1 Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Income tax expense (Continued)

3.17.2 Deferred Tax

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 measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, 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 utilised. 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.

3.17.3 Value Added Tax on financial services

The basis for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.18 Events occurring after the Reporting date

All material subsequent events after the reporting date have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

3.19 Statement of Cash Flows

The cash flow statement has been prepared by using the “Indirect Method” of preparing of cash flow statement in accordance with the LKAS 7, Statement of Cash Flows.

Cash and Cash equivalents comprises cash balances, call deposits and placement. They are net of Government of Sri Lanka Treasury Bills held by the Bank.

3.20 Comparative information

The comparative information is reclassified wherever necessary to conform with the current year’s presentation in order to provide a better presentation.

**PUBLIC BANK BERHAD – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Segment reporting

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

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements. Accordingly, these Accounting Standards have not been applied in preparing these financial statements.

Standards issued but not yet adopted which may have an impact

New or amended standard	Summary of the Requirement	Possible impact on consolidated financial statements
SLFRS 9 Financial Instruments	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. SLFRS 9 is effective from 1 st January 2018.	The Bank is assessing the potential impact on its financial statements resulting from the application of SLFRS 9.

Standards issued but not yet adopted which may not have a significant impact

The following new or amended standards are not expected to have a significant impact of the Bank's financial statements.

- SLFRS 15 – 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance LKAS 18 – 'Revenue' and LKAS 11 – 'Construction Contracts'

SLFRS 15 is effective for Annual Reporting period beginning on or after 1st January 2018, with early adoption permitted.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER

5 Net Interest Income	2016	2015
	Rs.	Rs.
Interest Income		
Sri Lanka government securities	134,369,867	135,894,140
Balances with banks	28,046,113	11,063,512
Loans and advances to customers	468,146,356	344,391,695
Others	-	256,909
	<u>630,562,336</u>	<u>491,606,256</u>
Interest expenses		
Deposits from banks	3,325,798	1,008,410
Deposits from customers	57,673,596	50,301,502
	<u>60,999,394</u>	<u>51,309,912</u>
	<u>569,562,942</u>	<u>440,296,344</u>
6 Net Fee and Commission Income	2016	2015
	Rs.	Rs.
Fee and commission income		
Trade and remittances	11,935,051	7,425,535
Guarantees	4,365,498	3,973,016
Other fee and commission income	10,038,013	14,820,497
	<u>26,338,562</u>	<u>26,219,048</u>
Fee and Commission Expenses		
Deposit Insurance	1,185,307	1,048,843
Commission Paid	712,358	375,193
Other fee and commission expense	2,881,183	1,985,229
	<u>4,778,848</u>	<u>3,409,265</u>
	<u>21,559,714</u>	<u>22,809,783</u>
7 Net Trading Income	2016	2015
	Rs.	Rs.
Foreign exchange gain	15,638,520	32,952,907
	<u>15,638,520</u>	<u>32,952,907</u>
8 Other Operating Income	2016	2015
	Rs.	Rs.
Processing fees	2,338,408	3,699,497
Dividend income	382,500	319,500
Other income	1,667,524	1,356,098
Recovery of loans written off	-	17,500,000
Gain on disposal of property, plant and equipment	55,935	-
	<u>4,444,367</u>	<u>22,875,095</u>

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER

9 Impairment charges for loan losses	2016	2015
	Rs.	Rs.
Loans and advances to other customers (Note 9.1)	13,042,846	9,941,304
Bills of exchange	(5,826)	5,826
	<u>13,037,020</u>	<u>9,947,130</u>
9.1 Loans and advances to other customers		
Specific allowances for impairment	2,733,205	10,159,618
Collective allowances for impairment	8,657,376	(218,314)
Direct Write off	1,652,265	-
	<u>13,042,846</u>	<u>9,941,304</u>
10 Results from Operating Activities	2016	2015
	Rs.	Rs.
<i>Results from operating activities is stated after charging all the expenses including the following.</i>		
Auditor's remuneration		
Audit services	910,575	855,000
Audit related services	710,000	660,000
Non audit services	512,617	489,740
Depreciation and amortisation	29,429,830	35,987,429
Professional and legal expenses	1,480,166	1,456,141
Personnel costs (Note 10.1)	<u>119,788,364</u>	<u>106,180,467</u>
10.1 Personnel costs		
Wages and salaries	65,376,382	60,160,126
Contribution to defined contribution plans	7,860,806	9,030,466
Provision for defined benefit plans	5,576,785	4,285,457
Other staff expenses	40,974,391	32,704,418
	<u>119,788,364</u>	<u>106,180,467</u>
11 Income Tax Expenses	2016	2015
	Rs.	Rs.
Income Tax for the year (Note 11.1)	94,189,370	76,002,705
Under provision in respect of previous year	289,949	1,416,248
Deferred Taxation Charge / (Reversal) for the year (Note 19)	(2,685,598)	5,804,364
	<u>91,793,721</u>	<u>83,223,317</u>

In terms of provision of Inland Revenue Act No.10 of 2006 and amendments thereto, the Bank's Domestic Banking Unit (DBU) is liable for taxation on its income from banking operations at the rate of 28% for the year. The taxable income of on shore operations of the Foreign Currency Banking Unit (FCBU) and the taxable income from off shore operations of FCBU are liable for taxation at the rate of 28%.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER

11 Income Tax Expenses (Continued)	2016	2015
	Rs.	Rs.
11.1 Reconciliation of Accounting Profit to Income Tax Expense		
Accounting profit before tax	270,748,183	213,072,248
Less: Income from other sources	(11,101,904)	(11,582,037)
Business income	259,646,279	201,490,211
Aggregate disallowable expenses	101,013,084	94,264,708
Aggregate allowable expenses	(24,268,756)	(24,316,687)
Total statutory income from business	336,390,607	271,438,232
Other Income	-	-
Taxable Income	336,390,607	271,438,232
Income tax at 28%	94,189,370	76,002,705

11.2 Reconciliation of effective tax rate	2016		2015	
	%	Rs.	%	Rs.
Profit for the Year		178,954,462		129,848,931
Income Tax Expenses		(91,793,721)		(83,223,317)
Profit before taxation		270,748,183		213,072,248
Tax using the domestic corporation tax rate	28%	75,809,491	28%	59,660,229
Net non-deductible expenses	8%	21,488,412	9%	19,585,445
Tax exempt income	-1%	(3,108,533)	-2%	(3,242,969)
Adjustments for prior years	0%	289,949	1%	1,416,248
Origination and reversal of temporary differences	-1%	(2,685,598)	3%	5,804,364
Total tax expense	34%	91,793,721	39%	83,223,317

11.3 Notional tax credit for withholding Tax on Government Securities on secondary market transaction

In terms of the Inland Revenue Act No 10 of 2006, interest derived from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being 1/9 of the net interest income) provided such interest income form part of statutory income for that year of assessment.

Accordingly, the net income earned by the Bank from the secondary market transaction in Government Securities for the year, has been grossed up in the Financial Statements amounting to Rs.120,879,630/- (2015-Rs.118,959,341/-) and the resulting notional tax credit is Rs. 12,087,963/- (2015-Rs.11,895,934/-).

