

59. Contingent liabilities and commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on “Provisions, Contingent Liabilities and Contingent Assets”.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Operating lease commitments of the Group (as a lessor and as a lessee) form part of commitments and pending legal claims against the Group form part of contingencies.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank as disclosed in Note 59.1 on page 304.

In the normal course of business, the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers.

As at December 31,	Note	Page No.	GROUP		BANK	
			2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Contingencies			497,339,745	438,543,821	497,201,464	438,454,025
Guarantees			48,466,580	64,869,807	48,412,151	64,869,608
Performance bonds			45,115,711	30,604,509	45,112,151	30,601,521
Documentary credits			49,478,564	45,146,266	49,398,272	45,078,313
Other contingencies	59.1	304	354,278,890	297,923,239	354,278,890	297,904,583
Commitments			161,520,519	126,734,000	161,520,519	126,340,860
Undrawn commitments	59.2	304	161,062,099	124,977,782	161,062,099	124,594,675
Capital commitments	59.3	304	458,420	1,756,218	458,420	1,746,185
Total			658,860,264	565,277,821	658,721,983	564,794,885

59.1 Other contingencies				
As at December 31,	GROUP		BANK	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Forward exchange contracts:	98,922,263	68,436,909	98,922,263	68,436,909
Forward exchange sales	52,853,513	24,380,254	52,853,513	24,380,254
Forward exchange purchases	46,068,750	44,056,655	46,068,750	44,056,655
Interest Rate Swap agreements/currency swaps:	182,984,415	164,800,830	182,984,415	164,800,830
Interest rate swaps	-	-	-	-
Currency swaps	182,984,415	164,800,830	182,984,415	164,800,830
Others:	72,372,212	64,685,500	72,372,212	64,666,844
Acceptances	41,931,557	40,336,138	41,931,557	40,321,501
Bills for collection	29,200,428	23,310,642	29,200,428	23,306,623
Stock of Travellers' Cheques	1,230,582	1,030,549	1,230,582	1,030,549
Bullion on consignment	9,645	8,171	9,645	8,171
Subtotal	354,278,890	297,923,239	354,278,890	297,904,583

59.2 Undrawn commitments				
As at December 31,	GROUP		BANK	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
On direct advances	106,223,235	105,053,514	106,223,235	104,670,407
On indirect advances	54,838,864	19,924,268	54,838,864	19,924,268
Subtotal	161,062,099	124,977,782	161,062,099	124,594,675

59.3 Capital commitments

The Group has commitments for acquisition of property, plant and equipment and intangible assets incidental to the ordinary course of business which have been approved by the Board of Directors, the details of which are as follows:

As at December 31,	GROUP		BANK	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commitments in relation to property, plant and equipment	406,011	1,539,657	406,011	1,529,624
Approved and contracted for	215,011	1,425,307	215,011	1,415,274
Approved but not contracted for	191,000	114,350	191,000	114,350
Commitments in relation to intangible assets	52,409	216,561	52,409	216,561
Approved and contracted for	52,409	216,561	52,409	216,561
Approved but not contracted for	-	-	-	-
Subtotal	458,420	1,756,218	458,420	1,746,185

59.4 | Movement in provision for impairment during the year

	Note	Page No.	GROUP		BANK	
			2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			656,764	–	656,764	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	(130,732)	–	(130,732)	–
Exchange rate variance on foreign currency provisions			2,900	–	2,900	–
Balance as at December 31,			528,932	–	528,932	–
Movement in Stage 2 Impairment						
Balance as at January 1,			111,946	–	111,946	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	(22,769)	–	(22,769)	–
Balance as at December 31,			89,177	–	89,177	–
Movement in Stage 3 impairment						
Balance as at January 1,			78,949	–	78,949	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	29,582	–	29,582	–
Balance as at December 31,			108,531	–	108,531	–
Movement in total impairment						
Balance as at January 1,	12.1	196	847,659	–	847,659	–
Charge/(write back) to the Income Statement	19.1 & 19.2	212	(123,919)	–	(123,919)	–
Exchange rate variance on foreign currency provisions			2,900	–	2,900	–
Balance as at December 31,			726,640	–	726,640	–

59.5 | Contingent liabilities and commitments of subsidiaries and associates**59.5 (a) | Contingent liabilities and commitments of subsidiaries**

Contingent liabilities and commitments of the subsidiary, Commercial Bank of Maldives Private Limited have been included in the Consolidated Financial Statements of the Group while other subsidiaries of the Group do not have any contingencies or commitments as at the reporting date.

