

**PUBLIC BANK BERHAD
SRI LANKA BRANCH**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2015**



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 31 December 2015, 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.

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 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

CHARTERED ACCOUNTANTS

Colombo

29th January 2016

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

For the year ended 31 December,

	Note	2015 Rs.	2014 Rs.
Interest income	5	491,606,256	553,231,672
Interest expenses	5	(51,309,912)	(74,638,179)
Net interest income		440,296,344	478,593,493
Fee and commission income	6	26,219,048	24,629,257
Fee and commission expenses	6	(3,409,265)	(3,583,379)
Net fee and commission income		22,809,783	21,045,878
Net trading income	7	32,952,907	13,864,177
Other operating income	8	22,875,095	6,000,395
Total operating income		518,934,129	519,503,943
Impairment charges for loan losses	9	(9,947,130)	(2,357,017)
Net operating income		508,986,999	517,146,926
Personnel expenses	10	(106,180,467)	(98,853,363)
Premises, equipment and establishment expenses		(68,568,613)	(61,965,014)
Depreciation and amortisation		(35,987,429)	(31,129,982)
Other overhead expenses		(43,063,587)	(42,115,624)
Operating profit before Value Added Tax (VAT)	11	255,186,903	283,082,943
Value Added Tax on Financial Services		(42,114,655)	(39,355,428)
Profit before income tax		213,072,248	243,727,515
Income Tax Expenses	12	(83,223,317)	(65,210,318)
Profit for the year		129,848,931	178,517,197
Other comprehensive income, net of income tax			
Actuarial gains /(losses) on defined benefit plans	25	5,784	(700,049)
Gain on translation of FCBU	29	26,265,807	2,424,186
Income tax on other comprehensive income		(1,620)	196,014
Total other comprehensive income		26,269,971	1,920,151
Total comprehensive income for the year		156,118,902	180,437,348

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

PUBLIC BANK BERHAD - SRI LANKA BRANCH
STATEMENT OF FINANCIAL POSITION

As at 31 December,

		2015	2014
	Note	Rs.	Restated Rs.
Assets			
Cash and cash equivalents	14	376,400,772	232,852,899
Statutory deposit with Central Bank of Sri Lanka	15	51,869,392	51,405,249
Sri Lanka government securities	16	1,893,031,974	621,710,815
Loans and receivables	17	4,585,017,563	4,950,930,155
Property, plant and equipment	18	73,745,733	75,695,149
Intangible assets	19	10,095,795	23,514,645
Deferred tax assets	20	-	1,301,640
Other assets	21	58,252,165	51,273,037
Total assets		7,048,413,394	6,008,683,589
Liabilities and Equity			
Liabilities			
Deposits from banks	22	13,243,146	5,774,993
Deposits from customers	23	1,567,222,942	1,308,805,219
Current tax liability	24	35,076,826	27,832,868
Employee benefits	25	20,671,161	17,135,979
Deferred tax liabilities	20	4,504,344	-
Other liabilities	26	142,071,420	161,629,877
Total liabilities		1,782,789,839	1,521,178,936
Equity			
Assigned capital	27	3,792,318,132	3,170,318,132
Statutory reserve fund	28	66,327,782	59,835,335
FCBU revaluation reserve	29	135,405,624	109,139,817
Retained earnings		1,271,572,017	1,148,211,369
Total equity		5,265,623,555	4,487,504,653
Total liabilities and equity		7,048,413,394	6,008,683,589
Commitments and Contingent Liabilities			
Contingent liabilities	30	1,109,252,250	549,386,289
Commitments	30	631,768,590	518,894,826

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

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

29th January 2016
 Colombo

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

For the year ended 31 December 2015

	Assigned Capital	Statutory Reserve Fund	FCBU Revaluation Reserve	Retained Earnings	Investment Fund	Total
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Balance as at 1st January 2014	3,170,318,132	50,909,475	106,715,631	869,718,860	109,405,207	4,307,067,305
Total comprehensive income for the year				<i>Restated</i>	<i>Restated</i>	
Profit for the Year	-	-	-	178,517,197	-	178,517,197
Other comprehensive income, net of income tax						
Actuarial losses on defined benefit plans	-	-	-	(504,035)	-	(504,035)
Gain on translation of FCBU	-	-	2,424,186	-	-	2,424,186
Total other comprehensive income, net of income tax	-	-	2,424,186	(504,035)	-	1,920,151
Total comprehensive income for the year	-	-	2,424,186	178,013,162	-	180,437,348
Transactions recorded directly in equity						
Transfer from investment fund account (Note 29.1)	-	-	-	109,405,207	(109,405,207)	-
Transfer to statutory reserve fund	-	8,925,860	-	(8,925,860)	-	-
Total transactions recorded directly in equity	-	8,925,860	-	100,479,347	(109,405,207)	-
Balance as at 31st December 2014 (Restated)	3,170,318,132	59,835,335	109,139,817	1,148,211,369	-	4,487,504,653
Balance as at 1st January 2015 (Restated) (Note 36)	3,170,318,132	59,835,335	109,139,817	1,148,211,369	-	4,487,504,653
Total comprehensive income for the year						
Profit for the year	-	-	-	129,848,931	-	129,848,931
Other comprehensive income, net of income tax						
Actuarial gain on defined benefit plans	-	-	-	4,164	-	4,164
Gain on translation of FCBU	-	-	26,265,807	-	-	26,265,807
Total other comprehensive income, net of income tax	-	-	26,265,807	4,164	-	26,269,971
Total comprehensive income for the year	-	-	26,265,807	129,853,095	-	156,118,902
Transactions recorded directly in equity						
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 31st December 2015	3,792,318,132	66,327,782	135,405,624	1,271,572,017	-	5,265,623,555

Figures in brackets indicate deductions.