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

12 Cash and Cash Equivalents	2016	2015
	Rs.	Rs.
Cash and balances with banks	60,553,846	76,547,911
Deposits with banks	69,277,387	200,536,986
Placements with head office and other banks	909,753,232	99,315,875
	<u>1,039,584,465</u>	<u>376,400,772</u>
13 Statutory Deposit with Central Bank of Sri Lanka	2016	2015
	Rs.	Rs.
Central Bank of Sri Lanka - Rupee reserve	60,944,826	51,869,392
	<u>60,944,826</u>	<u>51,869,392</u>
<p>As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31st December 2016, the minimum cash reserve requirement is 7.5% of the rupee deposit liabilities. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.</p>		
14 Sri Lanka Government Securities	2016	2015
	Rs.	Rs.
Held-to-maturity		
Government of Sri Lanka Treasury Bills	680,180,525	1,893,031,974
	<u>680,180,525</u>	<u>1,893,031,974</u>
15 Loans and Receivables	2016	2015
	Rs.	Rs.
Government securities eligible for rediscounting with CBSL (Note 15.1)	98,037,692	178,029,340
Bills of exchange (Note 15.2)	-	1,159,362
Loans and advances to customers (Note 15.3)	5,805,523,817	4,113,174,785
Sri Lanka development bonds	152,946,774	292,654,076
	<u>6,056,508,283</u>	<u>4,585,017,563</u>
15.1 Government securities eligible for rediscounting with Central Bank of Sri Lanka		
Held-to-maturity		
Securities Purchased under Resale Agreement	98,037,692	178,029,340
	<u>98,037,692</u>	<u>178,029,340</u>
15.2 Bills of exchange		
Import Bills	-	1,165,188
Collective allowances for impairment	-	(5,826)
	<u>-</u>	<u>1,159,362</u>

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

15 Loans and Receivables (Continued)

15.3 Loans and advances to customers	2016	2015
	Rs.	Rs.
Overdrafts	675,494,229	638,778,169
Staff loans	36,888,738	39,093,916
Packing credit loans	-	23,978,400
Vehicle loans	669,885,953	549,517,395
Ordinary and term loans	2,773,554,906	1,735,365,463
Customer housing loans	1,254,009,445	858,466,263
Import finance	399,530,020	277,166,039
Interest receivable	40,112,992	23,292,420
	<u>5,849,476,283</u>	<u>4,145,658,065</u>
Specific allowances for impairment (Note 15.3.1)	(15,408,025)	(12,674,820)
Collective allowances for impairment (Note 15.3.1)	(28,544,441)	(19,808,460)
	<u>5,805,523,817</u>	<u>4,113,174,785</u>

15.3.1 Allowance for impairment

Specific allowances for impairment

Balance at the beginning of the year	(12,674,820)	(2,515,202)
Impairment loss for the year	(2,733,205)	(10,159,618)
Balance at the end of the year	<u>(15,408,025)</u>	<u>(12,674,820)</u>

Collective allowances for impairment

Balance at the beginning of the year	(19,808,460)	(20,026,774)
Impairment (charge)/reversal for the year	(8,657,376)	218,314
Effect of foreign currency movements	(78,605)	-
Balance at the end of the year	<u>(28,544,441)</u>	<u>(19,808,460)</u>
	<u>(43,952,466)</u>	<u>(32,483,280)</u>

15.4 Analysis

15.4.1 By Industry

Industry wise analysis for Bank's credit portfolio (Gross loans and advances and Bills of Exchange) given below reflects the Bank's exposure to credit risk in the various industries of the economy.

Agriculture	612,595,924	435,080,091
Manufacturing	268,201,999	303,330,661
Construction	1,448,436,587	1,045,634,589
Tourism	72,407,025	39,951,572
Transport	3,090,314	13,513,133
Traders	903,879,417	891,690,537
Real estate	7,726,137	10,507,676
Financial and business services	523,374,108	105,803,735
Information technology	264,345,821	130,576,459
Other services	768,792,275	420,055,693
Other customers	976,626,676	750,679,107
	<u>5,849,476,283</u>	<u>4,146,823,253</u>

15.4.2 By Currency

Sri Lankan Rupee	5,328,739,162	3,841,646,631
United States Dollar	520,737,121	305,176,622
	<u>5,849,476,283</u>	<u>4,146,823,253</u>

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

16 Property, Plant and Equipment

	Office Renovations Rs.	Computer Equipment Rs.	Equipment/ Furniture Rs.	Office Equipment Rs.	Motor Vehicles Rs.	Air Conditioners Rs.	Safes Rs.	Total Rs.
Cost								
Balance as at 1 st January 2015	55,326,906	73,135,293	9,569,323	24,491,334	11,927,841	10,081,067	2,952,754	187,484,518
Additions during the year	1,658,494	9,851,844	294,922	7,508,376	-	242,463	22,310	19,578,409
Balance as at 31 st December 2015	56,985,400	82,987,137	9,864,245	31,999,710	11,927,841	10,323,530	2,975,064	207,062,927
Balance as at 1st January 2016	56,985,400	82,987,137	9,864,245	31,999,710	11,927,841	10,323,530	2,975,064	207,062,927
Additions during the year	77,911	8,171,192	188,095	80,840	-	383,847	246,584	9,148,469
Disposals during the year	-	(6,451,337)	-	-	-	-	-	(6,451,337)
Balance as at 31 st December 2016	57,063,311	84,706,992	10,052,340	32,080,550	11,927,841	10,707,377	3,221,648	209,760,059
Accumulated Depreciation								
Balance as at 1 st January 2015	22,293,208	59,738,544	3,538,407	10,897,893	10,156,241	3,903,776	1,261,300	111,789,369
Charge for the year	8,741,656	5,328,836	935,883	3,220,427	1,755,168	1,197,082	348,773	21,527,825
Balance as at 31 st December 2015	31,034,864	65,067,380	4,474,290	14,118,320	11,911,409	5,100,858	1,610,073	133,317,194
Balance as at 1st January 2016	31,034,864	65,067,380	4,474,290	14,118,320	11,911,409	5,100,858	1,610,073	133,317,194
Charge for the year	8,821,477	6,190,068	922,032	3,734,922	16,432	1,189,828	342,632	21,217,391
Disposals during the year	-	(6,322,272)	-	-	-	-	-	(6,322,272)
Balance as at 31 st December 2016	39,856,341	64,935,176	5,396,322	17,853,242	11,927,841	6,290,686	1,952,705	148,212,313
Written down value								
Balance as at 31 st December 2016	17,206,970	19,771,816	4,656,018	14,227,308	-	4,416,691	1,268,943	61,547,746
Balance as at 31 st December 2015	25,950,536	17,919,757	5,389,955	17,881,390	16,432	5,222,672	1,364,991	73,745,733

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

17 Intangible Assets		2016	2015
		Rs.	Rs.
Cost			
Balance at the beginning of the year		158,655,850	157,615,096
Additions during the year		8,212,517	1,040,754
Balance at the end of the year		<u>166,868,367</u>	<u>158,655,850</u>
Accumulated amortisation			
Balance at the beginning of the year		148,560,055	134,100,451
Amortisation for the year		8,212,439	14,459,604
Balance at the end of the year		<u>156,772,494</u>	<u>148,560,055</u>
Written down value		<u>10,095,873</u>	<u>10,095,795</u>
18 Deferred Taxation		2016	2015
		Rs.	Rs.
Deferred tax liabilities (Note 18.1)		(9,020,855)	(10,292,269)
Deferred tax assets (Note 18.2)		9,118,594	5,787,925
		<u>97,739</u>	<u>(4,504,344)</u>
18.1 Deferred tax liabilities			
Balance as at the beginning		10,292,269	3,496,435
Charge/(Reversal) during the year to profit or loss		(1,271,414)	6,795,834
Balance as at the end		<u>9,020,855</u>	<u>10,292,269</u>
18.2 Deferred tax assets			
Balance as at the beginning		5,787,925	4,798,075
Charged during the year to profit or loss		1,414,184	991,470
Charged during the year to other comprehensive income		1,916,485	(1,620)
Balance as at the end		<u>9,118,594</u>	<u>5,787,925</u>
18.3 Recognized deferred tax assets and liabilities			
Deferred tax assets and liabilities are attributable to the following;			
		2016	2015
		Temporary Difference	Temporary Difference
		Rs.	Rs.
		Tax Effect	Tax Effect
		Rs.	Rs.
Deferred tax liabilities			
Property, plant & equipment		32,217,339	36,758,103
		<u>32,217,339</u>	<u>36,758,103</u>
Deferred tax assets			
Employee benefits		23,618,721	18,568,064
Actuarial (gain)/ loss on Retirement benefits Obligation (Note 23.2.2)		8,947,685	2,103,097
		<u>32,566,406</u>	<u>20,671,161</u>
19 Other Assets		2016	2015
		Rs.	Rs.
Deposits and prepayments		37,018,456	25,446,143
Others receivables		5,982,954	5,424,365
Prepayment made to Misys Banking Systems		29,345,566	27,381,657
		<u>72,346,976</u>	<u>58,252,165</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