59.5 (b) | Contingent liabilities and commitments of associates

The associates of the Group do not have any contingencies as at the reporting date.

60. | Net assets value per ordinary share

As at December 31,	GROUP		BANK	
	2018	2017	2018	2017
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	119,397,849	107,994,800	118,405,949	107,099,360
Number of ordinary shares used as the denominator:				
Total number of shares	1,010,722,577	995,899,302	1,010,722,577	995,899,302
Net assets value per share (Rs.)	118.13	108.44	117.15	107.54

61. Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. In respect of pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a realisable security to cover the damages are not included below as the Bank does not expect cash outflows from such claims. However, further adjustments are made to the Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

Set out below are the unresolved legal claims against the Bank as at December 31, 2018 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Bank that has not been listed here on the basis of non-materiality to operations.

- (i) Court action has been initiated by a customer in District Court, Colombo under proceedings number DMR 3/2014 for Rs. 14,000 Mn. to recover a sum of Rs. 13,063 Mn. including interest on cheques paid with a fraudulent signature. The case which was initially filed at the District Court was later referred to the Commercial High Court under proceedings number 315/2015/MR. The matter is fixed for trial on June 12, 2019.
- (ii) Court action has been initiated in District Court, Colombo under proceedings number DMR/974/2016 to recover a sum of Rs. 26,237 Mn. together with interest as damages incurred by the plaintiff due to the delay by the Bank in refunding the amount with regard to a duplicated telegraphic transfer for USD 0.025 Mn. Further trial fixed for March 29, 2019.
- (iii) Court action has been initiated in District Court, Colombo under proceedings number DMR/2274/2015 to recover a sum of Rs. 3,374 Mn. as parking charges and interest thereon due to a dispute over parking facility provided to the Bank. Trial is due on April 1, 2019.
- (iv) Court action has been initiated in District Court, Kaduwela under proceedings number 584/L for Rs. 15,000 Mn. and interest thereon in seeking declaration that the plaintiff is the lawful owner of the property mortgaged by her daughter as security for a loan (currently in the Past-due section) obtained from the Bank. Further, trial is fixed for May 28, 2019.
- (v) An appeal was filed by the Bank under proceedings number HCALT 405/2014 in Provincial High Court of the Eastern Province against the order of the Labour Tribunal for payment of compensation and reinstatement in employment of an outsourced office helper. The office helper too filed a case in Provincial High Court in proceedings number HCALT 404/2014 refusing compensation and asking for reinstatement. Appeal made by the Bank was dismissed and case filed by outsourced office helper was decided in favour of him. Bank has appealed in the Supreme Court against the judgement of both cases under proceedings number SC/SPL/LA/220/15 and SC/SPL/LA/221/15. Next hearing of the cases fixed for September 24, 2019.
- (vi) Court action has been initiated in Colombo High Court under proceedings number 112/2005 (1) to claim Rs. 5,584 Mn. and Rs. 10,000 Mn. as damages for disposing of shares owned by the plaintiff which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgement was delivered in favour of the plaintiff. Bank has appealed in the Supreme Court (Appeal No. 09/2010) against the Judgement delivered. Appeal is fixed for argument on September 3, 2019.
- (vii) Court action has been initiated by a customer in Colombo High Court under proceedings number 36/96 (1) to claim a sum of Rs. 183,050 Mn. regarding a forward exchange contract. Judgement was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the Judgement in the Supreme Court (Appeal No. 38/2006). Next hearing on June 28, 2019.
- (viii) Court action has been initiated in the Commercial High Court of the Western Province under proceedings number 571/2008/MR to prevent the Bank from exercising the inherent rights of the Bank to set off a deposit of the plaintiff amounting to USD 15,000 Mn. against a sum due from the plaintiff in terms of a hedging agreement. Commercial High Court issued the Judgement in favour of the Bank and dismissed plaintiff's application for an interim injunction. Presently the case is at the Trial stage. Written submissions due on March 18, 2019.
- (ix) Court action has been initiated by the Plaintiff in District Court, Colombo under proceedings number DMR/2855/18 to claim a sum of Rs. 1,688 Mn. being the 10% of the sale price deposited at a property auction held by the Bank, since the balance 90% was not deposited within 30 days of the auction. Plaintiff has also claimed Rs. 50,000 Mn. as damages. Answer by the Bank is due on March 29, 2019.
- (x) Court action has been initiated by a previous security services provider of the Bank in High Court under proceedings number 591/17/MR to recover a sum of Rs. 14,874 Mn., being the increment in salaries paid to the workers by the Company, under the Budgetary Relief Allowance of Workers Act No. 4 of 2016. Further trial fixed for June 20, 2019.