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

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CASH FLOW STATEMENT

<i>For the year ended 31 December ,</i>	2015	2014
	<u>Rs.</u>	<u>Rs.</u>
Cash flows from operating activities		
Profit before income tax	213,072,248	243,727,515
Adjustments for:		
Depreciation and amortisation	35,987,429	31,129,982
Net impairment loss on loans and advances	9,947,130	2,357,017
Net interest income	(440,296,344)	(478,593,493)
Provision for employee benefits	4,285,457	3,118,831
Dividend income	(319,500)	(267,390)
Gain on sale of property, plant and equipment	-	(26,000)
	<u>(177,323,579)</u>	<u>(198,553,538)</u>
Change in Statutory Deposits with Central Bank of Sri Lanka (CBSL)	(464,143)	(13,227,103)
Change in loans and advances to customers	359,553,301	(1,524,395,160)
Change in other assets	(6,979,128)	13,941,857
Change in deposits from banks	7,468,153	(36,665,306)
Change in deposits from customers	258,417,723	(50,195,294)
Change in other liabilities and provisions	(19,558,457)	49,978,829
	<u>421,113,869</u>	<u>(1,759,115,715)</u>
Interest received	488,018,417	559,983,068
Dividends received	319,500	267,390
Interest paid	(51,309,912)	(74,638,179)
Tax paid	(58,279,061)	(71,359,596)
Gratuity paid	(744,491)	(168,630)
Net cash flows from/ (used in) operating activities	<u>799,118,323</u>	<u>(1,345,031,662)</u>
Cash flows from investing activities		
Net (Purchase of) / Proceeds from sale of Sri Lanka Government Securities	(1,283,217,093)	1,455,757,422
Acquisition of property, plant and equipment	(19,578,409)	(41,389,319)
Proceeds from the sale of property, plant and equipment	-	26,000
Acquisition of intangible assets	(1,040,754)	(18,414,104)
Net cash flows from/ (used in) investing activities	<u>(1,303,836,256)</u>	<u>1,395,979,999</u>
Cash flows from financing activities		
Capital infusion	622,000,000	-
Net cash flows from financing activities	<u>622,000,000</u>	<u>-</u>
Net increase in cash and cash equivalents	117,282,066	50,948,337
Cash and cash equivalents at the beginning of the reporting year	232,852,899	179,480,376
Effect of exchange rate fluctuations on cash and cash equivalents held	26,265,807	2,424,186
Cash and cash equivalents at end of the year (Note 14)	<u>376,400,772</u>	<u>232,852,899</u>

Figures in brackets indicate deductions.

The annexed notes to the Financial Statements form an integral part of these Financial Statements.

PUBLIC BANK BERHAD – SRI LANKA BRANCH

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

1.1.1 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 carryout 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.

1.1.2 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.

1.1.3 Number of employees

The number of employees of the Bank as at 31st December 2015 was 63 (2014: 64).

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 consolidated financial statements were authorised for issue by the Management on 29 January 2016.

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:

- The defined benefit asset is recognized at the present value of the defined benefit obligation.

2.3 Functional and presentation currency

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

PUBLIC BANK-COLOMBO BRANCH

NOTES TO THE FINANCIAL STATEMENTS

2.4 Use of Estimates and Judgements

The preparation of financial statements in conformity with SLAS 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 3.9)
- Income taxes (Note 3.20)
- Defined Benefit Plan (Note 3.13)
- Provisions (Note 3.11)

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.

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 recognised in profit or loss, except for differences arising on the retranslation of available for-sale equity instruments, which are recognised 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 Lanka Rupees after converting the Foreign Currency Banking Unit financial statements in to Sri Lanka Rupees.

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NOTES TO THE FINANCIAL STATEMENTS

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 directly in the equity.

ASSETS AND BASES OF THEIR VALUATION

3.3 Financial assets and financial liabilities

3.3.1 Recognition

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.

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 retain 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.

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

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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 use 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;
- 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.

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.

3.4 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

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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.

3.5 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.

3.6 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:

- 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.

3.7 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.

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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.

3.8 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.

3.9 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.

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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

3.10 Deposits, debt securities issued and subordinated liabilities

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

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.

3.11 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.

3.12 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.

3.13 Employee benefits

3.13.1 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.

3.13.2 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.

3.13.3 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 balance sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the balance sheet 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

3.14 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.

3.15 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.

3.16 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.

3.17 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.

3.18 Other expenses

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

3.19 3.15 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.

3.20 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.

3.20.1 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.

3.20.2 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.

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3.20.3 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.

3.21 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.

3.22 Cash flow statement

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

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.

3.23 Comparative information

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

3.24 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 01st January 2018.	The Company is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9.

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NOTES TO THE FINANCIAL STATEMENTS

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 Company's consolidated financial statements.

- SLFRS 15 Revenue from Contracts with Customers – effective from 01 January 2018.

Standards issued but not yet adopted which is not expected to have an impact

The following new or amended standards are not expected to have an impact of the Company's financial statements.

- SLFRS 14 Regulatory Deferral Accounts – effective from 01 January 2016
- Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) – effective from 01 January 2016

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

For the year ended 31 December,

	2015	2014
	<u>Rs.</u>	<u>Rs.</u>
5. Net Interest Income		
Interest Income		
Sri Lanka government securities	135,894,140	190,835,330
Balances with banks	11,063,512	4,136,819
Loans and advances to customers	344,391,695	358,185,584
Others	256,909	73,939
	<u>491,606,256</u>	<u>553,231,672</u>
Interest expenses		
Deposits from banks	(1,008,410)	(1,584,367)
Deposits from customers	(50,301,502)	(73,053,812)
	<u>(51,309,912)</u>	<u>(74,638,179)</u>
Net Interest Income	<u>440,296,344</u>	<u>478,593,493</u>
Interest income on impaired financial assets included in interest income	<u>1,799,780</u>	<u>495,275</u>
6. Net Fee and Commission Income		
Fee and commission income		
Trade and remittances	7,425,535	5,642,797
Guarantees	3,973,016	4,609,232
Other fee and commission income	14,820,497	14,377,228
	<u>26,219,048</u>	<u>24,629,257</u>
Fee and Commission Expenses	<u>(3,409,265)</u>	<u>(3,583,379)</u>
	<u>22,809,783</u>	<u>21,045,878</u>
7. Net Trading Income		
Foreign exchange gain	32,952,907	13,864,177
	<u>32,952,907</u>	<u>13,864,177</u>
8. Other Operating Income		
Processing fees	3,699,497	2,918,646
Dividend income	319,500	267,390
Other income	1,356,098	1,692,612
Recovery of loans written off	17,500,000	1,095,747
Gain on sale of property, plant and equipment	-	26,000
	<u>22,875,095</u>	<u>6,000,395</u>
9. Impairment Charges for Loan Losses		
Loans and advances to other customers (Note 9.1)	9,941,304	2,357,017
Bills of exchange	5,826	-
	<u>9,947,130</u>	<u>2,357,017</u>
9.1 Loans and advances to other customers		
Specific allowances for impairment	10,159,618	123,050
Collective allowances for impairment	(218,314)	2,233,967
	<u>9,941,304</u>	<u>2,357,017</u>
10. Personnel Expenses		
Wages and salaries	60,160,126	53,451,765
Contribution to defined contribution plans	9,030,466	7,949,054
Provision for defined benefit plans	4,285,457	3,118,831
Other staff expenses	32,704,418	34,333,713
	<u>106,180,467</u>	<u>98,853,363</u>