20 Deposits from Banks	2016	2015
	Rs.	Rs.
Borrowings under REPO's	12,814,169	12,521,121
Other deposits from banks	754,120,997	722,025
	<u>766,935,166</u>	<u>13,243,146</u>
21 Deposits from Customers	2016	2015
	Rs.	Rs.
Retail customers (Note 21.1)	696,444,874	849,383,986
Corporate customers (Note 21.2)	852,428,485	705,818,474
Interest payable	14,911,759	12,020,482
	<u>1,563,785,118</u>	<u>1,567,222,942</u>
21.1 Retail customers		
Demand deposits (current accounts)	43,875,812	142,128,069
Savings deposits	164,188,155	236,149,463
Fixed deposits	488,380,907	458,046,454
Call deposits	-	13,060,000
	<u>696,444,874</u>	<u>849,383,986</u>
21.2 Corporate customers		
Demand deposits (current accounts)	216,533,526	149,035,705
Savings deposits	174,249,517	104,241,675
Fixed deposits	357,042,328	451,390,366
Call deposits	100,000,000	-
Other deposits	4,603,114	1,150,728
	<u>852,428,485</u>	<u>705,818,474</u>
21.3 Analysis by product		
Demand deposits (current accounts)	260,409,339	291,163,774
Savings deposits	338,453,042	340,405,923
Fixed deposits	860,231,098	921,397,432
Call deposits	100,088,525	13,105,084
Other deposits	4,603,114	1,150,729
	<u>1,563,785,118</u>	<u>1,567,222,942</u>
21.4 Analysis by currency		
Sri Lankan Rupee	1,255,480,555	1,280,790,690
United States Dollar	277,566,668	257,742,768
Great Britain Pound	29,408,508	22,942,409
Singapore Dollar	78,097	69,814
Australian Dollar	485	457
Euro	1,187,471	5,617,835
Japanese Yen	63,334	58,969
	<u>1,563,785,118</u>	<u>1,567,222,942</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

22	Current Tax Liability	2016	2015
		Rs.	Rs.
	Balance at the beginning of the year	35,076,826	27,832,868
	Provision for the year	94,189,370	76,002,705
	Under provision in respect of prior years	289,949	1,416,248
	Tax credit on treasury bills	(12,087,963)	(11,895,934)
	Payments made during the year	(63,606,205)	(58,279,061)
		<u>53,861,977</u>	<u>35,076,826</u>

23	Employee Benefits	2016	2015
		Rs.	Rs.

23.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year;

Employees' Provident Fund		
Employers' contribution	7,860,806	7,224,398
Employees' contribution	5,240,509	4,816,259
Employees' Trust Fund	1,965,161	1,806,068

23.2 Defined benefit plan - Gratuity

Balance as at the 1 st January	20,671,161	17,135,979
Current service cost	3,899,546	2,896,614
Interest cost	1,677,239	1,388,843
Actuarial (Gain) / Loss recognized in the other comprehensive income	6,844,588	(5,784)
Payments during the Year	(526,128)	(744,491)
Balance as at 31 st December	<u>32,566,406</u>	<u>20,671,161</u>

23.2.1 The total amount charged to Statement of Profit or loss and other Comprehensive Income in respect of Defined Benefit Plan made up as follows;

Current service cost	3,899,546	2,896,614
Interest cost	1,677,239	1,388,843
Recognized in Comprehensive Income	<u>5,576,785</u>	<u>4,285,457</u>
Actuarial (Gain) / Loss	6,844,588	(5,784)
Recognized in Other Comprehensive Income	<u>6,844,588</u>	<u>(5,784)</u>

23.2.2 Actuarial (Gain) / Loss recognized in the other comprehensive income

Cumulative loss as at the 1 st January	2,103,097	2,108,881
(Gain) / Loss recognised during the year	6,844,588	(5,784)
Cumulative loss as at the 31 st December	<u>8,947,685</u>	<u>2,103,097</u>

LKAS 19 - Employee Benefit requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit as per Projected Unit Credit Method by using an internally generated model in order to determine the present value of the retirement benefit obligation as at the reporting date. The following key assumptions were made in computing the retirement gratuity obligation as at the reporting date.

	2016	2015
i.) Discount rate	11.50%	10.00%
ii.) Annual salary increment rate	15.00%	9.51%

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

23 Employee Benefits (Continued)

23.2 Defined benefit plan - Gratuity (Continued)

The calculation of the retirement benefit obligation is sensitive to the assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by one percent.

	Defined benefit obligation	
	+ 1%	- 1%
	Rs.	Rs.
Discounting rate	(1,445,261)	1,539,839
Salary escalation rate	1,478,253	(1,414,532)
24 Other Liabilities	2016	2015
	Rs.	Rs.
Accrued expenses	23,867,901	21,184,580
Other payables	26,435,601	71,655,701
Sundry creditors	773,540	773,540
Amount due to head office	57,359,625	48,457,599
	108,436,667	142,071,420
25 Assigned Capital	2016	2015
	Rs.	Rs.
Balance at the beginning of the year	3,792,318,132	3,170,318,132
Capital infusion	-	622,000,000
Balance at the end of the year	3,792,318,132	3,792,318,132
26 Statutory Reserve Fund	2016	2015
	Rs.	Rs.
Balance at the beginning of the year	66,327,782	59,835,335
Transfer during the year	8,947,723	6,492,447
Balance at the end of the year	75,275,505	66,327,782
<p>The statutory reserve fund is maintained as per the requirements under Section 20 (1) of Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividends or any profits that are transferred to elsewhere, until the reserve is equal to 50% of the Bank's assigned capital.</p>		
27 FCBU Revaluation Reserve	2016	2015
	Rs.	Rs.
Balance at the beginning of the year	135,405,624	109,139,817
Gain on translation of FCBU	16,071,185	26,265,807
Balance at the end of the year	151,476,809	135,405,624

The Bank maintains equity reserves in foreign currencies amounting to USD 2,160,017 which is converted into Sri Lankan Rupees in every reporting date using the year end exchange rate. Gain or loss on this translation is transferred to FCBU revaluation reserve.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

28 Commitments and Contingent Liabilities

In the normal course of business the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

28.1 Commitments	2016	2015
	Rs.	Rs.
Acceptances	21,192,500	66,831,500
Guarantees	248,024,385	148,162,094
Bills for collection	242,218,603	377,726,996
Letters of Credit	46,496,512	39,048,000
	<u>557,932,000</u>	<u>631,768,590</u>
Contingent liabilities		
Undrawn loans and advances	953,491,188	1,109,252,250
	<u>953,491,188</u>	<u>1,109,252,250</u>
Total Contingent Liabilities and Commitments	<u>1,511,423,188</u>	<u>1,741,020,840</u>

Non cancellable operating lease rentals are payable as follows.

Less than one year	18,406,825	11,721,671
Between one and five years	16,175,433	10,440,000
More than five years	Nil	Nil

An amount of Rs.19,091,076/- has been recognized as an expense in the profit or loss in respect of operating leases during the year ended 31st December 2016 (2015 - Rs.17,671,518/-).

28.2 Litigation against the bank

There were no pending litigation of a material nature against the Bank.

28.3 Capital commitments

The Bank has, under the instructions of its head office, committed itself to upgrade its IT system and other fixed assets at a total cost of Rs.156,600,000/- and the Bank has utilised as an amount of Rs. 86,560,424/- as of 31st December 2016 out of approved amount.