62. Maturity analysis**Group**

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Group is detailed below:

As at December 31,	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as at 31.12.2018	Total as at 31.12.2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	13,737,957	–	–	–	–	13,737,957	3,660,584
Balances with central banks	6,930,087	2,000,899	–	68,550	–	8,999,536	1,900,891
Placements with banks	19,898,515	–	–	–	–	19,898,515	17,633,269
Securities purchased under resale agreements	9,513,512	–	–	–	–	9,513,512	–
Financial assets recognised through profit or loss/ Held for trading – measured at fair value	4,751,360	–	–	–	–	4,751,360	4,096,168
Financial assets at amortised cost – Loans and advances to other customers	322,606,365	202,673,446	195,584,843	100,522,684	46,224,638	867,611,976	742,444,130
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and Loans and receivables	11,830,726	13,250,670	30,343,068	30,561,901	3,288,048	89,274,413	118,078,273
Financial assets measured at fair value through other comprehensive income/financial Investments – Available for sale	14,825,940	51,046,665	55,334,538	54,075,631	1,233,344	176,516,118	154,366,556
Total Interest earning assets as at 31.12.2018	404,094,462	268,971,680	281,262,449	185,228,766	50,746,030	1,190,303,387	
Total Interest earning assets as at 31.12.2017	282,029,063	285,562,116	260,210,317	162,929,129	51,449,246		1,042,179,871
Non-Interest earning assets							
Financial assets							
Cash and cash equivalents	30,618,005	–	–	–	–	30,618,005	31,012,840
Balances with central banks	27,250,735	16,305,044	1,237,212	809,047	804,961	46,406,999	43,645,458
Derivative financial assets	3,304,750	3,982,426	589,427	–	33,359	7,909,962	2,334,536
Financial assets recognised through profit or loss/ Held for trading – measured at fair value	768,807	–	–	–	–	768,807	314,745
Financial assets at amortised cost – Loans and advances to banks	–	–	763,074	–	–	763,074	640,512
Financial assets measured at fair value through other comprehensive income/financial Investments – Available for sale	–	–	–	20,651	223,842	244,493	547,087

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As at December 31,	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as at 31.12.2018	Total as at 31.12.2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Non-Financial Assets							
Investments in associates	–	–	–	–	105,320	105,320	109,844
Property, plant and equipment	–	–	–	–	17,015,236	17,015,236	16,317,044
Intangible assets	–	–	–	–	1,433,931	1,433,931	1,251,226
Leasehold property	–	–	–	–	103,064	103,064	104,516
Deferred tax assets	188,487	–	–	–	–	188,487	–
Other assets	17,943,295	225,991	1,890,106	530,631	3,461,449	24,051,472	17,362,977
Total non-interest earning assets as at 31.12.2018	80,074,079	20,513,461	4,479,819	1,360,329	23,181,162	129,608,850	
Total non-interest earning assets as at 31.12.2017	71,622,392	15,953,121	2,669,183	1,253,731	22,142,358		113,640,785
Total assets – as at 31.12.2018	484,168,541	289,485,141	285,742,268	186,589,095	73,927,192	1,319,912,237	
Total assets – as at 31.12.2017	353,651,455	301,515,237	262,879,500	164,182,860	73,591,604		1,155,820,656
Percentage – as at 31.12.2018 (*)	36.68	21.93	21.65	14.14	5.60	100.00	
Percentage – as at 31.12.2017 (*)	30.60	26.09	22.74	14.20	6.37		100.00

(*) Total assets of each maturity bucket as a percentage of total assets employed by the Group.