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

For the year ended 31 December,

2015
Rs.

2014
Rs.

11. Operating Profit before Value Added Tax(VAT)

Operating Profit before Value Added Tax is stated after charging all the expenses including the following:

Auditor's remuneration		
Audit services	855,000	800,000
Audit related services	660,000	620,000
Non audit services	489,740	489,750
Depreciation and amortisation	35,987,429	31,129,982
Personnel costs (Note 10)	106,180,467	98,853,363
Professional and legal expenses	1,456,141	1,670,688

12. Income Tax Expenses

Current tax expense

Current tax charge for the year	76,002,705	75,744,047
Adjustments in respect of prior years	1,416,248	(7,775,762)
	<u>77,418,953</u>	<u>67,968,285</u>

Deferred tax expense

Origination of deferred tax liabilities (Note 20.1)	6,795,834	(1,931,910)
Reversal / origination of deferred tax assets (Note 20.2)	(991,470)	(826,057)
	<u>5,804,364</u>	<u>(2,757,967)</u>
	<u>83,223,317</u>	<u>65,210,318</u>

12.1 In terms of provision of Inland Revenue Act No.10 of 2006 and amendments thereto, the Bank is liable for current tax at the following rates. 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%.

12.2 Reconciliation of effective tax rate

		2015		2014
		<u>Rs.</u>		<u>Rs.</u>
Profit for the Year		129,848,931		178,517,197
Income Tax Expenses		<u>83,223,317</u>		<u>65,210,318</u>
Profit before taxation		213,072,248		243,727,515
Tax using the domestic corporation tax rate 28%	28%	59,660,229	28%	68,243,704
Net non-deductible expenses	9%	19,585,445	5%	12,655,178
Tax exempt income	-2%	(3,242,969)	-1%	(2,529,361)
Tax losses utilised	0%	-	-1%	(2,625,475)
Adjustments for prior years	1%	1,416,248	-3%	(7,775,762)
Origination and reversal of temporary differences	3%	5,804,364	-1%	(2,757,967)
Total tax expense		<u>39.1%</u> <u>83,223,317</u>		<u>26.8%</u> <u>65,210,317</u>

12.3 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.118,959,341/- (2014- Rs.179,574,955/-) and the resulting notional tax credit was Rs. 11,895,934/- (2014-Rs.17,957,495/-).

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NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

13. Financial Assets and Liabilities

Basis of Measurement applied for Financial Instruments

	2015				2014			
	Held to Maturity	Loans and Receivables	Others	Total	Held to Maturity	Loans and Receivables	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets								
Cash and cash equivalents	-	376,400,772	-	376,400,772	-	232,852,899	-	232,852,899
Statutory deposit with Central Bank of Sri Lanka	-	51,869,392	-	51,869,392	-	51,405,249	-	51,405,249
Sri Lanka government securities	1,893,031,974	-	-	1,893,031,974	621,710,815	-	-	621,710,815
Loans and receivables	-	4,585,017,563	-	4,585,017,563	-	4,950,930,155	-	4,950,930,155
Total financial assets	1,893,031,974	5,013,287,727	-	6,906,319,701	621,710,815	5,235,188,303	-	5,856,899,118
Property, plant and equipment	-	-	73,745,733	73,745,733	-	-	75,695,149	75,695,149
Intangible assets	-	-	10,095,795	10,095,795	-	-	23,514,645	23,514,645
Deferred tax assets	-	-	-	-	-	-	1,301,640	1,301,640
Other assets	-	-	58,252,165	58,252,165	-	-	51,273,037	51,273,037
Total assets	1,893,031,974	5,013,287,727	142,093,693	7,048,413,394	621,710,815	5,235,188,303	151,784,471	6,008,683,589

	Financial Liabilities at amortised cost			Financial Liabilities at amortised cost		
	Rs.	Others	Total	Rs.	Others	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Liabilities						
Deposits from banks	13,243,146	-	13,243,146	5,774,993	-	5,774,993
Deposits from customers	1,567,222,942	-	1,567,222,942	1,308,805,219	-	1,308,805,219
Total financial liabilities	1,580,466,088	-	1,580,466,088	1,314,580,212	-	1,314,580,212
Current tax liability	-	35,076,826	35,076,826	-	27,832,868	27,832,868
Employee benefits	-	20,671,161	20,671,161	-	17,135,979	17,135,979
Deferred tax liabilities	-	4,504,344	4,504,344	-	-	-
Other liabilities	-	142,071,420	142,071,420	-	161,629,877	161,629,877
Total liabilities	1,580,466,088	202,323,751	1,782,789,839	1,314,580,212	206,598,724	1,521,178,936

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<i>As at 31 December,</i>	2015	2014
	<u>Rs.</u>	<u>Rs.</u>
14 Cash and Cash Equivalents		
Cash and balances with banks	76,547,911	64,735,725
Deposits with banks	200,536,986	100,017,808
Placements with head office and other banks	99,315,875	68,099,366
	<u>376,400,772</u>	<u>232,852,899</u>
15 Statutory Deposit with Central Bank of Sri Lanka		
Central Bank of Sri Lanka - Rupee reserve	51,869,392	51,405,249
	<u>51,869,392</u>	<u>51,405,249</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 2015, the minimum cash reserve requirement is 8% 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>		
16 Sri Lanka Government Securities		
Held-to-maturity		
Treasury bills	1,893,031,974	621,710,815
	<u>1,893,031,974</u>	<u>621,710,815</u>
17 Loans and Receivables		
Government securities eligible for rediscounting with CBSL (Note 17.1)	178,029,340	1,354,691,344
Bills of exchange (Note 17.2)	1,159,362	-
Loans and advances to customers (Note 17.3)	4,113,174,785	3,462,073,432
Sri Lanka development bonds	292,654,076	134,165,379
	<u>4,585,017,563</u>	<u>4,950,930,155</u>
17.1 Government securities eligible for rediscounting with Central Bank of Sri Lanka		
Held-to-maturity		
Securities Purchased under Resale Agreement	178,029,340	1,354,691,344
	<u>178,029,340</u>	<u>1,354,691,344</u>
17.2 Bills of exchange		
Import Bills	1,165,188	-
Collective allowances for impairment	(5,826)	-
	<u>1,159,362</u>	<u>-</u>
17.3 Loans and advances to customers at amortised cost		
Overdrafts	638,778,169	576,430,265
Staff loans	39,093,916	23,341,286
Packing credit loans	23,978,400	24,970,815
Vehicle loans	549,517,395	494,685,161
Ordinary and term loans	1,735,365,463	1,386,556,965
Customer housing loans	858,466,263	671,191,760
Import finance	277,166,039	287,734,575
Interest receivable	23,292,420	19,704,581
	<u>4,145,658,065</u>	<u>3,484,615,408</u>
Specific allowances for impairment (Note 17.3.1)	(12,674,820)	(2,515,202)
Collective allowances for impairment (Note 17.3.1)	(19,808,460)	(20,026,774)
	<u>4,113,174,785</u>	<u>3,462,073,432</u>