29 Related party disclosures

29.1 Transactions with Head office

Details of the transactions and balances with Head Office in Malaysia during the year are as follows.

Nature of Transaction	Transaction value 2016	Transaction value 2015	Balance as at 31st December 2016	Balance as at 31st December 2015
	Rs.	Rs.	Rs.	Rs.
Reimbursement of expenses	(8,902,026)	(3,636,207)	-	-
Net trading and foreign exchange transactions	(1,003,302)	4,343,585	-	-
Placements	202,347	110,109	909,753,232	18,412,271
Net lending/(borrowing)	(1,501,801)	(979,033)	57,359,625	48,457,599

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

29 Related party disclosure (Continued)

29.2 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosure, Key Management Personnel (KMP) are those having authority and responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Board of Directors of Public Bank Berhad and Country Head, Business Development Manager, Banking Service Manager, Head of Risk Management, Head of Finance, Head of Credit, Head of Trade Finance, Compliance Officer and Dealer of the Sri Lanka Branch have been identified as Key Management Personnel of the Bank.

Compensation paid to key management personnel of the Bank is as follows:	2016 Rs.	2015 Rs.
Short term employee benefits	28,157,136	41,248,311
Post employment benefits	1,952,366	2,146,081
Loans and advances	8,810,158	10,846,274
Deposits	1,072,658	492,705

No impairment losses have been recorded against balance outstanding during the period with KMP, and no specific provision has been made for impairment losses on balances with KMP.

30 Maturity analysis

An analysis of the total assets employed by the Bank as at 31st December 2016 based on the remaining period at the reporting date to the respective contractual maturity dates given below:

	less than 1 year Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	more than 5 Years Rs.	Total as at 31.12.2016 Rs.	Total as at 31.12.2015 Rs.
Interest earnings assets						
Cash and cash equivalents	1,039,584,465	-	-	-	1,039,584,465	376,400,772
Statutory deposit with Central Bank of Sri Lanka	60,944,826	-	-	-	60,944,826	51,869,392
Sri Lanka government securities	680,180,525	-	-	-	680,180,525	1,893,031,974
Loans and receivables	2,049,397,580	1,619,135,271	2,387,975,432	-	6,056,508,283	4,585,017,563
Property, plant and equipment	-	61,547,746	-	-	61,547,746	10,095,795
Intangible assets	-	10,095,873	-	-	10,095,873	73,745,733
Deferred tax assets	-	97,739	-	-	97,739	-
Other assets	72,346,976	-	-	-	72,346,976	58,252,165
Total assets	3,902,454,372	1,690,876,629	2,387,975,432	-	7,981,306,433	7,048,413,394
Liabilities and Equity						
Liabilities						
Deposits from banks	766,935,166	-	-	-	766,935,166	13,243,146
Deposits from customers	1,563,785,118	-	-	-	1,563,785,118	1,567,222,942
Current tax liability	53,861,977	-	-	-	53,861,977	35,076,826
Employee benefits	32,566,406	-	-	-	32,566,406	20,671,161
Deferred tax liabilities	-	-	-	-	-	4,504,344
Other liabilities	108,436,667	-	-	-	108,436,667	142,071,420
Total Liabilities	2,525,585,334	-	-	-	2,525,585,334	1,782,789,839
Equity						
Assigned capital	-	-	-	3,792,318,132	3,792,318,132	3,792,318,132
Statutory reserve fund	-	-	-	75,275,505	75,275,505	66,327,782
FCBU revaluation reserve	-	-	-	151,476,809	151,476,809	135,405,624
Retained earnings	-	-	-	1,436,650,653	1,436,650,653	1,271,572,017
Total Equity	-	-	-	5,455,721,099	5,455,721,099	5,265,623,555
Total Equity and Liabilities	2,525,585,334	-	-	5,455,721,099	7,981,306,433	7,048,413,394

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

31 Fair Values of Financial Instruments

Determination of fair values

This note explains the methodology for valuing our financial assets and liabilities carried at fair value, and provides an analysis of those balances according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

31.1 Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

31.2 Fair value hierarchy

Assets and liabilities recorded at fair value in the Statement of financial position are measured and classified in accordance with a fair value hierarchy consisting of three “levels” based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

Level 1 : Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

The Bank measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

Level 2 : Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as 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 in which all significant inputs are directly or indirectly observable from market data.

Level 3 : Inputs that are unobservable. This category includes all instruments for which 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 for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

31.3 Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Assets and Liability Committee , and it has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process for new models and changes to models involving both Product Control and Bank's Market Risk;
- Quarterly calibration and back-testing of models against observed market transactions;
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by a committee of senior Product Control and Bank Market Risk personnel.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

31 Fair Values of Financial Instruments (Continued)

31.4 Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

31.5 Valuation Methodologies of Financial Instruments Measured at Fair Value

Current Bank does not have any financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized.

31.6 Fair values of Financial Assets and Liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the financial instruments of the Bank which are not measured at fair value in the financial statements. These tables do not include non-financial assets and liabilities.

	Note	2016		2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<i>Held to maturity financial assets :</i>					
Sri Lanka Government Securities	14	680,180,525	678,125,693	1,893,031,974	1,821,728,594
		<u>680,180,525</u>	<u>678,125,693</u>	<u>1,893,031,974</u>	<u>1,821,728,594</u>
<i>Loans and receivables :</i>					
Loans and Advances to Customers	15	5,805,523,817	5,805,523,817	4,113,174,785	4,113,174,785
Reverse Repos	15	98,037,692	98,037,692	178,029,340	178,029,340
Sri Lanka development bonds	15	152,946,774	152,946,774	292,654,076	292,654,076
		<u>6,056,508,283</u>	<u>6,056,508,283</u>	<u>4,583,858,201</u>	<u>4,583,858,201</u>
<i>Other financial assets :</i>					
Statutory Deposits with Central Bank of Sri Lanka	13	60,944,826	60,944,826	51,869,392	51,869,392
Other receivables	19	72,346,976	72,346,976	58,252,165	58,252,165
Cash & cash equivalents	12	1,039,584,465	1,039,584,465	376,400,772	376,400,772
		<u>1,172,876,267</u>	<u>1,172,876,267</u>	<u>486,522,329</u>	<u>486,522,329</u>
Total		<u>7,909,565,075</u>	<u>7,907,510,243</u>	<u>6,963,412,504</u>	<u>6,892,109,124</u>
<i>Financial liabilities :</i>					
Deposits from Banks	20	766,935,166	766,935,166	13,243,146	13,243,146
Deposits from customers					
Retail customers	21	696,444,874	696,444,874	849,383,986	849,383,986
Corporate customers	21	852,428,485	852,428,485	705,818,474	705,818,474
Interest payable	21	14,911,759	14,911,759	12,020,482	12,020,482
Total		<u>2,330,720,284</u>	<u>2,330,720,284</u>	<u>1,580,466,088</u>	<u>1,580,466,088</u>

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

31 Fair Values of Financial Instruments (Continued)

31.6.1 Held to maturity financial assets

The fair values of financial investments held-to-maturity are estimated based on broker/dealer price quotations. All financial investments held at reporting date are held-to-maturity.

31.6.2 Loans and receivables

The fair values of fixed rate loans and receivables with remaining maturity of less than one year and variable rate loans and advances are estimated to approximate their carrying amounts. For fixed rate loans/financing with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of loans/financing of similar credit risks and maturity. The fair values of impaired loans/financing are represented by their carrying amounts, net of any individual assessment allowance, being the expected recoverable amount.

The fair values of reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to relatively short maturity of the financial instruments.

The fair values of Sri Lanka Development Bonds with floating interest rates also approximate their carrying amount due to eligibility for market interest rates at the reporting date.