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Group is detailed below:

	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as at 31.12.2018	Total as at 31.12.2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest-bearing liabilities							
Financial liabilities							
Due to banks	11,867,462	17,259,154	918,605	490,220	–	30,535,441	52,078,375
Securities sold under repurchase agreements	38,705,156	6,974,167	3,272,071	–	–	48,951,394	49,532,385
Financial liabilities at amortised cost – Due to depositors	506,721,299	354,302,657	24,892,407	14,113,093	16,088,136	916,117,592	792,237,948
Financial liabilities at amortised cost – Other borrowings	266,300	1,499,941	8,463,641	8,507,200	6,624,830	25,361,912	23,786,094
Subordinated liabilities	739,373	387,827	9,477,720	22,104,087	5,283,450	37,992,457	25,165,924
Total Interest-bearing liabilities as at 31.12.2018	558,299,590	380,423,746	47,024,444	45,214,600	27,996,416	1,058,958,796	
Total Interest-bearing liabilities as at 31.12.2017	526,595,425	308,076,794	39,503,405	31,118,593	37,506,509		942,800,726

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2018 Rs. '000	Total as at 31.12.2017 Rs. '000
Non-interest bearing liabilities							
Financial liabilities							
Due to banks	21,826,611	-	-	-	-	21,826,611	8,166,517
Derivative financial liabilities	3,404,297	4,432,899	184,587	-	-	8,021,783	3,678,494
Financial liabilities at amortised cost – Due to depositors	78,243,789	3,560	5,934	-	-	78,253,283	65,032,033
Non-financial liabilities							
Current tax liabilities	1,443,988	5,292,009	-	-	-	6,735,997	4,202,850
Deferred tax liabilities	(229,610)	(328,268)	(515,164)	151,947	1,892,519	971,424	3,565,215
Other liabilities	15,865,542	2,387,328	2,045,280	838,683	3,410,680	24,547,513	19,508,115
Equity							
Stated capital	-	-	-	-	39,147,882	39,147,882	37,143,541
Statutory reserves	-	-	-	-	7,444,178	7,444,178	6,492,552
Retained earnings	-	-	-	-	4,949,955	4,949,955	5,086,609
Other reserves	-	-	-	-	67,855,834	67,855,834	59,272,098
Non-controlling Interest					1,198,981	1,198,981	871,906
Total non-interest-bearing liabilities as at 31.12.2018	120,554,617	11,787,528	1,720,637	990,630	125,900,029	260,953,441	
Total non-interest-bearing liabilities as at 31.12.2017	80,371,453	14,424,025	3,532,019	1,636,826	113,055,607		213,019,930
Total liabilities and equity – as at 31.12.2018	678,854,207	392,211,274	48,745,081	46,205,230	153,896,445	1,319,912,237	
Total liabilities and equity – as at 31.12.2017	606,966,878	322,500,819	43,035,424	32,755,419	150,562,116		1,155,820,656
Percentage – as at 31.12.2018 (*)	51.44	29.71	3.69	3.50	11.66	100.00	
Percentage – as at 31.12.2017 (*)	52.52	27.90	3.72	2.83	13.03		100.00

(*) Total liabilities and share holders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Group.

63. Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/Chief Executive Officer (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group has five strategic divisions which are reportable segments, namely:

Operating segment

- Personal banking
- Corporate banking
- International operations
- Investment banking
- Dealing and treasury

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
310,750	381,502	1,735,010	1,559,382	2,376,324	2,058,212	45,618,209	39,567,298
-	-	1,876,109	(1,335,721)	3,771,099	-	8,063,488	597,025
35,718	45,242	3,739	5,672	-	-	10,634,392	8,924,466
(19,418)	12,161	267,165	61,424	59,172	148,012	548,378	448,229
327,050	438,905	3,882,023	290,757	6,206,595	2,206,224	64,864,467	49,537,018
(2,287)	-	(526,616)	-	-	-	(8,833,362)	(989,315)
324,763	438,905	3,355,407	290,757	6,206,595	2,206,224	56,031,105	48,547,703
156,239	287,326	1,339,758	126,225	752,077	(2,919,235)	26,092,500	23,276,646
						26,092,500	23,276,646
						6,048	3,678
						(8,235,717)	(6,653,817)
						(128,125)	(20,544)
						17,734,706	16,605,963

Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
15,076,223	17,270,623	283,021,383	262,780,975	79,646,494	62,909,326	1,319,806,917	1,155,710,812
-	-	-	-	105,320	109,844	105,320	109,844
15,076,223	17,270,623	283,021,383	262,780,975	79,751,814	63,019,170	1,319,912,237	1,155,820,656
15,181,543	17,380,467	74,683,675	75,403,237	7,707,421	7,768,065	1,199,315,407	1,046,953,950
15,181,543	17,380,467	74,683,675	75,403,237	7,707,421	7,768,065	1,199,315,407	1,046,953,950

Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
465,912	140,802	(33,147,207)	(191,366)	-	-	7,717,338	(2,970,642)
1,404,083	3,362,948	-	-	-	-	1,404,083	3,362,948
-	-	-	-	2,998,732	3,814,921	2,998,732	3,814,921
-	-	-	-	-	-	(2,026,561)	(2,105,701)
-	-	-	-	-	-	(406,641)	(352,329)
-	-	-	-	-	-	9,686,951	1,749,197

64. Related party disclosures

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related Parties as per the Sri Lanka Accounting Standard – LKAS 24 – “Related Party Disclosures”, other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

64.1 Parent and ultimate controlling party

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

64.2 Key Management Personnel (KMP)

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

KMP of the Bank

The Board of Directors of the Bank has been classified as KMP of the Bank.

KMP of the Group

As the Bank is the ultimate parent of the subsidiaries listed out in Note 1.1 on page 169, the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank is also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMP only for that respective subsidiary.

64.2.1 Transactions with KMP

64.2.1.1 Compensation of KMP – Bank

<i>For the year ended December 31,</i>	2018 Rs. '000	2017 Rs. '000
Short-term employment benefits	191,982	159,190
Post-employment benefits	8,481	7,831
Total	200,463	167,021

64.2.1.2 Compensation of KMP – Group

<i>For the year ended December 31,</i>	2018 Rs. '000	2017 Rs. '000
Short-term employment benefits	194,031	161,282
Post-employment benefits	8,481	7,831
Total	202,512	169,113

64.2.2 Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependants of the KMP or the KMP's domestic partner. CFM are related parties to the Group/Bank.

64.2.2.1 Statement of Financial Position – Bank

	Year-end balance		Annual average balance	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	53,063	18,890	31,796	9,282
Credit cards	637	115	1,134	427
Total	53,700	19,005	32,930	9,709
Liabilities				
Deposits	262,328	228,579	265,877	167,137
Securities sold under repurchase agreements	–	7,844	2,534	30,123
Debentures	2,000	2,000	2,000	2,000
Total	264,328	238,423	270,411	199,260

64.2.2.2 Commitments and contingencies – Bank

	Year-end balance		Annual average balance	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Undrawn facilities	16,293	18,035	15,429	13,024
Total	16,293	18,035	15,429	13,024

64.2.2.3 Direct and indirect accommodation – Bank

	Year-end balance	
	2018	2017
	%	%
Direct and indirect accommodation as a % of the Bank's regulatory capital	0.05	0.03

No impairment losses have been recorded against balances outstanding with KMP and CFM.