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

<i>As at 31 December,</i>	2015	2014
	<u>Rs.</u>	<u>Rs.</u>
17. Loans and Advances to Customers (cont.)		
17.3.1 Allowance for impairment		
Specific allowances for impairment		
Balance at the beginning of the year	2,515,202	2,392,152
Impairment loss for the year	10,159,618	123,050
Balance at the end of the year	<u>12,674,820</u>	<u>2,515,202</u>
Collective allowances for impairment		
Balance at the beginning of the year	20,026,774	17,792,807
Impairment loss for the year	(218,314)	2,233,967
Balance at the end of the year	<u>19,808,460</u>	<u>20,026,774</u>
	<u>32,483,280</u>	<u>22,541,976</u>
17.4 Impaired loans and advances		
Allowance for / (reversal of) impairment during the year		
Specific allowance	10,159,618	123,050
Collective allowance		
Bills of Exchange	5,826	-
Loans and advances	(218,314)	2,233,967
	<u>(212,488)</u>	<u>2,233,967</u>
	<u>9,947,130</u>	<u>2,357,017</u>
17.5 Concentration of credit risk		
Sector wise analysis for Bank's credit portfolio (Loans and advances and Bills of Exchange) given below reflects the Bank's exposure to credit risk in the various sectors of the economy.		
Agriculture	435,080,091	388,312,308
Manufacturing	303,330,661	343,932,668
Construction	1,045,634,589	718,849,415
Tourism	39,951,572	49,417,074
Transport	13,513,133	3,263,280
Traders	891,690,537	974,547,559
Real estate	10,507,676	13,048,603
Financial and business services	105,803,735	34,329,999
Information technology	130,576,459	129,787,855
Other services	420,055,693	254,897,991
Other customers	750,679,107	574,228,656
	<u>4,146,823,253</u>	<u>3,484,615,408</u>
17.5.a		
17.3 Loans and advances to customers at amortised cost	4,145,658,065	3,484,615,408
17.2 Bills of exchange	1,165,188	-
	<u>4,146,823,253</u>	<u>3,484,615,408</u>
17.6 Exposure to currency risk		
Sri Lankan Rupee	3,841,646,631	3,194,345,530
United States Dollar	305,176,622	290,269,878
	<u>4,146,823,253</u>	<u>3,484,615,408</u>

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

For the year ended 31 December 2015

18 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 2015 Rs.	Total 2014 Rs.
Cost									
As at 1st January	55,326,906	73,135,293	9,569,323	24,491,334	11,927,841	10,081,067	2,952,754	187,484,518	147,014,532
Additions for the year	1,658,494	9,851,844	294,922	7,508,376	-	242,463	22,310	19,578,409	41,389,319
Disposals during the year	-	-	-	-	-	-	-	-	(919,333)
As at 31st December	56,985,400	82,987,137	9,864,245	31,999,710	11,927,841	10,323,530	2,975,064	207,062,927	187,484,518
Accumulated Depreciation									
As at 1st January	22,293,208	59,738,544	3,538,407	10,897,893	10,156,241	3,903,776	1,261,300	111,789,369	96,458,093
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	16,250,609
Depreciation on disposals	-	-	-	-	-	-	-	-	(919,333)
As at 31st December	31,034,864	65,067,380	4,474,290	14,118,320	11,911,409	5,100,858	1,610,073	133,317,194	111,789,369
Carrying amount									
31st 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	
31st December 2014	33,033,698	13,396,749	6,030,916	13,593,441	1,771,600	6,177,291	1,691,454		75,695,149

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

<i>As at 31 December,</i>	2015	2014
	<u>Rs.</u>	<u>Rs.</u>
19. Intangible Assets		
Cost		
At the beginning of the year	157,615,096	139,200,992
Additions during the year	1,040,754	18,414,104
At the end of the year	<u>158,655,850</u>	<u>157,615,096</u>
Accumulated amortisation		
At the beginning of the year	134,100,451	119,221,078
Amortisation for the year	14,459,604	14,879,373
At the end of the year	<u>148,560,055</u>	<u>134,100,451</u>
Carrying amount	<u>10,095,795</u>	<u>23,514,645</u>
20. Deferred Taxation		
Deferred tax liabilities (Note 20.1)	(10,292,269)	(3,496,435)
Deferred tax assets (Note 20.2)	5,787,925	4,798,075
	<u>(4,504,344)</u>	<u>1,301,640</u>
20.1 Deferred tax liabilities		
Balance at the beginning of the year	3,496,435	5,428,345
Origination/ (reversal) during the year to profit or loss	6,795,834	(1,931,910)
Balance at the end of the year	<u>10,292,269</u>	<u>3,496,435</u>
20.2 Deferred tax assets		
Balance at the beginning of the year	4,798,075	3,776,004
Originated during the year to profit or loss	991,470	826,057
Originated during the year to other comprehensive income	(1,620)	196,014
Balance at the end of the year	<u>5,787,925</u>	<u>4,798,075</u>
20.3 Recognized deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
	31/12/2015	31/12/2014
	Temporary	Temporary
	Difference	Difference
	Tax Effect	Tax Effect
	<u>Rs.</u>	<u>Rs.</u>
Deferred tax liabilities		
Property, plant & equipment	36,758,103	10,292,269
	<u>36,758,103</u>	<u>12,487,268</u>
Deferred tax assets		
Employee benefits	18,568,064	5,199,058
Actuarial (gain)/ loss on employee benefits	2,103,097	588,867
	<u>20,671,161</u>	<u>17,135,980</u>
20.4 Potential impact of income tax rate change		
A change in the Income Tax Rate of the Sri Lankan Banking Sector from 28% to 30% has been recommended by the Government Budget for 2016 which was approved by the Parliament on 19 December 2015. Since the New Tax Rate of 30% had not been published through a gazette by the parliament as at the reporting date, being 31 December 2015, the new rate was not substantially enacted as at that date. Accordingly the Bank has not provided for the potential changes to the Deferred Taxation at the rate of 30% in the Financial Statements for the year ended 31 December 2015. The potential impact on the deferred tax due to the potential income tax rate change is shown below.		
Deferred tax assets		Rs.
Balance as at 01 st January 2015		4,798,075
Originated during the year to profit or loss		1,405,009
Originated during the year to other comprehensive income		(1,735)
Balance as at 31 st December 2015		<u>6,201,349</u>
Deferred tax liabilities		
Balance as at 01 st January 2015		(3,496,435)
Originated during the year to profit or loss		(7,530,996)
Balance as at 31 st December 2015		<u>(11,027,431)</u>
Net deferred tax liability		<u>(4,826,082)</u>