31.6.3 Other financial assets

Cash and balances with banks and reverse repurchase agreements – The carrying amount of cash and bank balances approximate fair value due to the relatively short maturity of the financial instruments. The fair values of reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments. For those financial instruments with maturity of more than one year, the fair values are estimated based on discounted cash flows using market interest rates at which similar placements would be made with financial institutions of similar credit risk and remaining period to maturity.

The fair value of the loans to staff has been computed based on the interest rates prevailed at reporting date.

Other receivables items the carrying value has been considered as the fair value due to the timing of the cash flows.

31.6.4 Financial liabilities

This nature of financial liabilities of carrying value has been considered as the fair value due to the timing of the cash due.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management

32.1 Overview

The Bank's business activities involve the use of financial instruments. These activities expose the Bank to a variety of financial risks, mainly credit risk, liquidity risk, market risk, operational risk and interest rate risk.

The Bank's financial risks are subject to Management's oversight, through the Risk Management Committee ("RMC"), a Board Committee, which oversees the establishment of enterprise-wide risk management policies and processes. The RMC is assisted by the specific risk oversight committees which are the Assets & Liabilities Management Committee ("ALCO"), the Credit Risk Management Committee ("CRMC") and the Operational Risk Management Committee ("ORMC").

32.2 Credit Risk

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. As the Bank's primary business is in commercial banking, the Bank's exposure to credit risk is primarily from its lending and financing to retail consumers, Small - and Medium-sized Enterprises ("SMEs") and corporate customers. Trading and investing the surplus funds of the Bank, such as trading or holding of debt securities, settlement of transactions, also expose the Bank to credit risk and counterparty credit risk.

Risk Governance

The CRMC supports the RMC in credit risk management oversight. The CRMC reviews the Bank's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance level.

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures which document the Bank's lending standards, discretionary power for loans approval, credit risk rating, acceptable collateral and valuation, and the review, rehabilitation and restructuring of problematic and delinquent loans. All credit approving authorities are guided by credit policies, guidelines and procedures which are periodically reviewed to ensure their continued relevance.

Within the Risk Management Division, the Credit Risk Management Department has functional responsibility for credit risk management which includes formulating and reviewing risk policies, guidelines and procedures. Other independent risk management and control units are responsible for managing the credit portfolios and ensuring the risk policies are implemented and complied with.

Risk Management Approach

The management of credit risk starts with experienced key personnel being appointed to the Credit Committee. The Credit Committee approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All loan applications of significant amounts are approved at Head Office or by the Credit Committee while experienced senior credit officers at branches are given authority to approve loans with lower risk exposure. The credit approving authorities are assigned discretionary powers based on their seniority and track record.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.2 Credit Risk (Continued)

Risk Management Approach (Continued)

Independent credit reviews are performed regularly to complement risk identification as well as to evaluate the quality of credit appraisals and the competency of credit personnel. Internal risk management reports are presented to both the CRMC and the RMC, containing information on economic trends across major portfolios, quality of credit portfolios, results of independent credit review, results of the credit profiling conducted, significant credit exposures to connected parties and credit concentration by economic sectors and by large single customers. Such information allows senior management, CRMC and RMC to identify adverse credit trends, take corrective actions and formulate business strategies.

(a) Lending to Retail Consumers and SMEs

The credit granting to retail consumers and SMEs is individually underwritten, which amongst others, includes the assessment of the historical repayment track record and the current repayment capacity of the customer through the use of an internal credit risk rating score sheet. The credit approving authorities have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer are included in the loan application.

(b) Lending to Corporate and Institutional Customers

The credit granting to corporate and institutional customers is individually underwritten and risk-rated. Credit officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as standby letters of credit or bank guarantees.

(c) Credit Risk from Trading and Investment Activities

The management of the credit risk arising from the Bank's trading or investing its surplus funds is primarily via the setting of issuers' credit limits which are specifically approved by the relevant approving authorities. In addition, the Bank's investment policy also stipulates the minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. The investment policy is also subject to regular review. The holdings of Collateralised Debt Obligations ("CDO") or Collateralised Loan Obligations ("CLO") require the specific approval of the Head Office. As at reporting date, the Bank does not have any direct or indirect exposure to asset-backed securities, CDO or CLO and does not participate in any securitisation deals.

There have been no changes to the process for managing credit risk and the methods used to measure credit risk.

(i) Credit Risk Exposures and Credit Risk Concentration

The table in Note 15.4.1 presents the Bank's maximum exposure to credit risk of on-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations for which the instruments are issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.2 Credit Risk (Continued)

Risk Management Approach (Continued)

(c) Credit Risk from Trading and Investment Activities (Continued)

(i) Credit Risk Exposures and Credit Risk Concentration (Continued)

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions.

By Industry Analysis

The analysis of credit risk concentration is presented in note 15.4.1 presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparties are engaged (for non-individual counterparties) or the economic purpose of the credit exposure (for individuals). The exposures to credit risk are presented without taking into account any collateral held or other credit enhancements.

By Geographical Analysis

The analysis of credit concentration risk of financial assets of the Bank categorised by the geographical distribution is not included as the Bank's concentration of credit risk resides only in Sri Lanka.

(ii) Credit Quality of Loans and Advances

	2016	2015
	Rs.	Rs.
Neither Past Due nor impaired	4,985,728,113	3,379,330,916
Past due but not impaired	832,838,814	747,602,376
Impaired	30,909,356	19,889,961
	<u>5,849,476,283</u>	<u>4,146,823,253</u>

Neither Past Due nor impaired

The credit quality of gross loans, advances and financing which is neither past due nor impaired is analysed as follows:

Housing loans	865,974,952	642,761,427
Corporate loans	769,745,745	1,006,436,799
Other retail loans	3,350,007,416	1,730,132,690
	<u>4,985,728,113</u>	<u>3,379,330,916</u>

Past due but not impaired

Past due but not impaired loans and advances where the customer has failed to make a principal or interest payment when contractually due, and includes loans and advances which are due one or more days after the contractual due date but less than three (3) months.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.2 Credit Risk (Continued)

Risk Management Approach (Continued)

(c) Credit Risk from Trading and Investment Activities (Continued)

(ii) Credit Quality of Loans and Advances (Continued)

Past due but not impaired (continued)

An aging analysis of loans, advances and financing which are past due but not impaired is as follows:

Aging Profile of Past Due Loans by Loan Type

Gross loans and advances

As at 31st December 2016

Loan Type	DAYS / MONTHS IN ARREARS			Total Rs.
	1 day to <1 month Rs.	1 mth to <2 months Rs.	2 mths to <3 months Rs.	
Retail Loans:				
- Housing Loans	263,854,368	119,317,602	-	383,171,970
- Other Retail Loans	323,393,510	107,298,992	-	430,692,502
Corporate Loans	-	18,974,342	-	18,974,342
Total Loans	587,247,878	245,590,936	-	832,838,814

Aging Profile of Past Due Loans by Loan Type

Gross loans and advances

As at 31st December 2015

Loan Type	DAYS / MONTHS IN ARREARS			Total Rs.
	1 day to <1 month Rs.	1 mth to <2 months Rs.	2 mths to <3 months Rs.	
Retail Loans:				
- Housing Loans	159,175,596	59,504,398	-	218,679,994
- Other Retail Loans	165,897,912	47,518,610	4,580,712	217,997,234
Corporate Loans	256,995,459	53,929,689	-	310,925,148
Total Loans	582,068,967	160,952,697	4,580,712	747,602,376

Note:

- Loans for Corporate/Housing Loans/HP/Other Retail Loans/Credit Card are classified according to Product/Facility Type
- Past due loans are loans that has been contractually past due as at the reporting date excluding individually impaired loan.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.2 Credit Risk (Continued)

Risk Management Approach (Continued)

(c) Credit Risk from Trading and Investment Activities (Continued)

(ii) Credit Quality of Loans and Advances (Continued)

Impaired Loans and Advances

Loans and advances are classified as impaired when they fulfill any of the following criteria:

- (i) principal or interest/profit or both are past due for three (3) months or more;
- (ii) where a loan or advance is in arrears for less than three (3) months, the loan or financing exhibits indications of credit weaknesses; or
- (iii) where an impaired loan or advance has been rescheduled or restructured, the loan or advance continues to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for a period of six (6) months

In addition, loans and advances that are considered individually significant, the Bank assesses on a case-by-case basis at each quarter whether there is any objective evidence that a loan or advance is impaired. The criteria that the Bank uses to determine that there is objective evidence of impairment include:

- (i) any significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest/profit or principal payments;
- (iii) high probability of bankruptcy or other financial reorganisation of the borrower;
- (iv) the viability of the customer's business operations and its capability to trade successfully out of financial difficulties and to generate sufficient cash flow to service its debt obligations; and
- (v) any adverse news or developments affecting the local economic conditions or business environment of the borrower which will adversely affect the repayment capacity of the borrower.