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

<i>As at 31 December,</i>	2015	2014
	<u>Rs.</u>	<u>Rs.</u>
21. Other Assets		
Deposits and prepayments	25,446,143	18,433,608
Others receivables	5,424,365	13,563,760
Prepayment made to Misys Banking Systems	27,381,657	19,275,669
	<u>58,252,165</u>	<u>51,273,037</u>
22. Deposits from Banks		
Borrowings under REPO's	12,521,121	3,182,506
Other deposits from banks	722,025	2,592,487
	<u>13,243,146</u>	<u>5,774,993</u>
22.1	13,243,146	5,774,993
Due within one year	<u>13,243,146</u>	<u>5,774,993</u>
23. Deposits from Customers		
At amortised cost		
Retail customers (Note 23.1)	849,383,986	679,226,878
Corporate customers (Note 23.2)	705,818,474	615,776,041
Interest payable	12,020,482	13,802,300
	<u>1,567,222,942</u>	<u>1,308,805,219</u>
23.1 Retail customers		
Demand deposits (current accounts)	142,128,069	61,743,656
Savings deposits	236,149,463	133,637,581
Fixed deposits	458,046,454	466,127,091
Call deposits	13,060,000	17,718,550
	<u>849,383,986</u>	<u>679,226,878</u>
23.2 Corporate customers		
Demand deposits (current accounts)	149,035,705	148,153,375
Savings deposits	104,241,675	51,375,130
Fixed deposits	451,390,366	405,602,242
Call deposits	-	5,000,000
Other deposits	1,150,728	5,645,294
	<u>705,818,474</u>	<u>615,776,041</u>
23.3 Analysis by product		
Demand deposits (current accounts)	291,163,774	209,897,030
Savings deposits	340,405,923	185,024,080
Fixed deposits	921,397,432	884,986,506
Call deposits	13,105,084	23,252,309
Other deposits	1,150,728	5,645,294
	<u>1,567,222,941</u>	<u>1,308,805,219</u>
23.4 Analysis by currency		
Sri Lanka Rupee	1,280,790,689	1,148,663,008
United States Dollar	257,742,768	139,435,722
Great Britain Pound	22,942,409	18,048,308
Singapore Dollar	69,814	55,313
Australian Dollar	457	457
Euro	5,617,835	2,548,021
Japanese Yen	58,969	54,390
	<u>1,567,222,941</u>	<u>1,308,805,219</u>

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

<i>As at 31 December,</i>	2015	2014
	<u>Rs.</u>	<u>Rs.</u>
24. Current Tax Liability		
At the beginning of the year	27,832,868	49,181,674
Provision for the year	76,002,705	75,744,047
Under / (over) provision in respect of prior years	1,416,248	(7,775,762)
Tax credit on treasury bills	(11,895,934)	(17,957,495)
Payments made during the year	(58,279,061)	(71,359,596)
At the end of the year	<u>35,076,826</u>	<u>27,832,868</u>
25. Employee Benefits		
25.1 Defined contribution plans		
Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.		
Employees' Provident Fund		
Employers' contribution	7,224,398	6,222,768
Employees' contribution	4,816,259	4,140,503
Employees' Trust Fund	1,806,068	1,555,686
25.2 Defined benefit plan - Gratuity		
Balance at the beginning of the year	17,135,979	13,485,729
Provision recognised during the year (Note 25.2.1.a)	4,285,457	3,118,831
Actuarial (gain)/ loss during the year (Note 25.2.1.b)	(5,784)	700,049
	<u>21,415,652</u>	<u>17,304,609</u>
Payments made during the year	(744,491)	(168,630)
Balance at the end of the year	<u>20,671,161</u>	<u>17,135,979</u>
25.2.1.a Provision recognized in the Statement of Profit or Loss		
Current service cost	2,896,614	2,036,253
Interest on obligation	1,388,843	1,082,578
	<u>4,285,457</u>	<u>3,118,831</u>
25.2.1.b Provision recognized in the Statement of Other Comprehensive Income		
Actuarial (gain)/loss during the year	<u>(5,784)</u>	<u>700,049</u>
25.2.1.c Actuarial gains and losses recognised in other comprehensive income		
Cumulative (gain) / loss at the beginning of the period	2,108,881	1,408,832
(Gain) / Loss recognised during the period	(5,784)	700,049
Cumulative (gain) / loss at the end of the period	<u>2,103,097</u>	<u>2,108,881</u>
LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit using the Projected Unit Credit Method by using an internally generated model in order to determine the present value of the retirement benefit obligation. The following key assumptions were made in arriving at the retirement obligation as at 31st December 2015.		
Expected salary increment rate	9.51%	8.8%
Discount rate	10.0%	9.5%
26. Other Liabilities		
Accrued expenses	21,184,580	18,861,984
Other payables	71,655,701	96,914,241
Sundry creditors	773,540	1,032,260
Amount due to head office	48,457,599	44,821,392
	<u>142,071,420</u>	<u>161,629,877</u>

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

As at 31 December,

	2015	2014
	<u>Rs.</u>	<u>Restated</u>
		<u>Rs.</u>
27. Assigned Capital		
At the beginning of the year	3,170,318,132	3,170,318,132
Capital infusion	622,000,000	-
At the end of the year	<u>3,792,318,132</u>	<u>3,170,318,132</u>
28. Statutory Reserve Fund		
At the beginning of the year	59,835,335	50,909,475
Transfer during the year	6,492,447	8,925,860
At the end of the year	<u>66,327,782</u>	<u>59,835,335</u>

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.

29. Reserves

29.1 Transfers to Investment Fund Account

Balance as at the beginning of the year	-	109,405,207
Transfers to Investment Fund Account from retained earnings	-	16,648,071
Transfer to retained earnings from investment fund account	-	(12,206,840)
	-	113,846,438
Transfer to retained earnings from investment fund account (Note 29.1.a)	-	(113,846,438)
Balance at the end of the year	-	-

29.1.a Banks were required to transfer 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for the payment of income tax to a fund identified as "Investment Fund Account" (IFA) for a period of three years as per a proposal made in the Government Budget 2011. Since the above-mentioned three year period has lapsed the Banks were expected to transferred the balance in the above reserve to the retained earnings during 2014. However, the Bank transferred only the repayments of the loans granted amounting to Rs.12,206,840/- to retained earnings during 2014. This has been corrected during the year by transferring the remaining balance through retrospective application. (Refer Note 36)

29.2 FCBU Revaluation Reserve

At the beginning of the year	109,139,817	106,715,631
Gain on translation of FCBU	26,265,807	2,424,186
At the end of the year	<u>135,405,624</u>	<u>109,139,817</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

As at 31 December,

2015
Rs.

2014
Rs.

30. 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.

30.1 Commitments

Acceptances	66,831,500	52,142,700
Guarantees	148,162,094	188,820,695
Bills for collection	377,726,996	233,241,831
Letters of Credit	39,048,000	44,689,600
	<u>631,768,590</u>	<u>518,894,826</u>

Contingent liabilities

Undrawn loans and advances	1,109,252,250	549,386,289
	<u>1,109,252,250</u>	<u>549,386,289</u>

Total Contingent Liabilities and Commitments

	<u>1,741,020,840</u>	<u>1,068,281,115</u>
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Non cancellable operating lease rentals are payable as follows.

	2015 <u>Rs.</u>	2014 <u>Rs.</u>
Less than one year	11,721,671	8,661,671
Between one and five years	10,440,000	4,950,000
More than five years.	Nil	Nil

During the year an amount of Rs.17,671,518/- was recognized as an expense in the profit or loss in respect of operating leases (2014 - Rs.14,015,014/-).

30.2 Litigation against the bank

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

30.3 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/- (2014- Rs.52,000,000/-).

The Bank utilised the approved capital budget on IT system as follows:

Year	Rs.
2011	6,684,332
2012	28,024,978
2013	4,857,004
2014	26,402,136
2015	10,892,597
	<u>76,861,047</u>

31. Related party disclosure

31.1 Transactions with Head office

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

Nature of Transaction	Transaction value 2015 <u>Rs.</u>	Transaction value 2014 <u>Rs.</u>	Balance as at 31-12-2015 <u>Rs.</u>	Balance as at 31-12-2014 <u>Rs.</u>
Reimbursement of expenses	(3,636,207)	(5,100,355)	-	-
Net trading and foreign exchange transactions	4,343,585	(6,790,821)	-	-
Placements	110,109	109,141	18,412,271	17,600,698
Net lending/(borrowing)	(979,033)	(798,115)	48,457,599	44,821,392

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

For the year ended 31 December 2015

31. Related party disclosure (cont.)

31.2 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, Deputy Banking Service Manager, Compliance Officer, Dealer and all Department Heads 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:

	2015	2014
	Rs.	Rs.
Short term employee benefits	41,248,311	38,749,491
Post employment benefits	2,146,081	1,372,566
Loans and advances	10,846,274	8,689,686
Deposits	492,705	905,357

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.

32. Maturity analysis

An analysis of the total assets employed by the Bank as at 31st December 2015 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 31.12.2015 Rs.	Total as at 31.12.2014 Rs.
Interest earnings assets						
Cash and cash equivalents	376,400,772	-	-	-	376,400,772	232,852,899
Statutory deposit with Central Bank of Sri Lanka	51,869,392	-	-	-	51,869,392	51,405,249
Sri Lanka government securities	1,893,031,974	-	-	-	1,893,031,974	621,710,815
Loans and receivables	1,902,546,014	1,128,648,727	676,064,683	877,758,139	4,585,017,563	4,950,930,155
Intangible assets	10,095,795				10,095,795	23,514,645
Property, plant and equipment	73,745,733	-	-	-	73,745,733	75,695,149
Deferred tax assets	-	-	-	-	-	1,301,640
Other assets	58,252,165	-	-	-	58,252,165	51,273,037
Total assets	4,365,941,845	1,128,648,727	676,064,683	877,758,139	7,048,413,394	6,008,683,589
Liabilities and Equity						
Liabilities						
Deposits from banks	13,243,146	-	-	-	13,243,146	5,774,993
Deposits from customers	1,567,222,942	-	-	-	1,567,222,942	1,308,805,219
Current tax liability	35,076,826	-	-	-	35,076,826	27,832,868
Employee benefits	20,671,161	-	-	-	20,671,161	17,135,979
Deferred tax liabilities	-	-	4,504,344	-	4,504,344	-
Other liabilities	142,071,420	-	-	-	142,071,420	161,629,877
Total Liabilities	1,778,285,495	-	4,504,344	-	1,782,789,839	1,521,178,936
Equity						
Assigned capital	-	-	-	3,792,318,132	3,792,318,132	3,170,318,132
Statutory reserve fund	-	-	-	66,327,782	66,327,782	59,835,335
FCEBU revaluation reserve	-	-	-	135,405,624	135,405,624	109,139,817
Retained earnings	-	-	-	1,271,572,017	1,271,572,017	1,148,211,369
Total Equity	-	-	-	5,265,623,555	5,265,623,555	4,487,504,653
Total Equity and Liabilities	1,778,285,495	-	4,504,344	5,265,623,555	7,048,413,394	6,008,683,589

For the year ended 31 December 2015

33. 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 these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

33.1 Valuation models

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

33.2 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 company 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.

33.3 Valuation framework

The company 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 which 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 company Market Risk;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- 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 company Market Risk personnel.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. Fair Values of Financial Instruments (cont)

33.4 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 company determines fair values using other valuation

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.

33.5. Valuation Methodologies of Financial Instruments Measured at Fair Value.

Current Company 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.

33.6. 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 company which are not measured at fair value in the financial statements. These tables do not include non-financial assets and liabilities.