The breakdown of the gross amount of loans and advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Bank as security are as follows:

	2016		2015	
	Individually Assessed as Impaired Rs.	Fair Value of Collateral Rs.	Individually Assessed as Impaired Rs.	Fair Value of Collateral Rs.
Housing loans	17,366,034	13,000,000	4,022,102	1,200,000
Corporate loans	-	-	4,850,685	22,975,000
Other retails	13,543,322	24,975,000	11,017,174	9,750,000
Total	30,909,356	37,975,000	19,889,961	33,925,000

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.2 Credit Risk (Continued)

Risk Management Approach (Continued)

(c) Credit Risk from Trading and Investment Activities (Continued)

(iii) Collateral

- for residential mortgages – charges over residential properties
 - for commercial property loans – charges over the properties being financed
 - for motor vehicle financing – ownership claims over the vehicles financed
 - for share margin financing – pledges over securities from listed exchange
 - for other loans – charges over business assets such as premises, inventories, trade receivables or deposits
- (a) Estimates of fair value of collateral for gross loans and advances are based on the value of the collateral assessed at the time of loan application, and are updated whenever there is new information available or when a loan or advance is classified as impaired. Estimates of fair value of collateral for other financial assets are based on available, quoted and observable market prices or dealer price quotations.

	2016		2015	
	Outstanding Balance Rs.	Fair Value of Collateral Rs.	Outstanding Balance Rs.	Fair Value of Collateral Rs.
Reverse repurchase agreements	98,037,692	98,037,692	178,029,340	178,029,340
Gross loans and advances and Bills of Exchange	5,849,476,283	14,086,292,180	4,146,823,253	9,950,355,065

(b) Repossessed Collateral

Assets obtained by taking possession of collateral held as security against loans, advances and financing, and held as at the end of the financial year are as follows:

	2016 Rs.	2015 Rs.
Residential properties	3,575,000	3,575,000
Non-residential properties	-	-

(iv) Credit Quality of Financial Investments

The Bank does not analyse the credit quality of money market instruments and non-money market instruments-debt securities by ratings from external credit ratings agencies

Financial Assets Held-for-Trading:- The Bank does not have financial assets held for trading.

Financial Investments Available-for-sale:- The Bank does not have financial investments available for sale.

Financial Investments Held-to-maturity:- The Bank possess financial investments held to maturity.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.3 Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

33.3.1 Risk Governance

The ALCO supports the RMC in market risk management oversight. The ALCO reviews the Bank's market risk framework and policies, aligns market risk management with business strategies and planning, and recommends actions to ensure that the market risk remains within established risk tolerance level. The market risk of the Bank is identified into traded market risk and non-traded market risk.

33.3.2 Types of Market Risk

(i) Traded Market Risk

Traded market risk, primarily the interest rate/rate of return risk and credit spread risk, exist in the Bank's trading book positions held for the purpose of benefiting from short-term price movements, which are conducted primarily by the treasury operations.

Risk Management Approach

The Bank's traded market risk framework comprises market risk policies and practices, delegation of authority, market risk limits and valuation methodologies. In addition, the Treasury Back Office is also responsible to monitor and report on limit excesses and the daily mark-to-market valuation of fixed income securities. The market risk limits are determined after taking into account the risk appetite and the risk-return relationship and are periodically reviewed by Risk Management Division. Changes to market risk limits must be approved by the Board of Directors. The trading book positions and limits are regularly reported to the ALCO. The Bank maintains its policy of prohibiting exposures in trading financial derivative positions.

(ii) Non-Traded Market Risk

The Bank's core non-traded market risks are interest rate/rate of return risk in the banking book, foreign exchange risk and equity risk.

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB")

IRR/RoRBB is the risk to the Bank's earnings and economic value of equity ("EVE") arising from adverse movements in interest rate/rate of return. The sources of IRR/RoRBB are repricing risk, yield curve risk, basis risk and optionality risk.

Risk Management Approach

The primary objective in managing the IRR/RoRBB is to manage the volatility in the Bank's net interest/profit income ("NII/NPI") and EVE, whilst balancing the cost of such activities on the current revenue streams. This is achieved in a variety of ways such as the offsetting of positions against each other for any matching assets and liabilities and the acquisition of new financial assets and liabilities to narrow the mismatch in interest rate/rate of return sensitive assets and liabilities.

The Bank uses various tools including repricing gap reports, sensitivity analysis and income scenario simulations to measure its IRR/RoRBB. The impact on NII/NPI and EVE is considered at all times in measuring the IRR/RoRBB. Limits and policies approved by the RMC are established and are regularly reviewed to ensure its relevance.

The following tables indicate the effective interest rate/rate of return at the reporting date the Bank's sensitivity to interest rate/rate of return by time band based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual repricing dates due to prepayment of loans, advances and financing or early withdrawal of deposits.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.3 Market Risk (Continued)

33.3.2 Types of Market Risk (Continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB") (Continued)

As at 31 st December 2016	Less than 7 Days Rs.	7-30 Days Rs.	1-3 Months Rs.	3-6 Months Rs.	6-12 Months Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Non-interest Sensitive Rs.	Total Rs.
ASSETS										
Cash and balances with banks	129,831,235	881,969,251	27,783,979	-	-	-	-	-	-	1,039,584,465
Statutory deposit with Central Bank of Sri Lanka	60,944,826	-	-	-	-	-	-	-	-	60,944,826
Financial investments held-to-maturity	-	-	139,000,425	248,529,147	292,650,953	-	-	-	-	680,180,525
Loans, advances and financing	239,550,247	802,091,597	314,233,400	292,704,887	400,817,449	1,619,135,271	2,387,975,432	-	-	6,056,508,283
Other non-interest/profit Sensitive balances	-	-	-	-	-	-	-	-	144,088,334	144,088,334
Total Assets	430,326,308	1,684,060,848	481,017,804	541,234,034	693,468,402	1,619,135,271	2,387,975,432	-	144,088,334	7,981,306,433
LIABILITIES AND EQUITY										
Deposits from banks	8,595,972	758,339,194	-	-	-	-	-	-	-	766,935,166
Deposits from customers	603,450,125	204,735,647	345,577,026	182,898,062	227,124,258	-	-	-	-	1,563,785,118
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	194,865,050	194,865,050
Total liabilities	612,046,097	963,074,841	345,577,026	182,898,062	227,124,258	-	-	-	194,865,050	2,525,585,334
Equity attributable to equity holders of the bank	-	-	-	-	-	-	-	-	5,455,721,099	5,455,721,099
Total equity	-	-	-	-	-	-	-	-	5,455,721,099	5,455,721,099
On-balance sheet interest/ profit sensitivity gap	(181,719,789)	720,986,007	135,440,778	358,335,972	466,344,144	1,619,135,271	2,387,975,432	-	(5,506,497,815)	-
TOTAL INTEREST/PROFIT SENSITIVITY GAP	(181,719,789)	720,986,007	135,440,778	358,335,972	466,344,144	1,619,135,271	2,387,975,432	-	(5,506,497,815)	-