	Note	2015		2014	
		Fair value	Carrying Value	Fair value	Carrying Value
<i>Held to maturity financial assets :</i>					
	16				
Sri Lanka Government Securities		1,821,728,594	1,893,031,974	619,060,563	621,710,815
		1,821,728,594	1,893,031,974	619,060,563	621,710,815
<i>Loans and receivables :</i>					
	17				
Loans and Advances to Customers		4,053,102,937	4,114,334,147	3,579,667,528	3,462,073,432
Reverse Repos		178,029,340	178,029,340	1,354,691,344	1,354,691,344
Sri Lanka development bonds		292,654,076	292,654,076	134,165,379	134,165,379
		4,523,786,353	4,585,017,563	5,068,524,251	4,950,930,155
<i>Other financial assets :</i>					
Statutory Deposits with Central Bank of Sri Lanka	15	51,869,392	51,869,392	51,405,249	51,405,249
Staff Loans	17	39,093,916	39,093,916	23,341,286	23,341,286
Other receivables	21	58,252,165	58,252,165	51,273,037	51,273,037
Cash & cash equivalent	14	376,400,772	376,400,772	232,852,899	232,852,899
		525,616,245	525,616,245	358,872,471	358,872,471
Total		6,871,131,192	7,003,665,782	6,046,457,285	5,931,513,441
<i>Financial liabilities :</i>					
Deposits from customers	23				
Retail customers		849,383,986	849,383,986	679,226,878	679,226,878
Corporate customers		705,818,474	705,818,474	615,776,041	615,776,041
Interest payable		12,020,482	12,020,482	13,802,300	13,802,300
Deposits from Banks	22	13,243,146	13,243,146	5,774,993	5,774,993
		1,580,466,088	1,580,466,088	1,314,580,212	1,314,580,212

For the year ended 31 December 2015

33. Fair Values of Financial Instruments (cont.)

33.6.1 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 were held-to-maturity.

33.6.2 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 the 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.

33.6.3 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.

33.6.4 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.

34. Financial Risk Management

34.1 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).

For the year ended 31 December 2015

34. Financial Risk Management (cont.)

34.2 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.

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.

For the year ended 31 December 2015

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(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 17.5 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.

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 17.5 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

	2015	2014
	Rs.	Rs.
Neither Past Due nor impaired	3,379,330,916	2,886,912,094
Past due but not impaired	747,602,376	575,241,268
Impaired	19,889,961	22,462,046
	4,146,823,253	3,484,615,408

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2015
Rs.

2014
Rs.

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(d) Counterparty Credit Risk on Financial Instruments (cont.)

(a) 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 loan	642,761,427	526,495,612
Corporate loan	1,006,436,799	1,556,694,318
Other retail	1,730,132,690	803,722,164
Total gross loan outstanding	3,379,330,916	2,886,912,094

(b) Past due but not impaired loans and advances where the customer has failed to make a principal or interest/profit 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.

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 31 December 2015

<u>Loan Type</u>	DAYS / MONTHS IN ARREARS				Total
	1 day to <1	1 mth to <2	2 mths to <3		
	motnh	months	months		
	Rs.	Rs.	Rs.	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	

Aging Profile of Past Due Loans by Loan Type

Gross loans and advances

As at 31 December 2014

<u>Loan Type</u>	DAYS / MONTHS IN ARREARS				Total
	1 day to <1	1 mth to <2	2 mths to <3		
	motnh	months	months		
	Rs.	Rs.	Rs.	Rs.	
Retail Loans:					
- Housing Loans	79,642,167	65,908,420	-	145,550,587	
- Other Retail Loans	183,758,016	24,754,369	-	208,512,385	
Corporate Loans	168,953,525	52,224,771	-	221,178,296	
Total Loans	432,353,708	142,887,560	-	575,241,268	

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 balance sheet date excluding individually impaired loan.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(d) Counterparty Credit Risk on Financial Instruments (cont.)

c) 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:

	2015		2014	
	Individually Assessed as Impaired	Fair Value of Collateral	Individually Assessed as Impaired	Fair Value of Collateral
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Housing loan	4,022,102	1,200,000	7,866,509	13,000,000
Corporate loan	4,850,685	22,975,000	200	22,000,000
Other retail	11,017,174	9,750,000	14,595,337	82,740,000
Total	19,889,961	33,925,000	22,462,046	117,740,000

(iii) Collateral

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

- 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

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For the year ended 31 December 2015

34. Financial Risk Management (cont.)

34.2 Credit Risk (cont.)

(d) Counterparty Credit Risk on Financial Instruments (cont.)

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.

	2015		2014	
	Outstanding Balance	Fair Value of Collateral	Outstanding Balance	Fair Value of Collateral
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Reverse repurchase agreements	178,029,340	178,029,340	1,354,691,344	1,354,691,344
Gross loans and advances & Bills of Exchange	4,146,823,253	9,950,355,065	3,462,073,432	7,728,164,753

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:

	2015	2014
	<u>Rs.</u>	<u>Rs.</u>
Residential properties	3,575,000	3,575,000
Non-residential properties	-	20,885,000

(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.

34.3 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.

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

34.3.1 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.

34.3.2 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.

34.3.3 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.

34.3 Market Risk (cont.)

(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.

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For the year ended 31 December 2015

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

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

As at 31 December 2015

ASSETS	Less than 7 Days Rs.	7-30 Days Rs.	1-3 Months Rs.	3-6Months Rs.	6-12Months Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Non-interest Sensitive Rs.	Total Rs.
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	-	-	-	-	-	-	-	-	142,093,693	142,093,693
Sensitive balances	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	Less than 7 Days Rs.	7-30 Days Rs.	1-3 Months Rs.	3-6Months Rs.	6-12Months Rs.	1-3 Years Rs.	3-5 Years Rs.	Over 5 Years Rs.	Non-interest Sensitive Rs.	Total Rs.
Deposits from customers	644,726,119	222,178,180	341,115,112	233,421,226	125,782,305	-	-	-	-	1,567,222,942
Deposits from banks	13,243,146	-	-	-	-	-	-	-	-	13,243,146
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)	-

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For the year ended 31 December 2015