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.3 Market Risk (Continued)

33.3.2 Types of Market Risk (Continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book ("IRR/RoRBB") (Continued)

As at 31 st December 2015	Less than 7 Days Rs.	7-30 Days Rs.	1-3 Months Rs.	3-6 Months Rs.	6-12 Months Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Non-interest Sensitive Rs.	Total Rs.
ASSETS										
Cash and balances with banks	376,400,772	-	-	-	-	-	-	-	-	376,400,772
Statutory deposit with Central Bank of Sri Lanka	51,869,392	-	-	-	-	-	-	-	-	51,869,392
Financial investments held-to-maturity	44,638,592	417,942,325	270,841,975	1,019,312,832	140,296,250	-	-	-	-	1,893,031,974
Loans, advances and financing	472,069,337	703,037,256	272,778,676	166,487,791	288,172,953	1,128,648,728	676,064,683	877,758,139	-	4,585,017,563
Other non-interest/profit Sensitive balances	-	-	-	-	-	-	-	-	142,093,693	142,093,693
Total Assets	944,978,093	1,120,979,581	543,620,651	1,185,800,623	428,469,203	1,128,648,728	676,064,683	877,758,139	142,093,693	7,048,413,394
LIABILITIES AND EQUITY										
Deposits from banks	13,243,146	-	-	-	-	-	-	-	-	13,243,146
Deposits from customers	644,726,119	222,178,180	341,115,112	233,421,226	125,782,305	-	-	-	-	1,567,222,942
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	202,323,751	202,323,751
Total liabilities	657,969,265	222,178,180	341,115,112	233,421,226	125,782,305	-	-	-	202,323,751	1,782,789,839
Equity attributable to equity holders of the bank	-	-	-	-	-	-	-	-	5,265,623,555	5,265,623,555
Total equity	-	-	-	-	-	-	-	-	5,265,623,555	5,265,623,555
On-balance sheet interest/profit sensitivity gap	287,008,828	898,801,401	202,505,539	952,379,397	302,686,898	1,128,648,728	676,064,683	877,758,139	(5,325,853,613)	-
TOTAL INTEREST/PROFIT SENSITIVITY GAP	287,008,828	898,801,401	202,505,539	952,379,397	302,686,898	1,128,648,728	676,064,683	877,758,139	(5,325,853,613)	-

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.3 Market Risk (Continued)

33.3.2 Types of Market Risk (Continued)

(a) Interest Rate/Rate of Return Risk in the Banking Book (“IRR/RoRBB”) (Continued)

(i) Interest Rate/ Rate of Return Risk Sensitivity Analysis

The following tables present the projected Group’s and Bank’s sensitivity to a 100 basis point parallel rate movement across all maturities applied on the Bank’s interest rate/rate of return sensitivity gap as at the reporting date. Where the current interest rate/rate of return is lower than 1%, the downward rate shock applied is restricted to the prevailing interest rate/rate of return.

	2016		2015	
	Profit Rs. 000's	Equity Rs. 000's	Profit Rs. 000's	Equity Rs. 000's
1% Increase in Interest Rate				
Assets denominated in LKR	51,699	-	60,943	-
Assets denominated in USD	3,384	-	5,998	-
Deposits denominated in LKR	(10,367)	-	(10,258)	-
Deposits denominated in USD	(2,293)	-	(2,339)	-
Deposits denominated in GBP	(306)	-	(231)	-
	<u>42,117</u>	<u>-</u>	<u>54,113</u>	<u>-</u>
1% Decrease in Interest Rate				
Assets denominated in LKR	(51,699)	-	(60,943)	-
Assets denominated in USD	(3,384)	-	(5,998)	-
Deposits denominated in LKR	10,367	-	10,258	-
Deposits denominated in USD	2,293	-	2,339	-
Deposits denominated in GBP	306	-	231	-
	<u>(42,117)</u>	<u>-</u>	<u>(54,113)</u>	<u>-</u>

The reported amounts do not take into account actions that would be taken by treasury operations or business units to mitigate the impact of this interest rate/rate of return risk. In reality, treasury operations seek to proactively change the interest rate/rate of return risk profile to minimise losses and maximise net revenue. The projection assumes that interest rate/rate of return of all maturities move by the same amount and, therefore, does not reflect the potential impact on the NII/NPI and EVE of some rates changing while others remain unchanged. The projection also assumes constant statements of financial position and that all positions run to maturity.

The repricing profile of loans/financing that does not have maturity is based on the earliest possible repricing dates. Actual dates may differ from contractual dates owing to prepayments. Loans/financing prepayment is generally estimated based on past statistics and trends, where possible and material. The impact on the NII/NPI is measured on a monthly basis and the impact on the EVE is on a quarterly basis, both of which are reported to the ALCO and the RMC.

(ii) Stress Testing

Stress testing is conducted semi-annually to determine the adequacy of capital in meeting the impact of extreme interest rate/rate of return movements on the Bank’s statements of financial position. Stress testing is performed to provide early warnings of potential losses to facilitate the proactive management of interest rate/rate of return risk.

(b) Foreign Exchange Risk

Foreign exchange risk refers to the adverse impact arising from movements in exchange rates on foreign currency positions originating from treasury money market activities and from the Bank’s investments and retained earnings whose functional currencies is not Sri Lankan Rupees. The main foreign currency in which the Bank’s businesses are transacted in are United States Dollars.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.3 Market Risk (Continued)

32.3.2 Types of Market Risk (Continued)

(b) Foreign Exchange Risk (Continued)

Risk Management Approach

(i) The Bank manages such risk through funding in the same functional currencies, where possible. In addition, Net Open Position (“NOP”) limit is set for overall NOP as well as NOP limits for individual currencies by the ALCO.

The following note summarizes the assets, liabilities and net open position by currency as at the reporting date.

	2016							Total
	United States Dollars	Australian Dollars	Japanese Yen	Singapore Dollars	Euro	Sterling Pounds	Malaysian Ringgit	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets								
Cash and cash equivalents	950,878,140	172,523	124,464	413,183	4,745,694	30,306,192	22	986,640,218
Loans and advances	520,737,121	-	-	-	-	-	-	520,737,121
Other assets	507	-	-	-	-	-	-	507
Total assets	1,471,615,768	172,523	124,464	413,183	4,745,694	30,306,192	22	1,507,377,846
Liabilities and Equity								
Liabilities								
Deposits from banks	753,781,407	-	-	-	-	-	-	753,781,407
Deposits from customers	277,566,668	485	63,334	78,097	1,187,471	29,408,508	-	308,304,563
Other liabilities	813,730	-	2,629	-	-	175,965	-	992,324
Total liabilities	1,032,161,805	485	65,963	78,097	1,187,471	29,584,473	-	1,063,078,294
Total equity	387,044,842							387,044,842
Total equity and liabilities	1,419,206,647	485	65,963	78,097	1,187,471	29,584,473	-	1,450,123,136
On-balance sheet open position	52,409,121	172,038	58,501	335,086	3,558,223	721,719	22	57,254,710
Off-balance sheet open position	-	-	-	-	-	-	-	-
NET OPEN POSITION	52,409,121	172,038	58,501	335,086	3,558,223	721,719	22	57,254,710

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.3 Market Risk (Continued)

33.3.2 Types of Market Risk (Continued)

(b) Foreign Exchange Risk (Continued)

	2015							Total
	United States Dollars	Australian Dollars	Japanese Yen	Singapore Dollars	Euro	Sterling Pounds	Malaysian Ringgit	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Assets								
Cash and cash equivalents	75,907,506	217,759	245,479	545,260	3,001,308	23,123,186	22	103,040,520
Loans and advances	305,176,622	-	-	-	-	-	-	305,176,622
Sri Lanka government securities	292,654,076	-	-	-	-	-	-	292,654,076
Other assets	700	12	-	-	74	-	-	786
Total assets	673,738,904	217,771	245,479	545,260	3,001,382	23,123,186	22	700,872,004
Liabilities and Equity								
Liabilities								
Deposits from customers	257,742,767	457	58,969	69,814	5,617,835	22,942,409	-	286,432,251
Other liabilities	66,099,907	-	2,448	4,902	-	182,694	-	66,289,951
Total liabilities	323,842,674	457	61,417	74,716	5,617,835	23,125,103	-	352,722,202
Total equity	338,100,542	-	-	-	-	-	-	338,100,542
Total equity and liabilities	661,943,216	457	61,417	74,716	5,617,835	23,125,103	-	690,822,744
On-balance sheet open position	11,795,688	217,314	184,062	470,544	(2,616,453)	(1,917)	22	10,049,260
Off-balance sheet open position	-	-	-	-	-	-	-	-
NET OPEN POSITION	11,795,688	217,314	184,062	470,544	(2,616,453)	(1,917)	22	10,049,260

PUBLIC BANK BERHAD - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financoal Risk Management (Continued)

32.3 Market Risk (Continued)

33.3.2 Types of Market Risk (Continued)

(b) Foreign Exchange Risk (Continued)

(ii) Given below is the Bank's exposure in foreign currency:

	2016	2015
	Rs.	Rs.
United States Dollars	52,409,121	11,795,688
Australian Dollars	172,038	217,314
Japanese Yen	58,501	184,062
Singapore Dollar	335,086	470,544
Euro	3,558,223	(2,616,453)
Sterling Pounds	721,719	(1,917)
Malaysian Ringgit	22	22
	<u>57,254,710</u>	<u>10,049,260</u>

32.4 Liquidity and Funding Risk

Liquidity risk is the risk that the Bank is unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due or securing the funding requirements at excessive cost. Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient.

Risk Governance

The ALCO is the primary party responsible for liquidity management based on guidelines approved by the RMC. Liquidity policies and frameworks are reviewed by the ALCO and approved by the RMC prior to implementation.

Risk Management Approach

The liquidity risk management of the Bank is aligned with the New Liquidity Framework followed by and is measured and managed based on projected cash flows. In addition to ensuring compliance with the New Liquidity Framework, the Bank maintains a liquidity compliance buffer to meet any unexpected cash outflows.

The day-to-day funding management is undertaken by the treasury operations and this includes the maintenance of a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen interruption to cash flow and the replenishment of funds as they matured or are borrowed by customers. As at 31st December 2016, the Bank holds a sizeable balance of government securities amounting to Rs. 680,180,525 (2015 : Rs. 1,893,031,974) of its portfolio of securities.

The Bank's liquidity and funding position is supported by the Bank's significant retail deposit base, accompanied by funding from the money markets. The Bank's retail deposit base comprises current and savings deposits which, although payable on demand, have traditionally in aggregate provided stable sources of funding. The Bank's reputation, earnings generation capacity, strong credit rating, financial and capital strength including offering of competitive deposit rates are core attributes to preserve depositors' confidence and ensure liquidity.

The primary tools for monitoring liquidity are the maturity mismatch analysis, assessment on the concentration of funding, the availability of unencumbered assets and the use of market-wide information to identify possible liquidity problems. Liquidity positions are reported to the ALCO on a monthly basis in Sri Lankan Rupees and United States Dollars.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

32 Financial Risk Management (Continued)

32.4 Liquidity and Funding Risk (Continued)

Contingency funding plans are in place to identify early warning signals of a liquidity problem. The contingency funding plans also set out the crisis escalation process as well as the various strategies to be employed to preserve liquidity including an orderly communication channel during a liquidity problem. A liquidity stress test programme is in place to ensure liquidity stress tests are systematically performed to determine the cash flow mismatches under the “Specific Institution Liquidity Problem” and “Systemic Liquidity Problem” scenarios and the possible sources of funding to meet the shortfalls during a liquidity crisis.

Note 31 shows the maturity analysis of the carrying amounts of the Bank’s assets and liabilities based on remaining contractual maturity. The contractual maturity profile often does not reflect the actual behavioral patterns.

32.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is managed through an operational risk management framework with established operational risk management processes put in place. To manage and mitigate operational risk, the Bank places great emphasis on the importance of proper monitoring and reporting of business units’ adherence to established risk policies, procedures and limits by independent control and support units, oversight provided by the management and independent assessment of the adequacy and reliability of the risk management processes by the Internal Audit Division at Head Office.

The operational risk management processes include establishment of system of internal controls, identification and assessment of operational risk inherent in new and existing products, processes and systems, regular disaster recovery and business continuity planning and simulations, self-compliance audit, and operational risk incident reporting and data collection.

33 Capital Adequacy

Capital Adequacy is a measure of a bank's financial strength expressed as a ratio of its capital to its risk weighted assets. The Central Bank of Sri Lanka has specified the minimum capital requirements for banks, which operate as a limiting factor on creation of risk-associated assets by banks. Under this requirement there is a universally accepted risk measurement framework and minimum capital levels to be maintained by banks.

Basel II is the current international standard framework for assessing capital adequacy of banks and is built on three pillars, namely

Pillar 1 - Minimum capital requirement

Pillar 2 - Supervisory review processes

Pillar 3 - Market discipline

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER

33 Capital Adequacy (Continued)

Pillar 1 - Minimum capital requirement

This represents the calculation of the total minimum capital requirements for credit, market and operational risk. The capital ratio is calculated using the definition of regulatory capital and risk weighted assets. The total capital ratio must be no lower than 10%.

Pillar 2 - Supervisory review processes

The supervisory review process aims to give supervisors a greater responsibility to verify whether the banks have taken account of their entire risk profile including some of the risks not specifically covered under Pillar 1 such as credit concentration risk, interest rate risk, liquidity risk and strategic and reputation risk and determine whether banks maintain sufficient capital for their total risk profile.

Pillar 3 - Market discipline

Market discipline requires banks to publicly disclose key information regarding their risk exposure, risk appetite and performance, with a view to promoting market discipline. It is expected that transparency and enhanced disclosure requirements, will allow market participants to better assess the safety and soundness of banks.

33.1 Maintenance of Capital Adequacy

The Bank actively manages its capital to support underlying risks in its business activities and to enable future business growth. The Bank's capital management strategy is to continue to maximize shareholder value via an efficient capital structure, whilst ensuring that it complies with regulatory capital requirements. The allocation of capital resources represents part of the Bank's strategic planning review.

The Bank's capital is managed in line with the objectives of the Group Capital Management Framework. The key objectives under the framework include meeting regulatory capital requirements, optimizing return to shareholders, maintaining adequate levels and optimum mix of capital and maintaining strong external credit ratings. In order to meet these objectives, the Bank actively manages its capital structure and makes adjustments to address changes in the economic environment, regulatory requirements and risk characteristics inherent in its business operations.

The Bank's regulatory capital is determined under Central Bank of Sri Lanka's Risk-Weighted Capital Adequacy Framework and their capital ratios have complied with the minimum requirements set under this guideline.

33.2 Capital Adequacy Computation

	2016	2015
	Rs.	Rs.
Core Capital Ratio (Minimum Ratio - 5%)		
Core Capital (Tier I) * 100%	4,440,654	5,144,641
Total Risk - Weighted Assets	7,118,273	5,592,013
Core Capital Ratio	62.38%	92.00%
Total Capital Ratio (Minimum Ratio - 10%)		
Capital Base * 100%	4,469,198	5,164,455
Total Risk - Weighted Assets	7,118,273	5,592,013
Total Capital Ratio	62.78%	92.35%

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31ST DECEMBER 2016

34 Comparative information

Comparative figures have been reclassified to conform with the current year's presentation.

35 Events occurring after the reporting date

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements.

36 Management's responsibility for financial statements

The Management is responsible for preparation and presentation of the Financial Statements.