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

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

As at 31 December 2014

ASSETS	Less than 7	7-30 Days	1-3 Months	3-6Months	6-12Months	1-3 Years	3-5 Years	Over 5 Years	Non-interest Sensitive	Total
	Days									
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and balances with banks	232,852,899	-	-	-	-	-	-	-	-	232,852,899
Statutory deposit with Central Bank of Sri Lanka	51,405,249	-	-	-	-	-	-	-	-	51,405,249
Financial investments held-to-maturity	10,704,156	64,819,105	336,316,558	209,870,996	-	-	-	-	-	621,710,815
Loans, advances and financing	770,786,738	625,383,356	951,642,360	161,758,718	249,021,037	962,454,788	556,527,784	673,355,374	-	4,950,930,155
Other non-interest/profit	-	-	-	-	-	-	-	-	151,784,471	151,784,471
Sensitive balances	1,065,749,042	690,202,461	1,287,958,918	371,629,714	249,021,037	962,454,788	556,527,784	673,355,374	151,784,471	6,008,683,589
LIABILITIES AND EQUITY										
	Less than 7 Days	7-30 Days	1-3 Months	3-6Months	6-12Months	1-3 Years	3-5 Years	Over 5 Years	Non-interest Sensitive	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Deposits from customers	448,244,474	177,816,236	291,289,043	256,175,881	135,279,585	-	-	-	-	1,308,805,219
Deposits from banks	5,774,993	-	-	-	-	-	-	-	-	5,774,993
Other non-interest/profit sensitive balances	-	-	-	-	-	-	-	-	206,598,724	206,598,724
Total liabilities	454,019,467	177,816,236	291,289,043	256,175,881	135,279,585	-	-	-	206,598,724	1,521,178,936
Equity attributable to equity holders of the bank	-	-	-	-	-	-	-	-	4,487,504,653	4,487,504,653
Total equity	-	-	-	-	-	-	-	-	4,487,504,653	4,487,504,653
On-balance sheet interest/ profit sensitivity gap	611,729,575	512,386,225	996,669,875	115,453,833	113,741,452	962,454,788	556,527,784	673,355,374	(4,542,318,906)	(0)
TOTAL INTEREST/PROFIT SENSITIVITY GAP	611,729,575	512,386,225	996,669,875	115,453,833	113,741,452	962,454,788	556,527,784	673,355,374	(4,542,318,906)	(0)

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34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

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

(ii) 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.

	2015		2014	
	Profit	Equity	Profit	Equity
1% Increase in Interest Rate				
Assets denominated in LKR	60,943	-	52,326	-
Assets denominated in USD	5,998	-	32	-
Deposits denominated in LKR	(10,258)	-	(11,385)	-
Deposits denominated in USD	(2,339)	-	(11)	-
Deposits denominated in GBP	(231)	-	(1)	-
	54,113.00	-	40,961.00	-
1% Decrease in Interest Rate				
Assets denominated in LKR	(60,943)	-	(52,326)	-
Assets denominated in USD	(5,998)	-	(32)	-
Deposits denominated in LKR	10,258	-	11,385	-
Deposits denominated in USD	2,339	-	11	-
Deposits denominated in GBP	231	-	1	-
	(54,113.00)	-	(40,961.00)	-

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.

(iii) 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.

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34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

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.

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.

	2015							Total Rs.
	United States Dollars Rs.	Australian Dollars Rs.	Japanese Yen Rs.	Singapore Dollars Rs.	Euro Rs.	Sterling Pounds Rs.	Malaysian Ringgit 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

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34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

b. Foreign Exchange Risk

2014

	United States Dollars Rs.	Australian Dollars Rs.	Japanese Yen Rs.	Singapore Dollars Rs.	Euro Rs.	Sterling Pounds Rs.	Malaysian Ringgit Rs.	Total Rs.
Assets								
Cash and cash equivalents	51,640,919	46,256	229,114	563,688	2,618,195	19,067,729	25	74,165,926
Loans and advances	290,269,878	-	-	-	-	-	-	290,269,878
Sri Lanka government securities	134,165,379	-	-	-	-	-	-	134,165,379
Other assets	66	-	-	-	-	9,838	-	9,904
Total assets	476,076,242	46,256	229,114	563,688	2,618,195	19,077,567	25	498,611,087
Liabilities and Equity								
Liabilities								
Deposits from banks	779,481	-	-	-	-	-	-	779,481
Deposits from customers	139,435,722	457	54,390	55,313	2,548,021	18,048,308	-	160,142,211
Other liabilities	2,357,891	-	2,258	1,799	-	195,444	-	2,557,392
Total liabilities	142,573,094	457	56,648	57,112	2,548,021	18,243,752	-	163,479,084
Total equity	337,868,309	(9)	-	-	2,226	37,780	-	337,908,306
Total equity and liabilities	480,441,403	448	56,648	57,112	2,550,247	18,281,532	-	501,387,390
On-balance sheet open position	(4,365,161)	45,808	172,466	506,576	67,948	796,035	25	(2,776,303)
Off-balance sheet open position	-	-	-	-	-	-	-	-
NET OPEN POSITION	(4,365,161)	45,808	172,466	506,576	67,948	796,035	25	(2,776,303)

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. Financial Risk Management (cont.)

34.3 Market Risk (cont.)

b. Foreign Exchange Risk (cont.)

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

	2015	2014
	Rs.	Rs.
United States Dollars	11,795,688	(4,365,160)
Australian Dollars	217,314	45,808
Japanese Yen	184,062	172,466
Singapore Dollar	470,544	506,576
Euro	(2,616,453)	67,949
Sterling Pounds	(1,917)	796,035
Malaysian Ringgit	22	25
	<u>10,049,260</u>	<u>(2,776,302)</u>

34.4 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 31 December 2015, the Bank holds a sizeable balance of government securities amounting to Rs. 1,893,031,974 (2014 : Rs. 621,710,815) 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.

For the year ended 31 December 2015

34. Financial Risk Management (cont.)

34.4 Liquidity and Funding Risk (cont.)

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 34 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.

34.5 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.

35. 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

For the year ended 31 December 2015

35. Capital Adequacy (Cont.)

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.

35.1 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.

35.2. Capital Adequacy Computation

	2015	2014
	Rs.'000	Rs.'000
Core Capital Ratio (Minimum Ratio - 5%)		
Core Capital (Tier I) * 100%	5,144,641	4,379,073
Total Risk - Weighted Assets	<u>5,592,013</u>	<u>4,373,665</u>
Core Capital Ratio	92.00%	100.12%
Total Capital Ratio (Minimum Ratio - 10%)		
Capital Base * 100%	5,164,455	4,399,100
Total Risk - Weighted Assets	<u>5,592,013</u>	<u>4,373,665</u>
Total Capital Ratio	92.35%	100.58%

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For the year ended 31 December 2015

36. Comparative information

(a) Restatement of comparative figures

Banks were required to transfer 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for the payment of income tax to a fund identified as "Investment Fund Account" (IFA) for a period of three years as per a proposal made in the Government Budget 2011. Since the above-mentioned three year period has lapsed the Banks were expected to transferred the balance in the above reserve to the retained earnings during 2014. However, the Bank transferred only the repayments of the loans granted amounting to Rs.12,206,840/- to retained earnings during 2014. This has been corrected during the year by transferring the remaining balance through retrospective application.

Summary of the effects of the restatements from the corrections of the above mentioned error on the previously issued figures are as follows.

STATEMENT OF FINANCIAL POSITION

	31 December 2014	
	Current presentation Rs.	As reported previously Rs.
Retained Earnings	1,148,211,369	1,034,364,931
Investment Fund	-	113,846,438

(b) Further, the presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year.

37. 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.

38. Management's responsibility for financial statements

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