64.2.2.4 Income Statement

For the year ended December 31,	Note	Page No.	2018	2017
			Rs. '000	Rs. '000
Interest income			3,597	777
Interest expense			24,594	17,226
Compensation to KMP	64.2.1.1	312	200,463	167,021

64.2.2.5 Share-based transactions of KMP and CFM

Year end balance	Year-end balance	
	2018	2017
Number of ordinary shares held	866,367	1,206,569
Dividends paid (in Rs. '000)	7,353	6,304
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008		
Tranche II	-	50,270
Tranche III	35,341	105,695
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2015		
Tranche I	59,615	83,416
Tranche II	61,400	85,912
Tranche III	138,632	-

64.2.3	Transactions, arrangements and agreements involving entities which are controlled, and/or significantly influenced by the KMP or their CFM
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No significant transactions during the year.

64.3	Transactions with Group entities
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The Group entities include the subsidiaries and the associates of the Bank.

64.3.1	Transactions with subsidiaries
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64.3.1.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	1,185,845	841,060	835,099	879,790
Other receivables	32,226	31,439	31,833	62,148
Credit card Advances	1	-	22	-
Total	1,218,072	872,499	866,954	941,938
Liabilities				
Deposits	244,403	502,575	258,565	120,953
Securities sold under repurchase agreements	153,068	142,550	140,023	202,877
Other	18,293	74,523	46,039	47,292
Total	415,764	719,648	444,627	371,122

64.3.1.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Undrawn facilities	100,299	100,000	96,552	84,881
Total	100,299	100,000	96,552	84,881

64.3.1.3 Direct and indirect accommodation

	Year-end balance	
	2018 %	2017 %
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.89	0.79

64.3.1.4 Income Statement

For the year ended December 31,	2018	2017
	Rs. '000	Rs. '000
Interest income	109,490	143,796
Interest expense	36,329	32,695
Other income	176,633	182,826
Expenses	596,795	523,214

64.3.1.5 Other transactions

For the year ended December 31,	2018	2017
	Rs. '000	Rs. '000
Payments made to OneZero Company Ltd. in relation to purchase of computer hardware and software	760	29,738

64.3.2	Transactions with associates
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64.3.2.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Assets				
Loans and advances	2	–	74	32
Total	2	–	74	32
Liabilities				
Deposits	33,261	35,468	17,367	19,945
Securities sold under repurchase agreements	–	–	16,399	16,228
Total	33,261	35,468	33,766	36,173

64.3.2.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Undrawn facilities	1,000	1,000	1,000	–
Total	1,000	1,000	1,000	–

64.3.2.3 Income Statement

For the year ended December 31,	2018	2017
	Rs. '000	Rs. '000
Interest income	21	8
Interest expense	3,178	3,666
Other income	14,428	21,213
Expenses	-	71,194

64.3.2.4 Other transactions

	2018	2017
Number of ordinary shares of the Bank held by the associates as at the year-end	4,741	46,154
Dividend paid (Rs. '000)	144	278

64.4 Transactions with other related entities

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence, post-employment benefit plans for the Bank's employees.

64.4.1 Transactions with post-employment benefit plans for the employees of the Bank**64.4.1.1 Statement of Financial Position**

	Year-end balance		Annual average balance	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets				
Loans and advances	-	-	15	474
Total	-	-	15	474
Liabilities				
Deposits	10,478,031	9,427,494	9,971,838	8,452,541
Securities sold under repurchase agreements	-	-	-	83,265
Total	10,478,031	9,427,494	9,971,838	8,535,806

64.4.1.2 Income Statement

For the year ended December 31,	2018	2017
	Rs. '000	Rs. '000
Interest income	4	114
Interest expense	1,204,076	1,075,241
Contribution made/taxes paid by the Bank	1,114,613	1,005,342

65. Non-cash items included in profit before tax

As at December 31,	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Depreciation of property, plant and equipment	1,383,581	1,185,698	1,279,378	1,097,096
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	218,076	229,764	188,789	209,766
Impairment charges and other losses	8,832,396	989,315	8,574,233	720,126
Other impairment	-	-	-	(42,484)
Contributions to defined benefit plans – Unfunded schemes	361,272	288,791	349,667	279,249
Provision made o/a of leave encashment	103,868	79,128	103,868	79,128
Equity-settled share-based payments	68,581	138,341	68,581	138,341
Unamortised interest payable o/a subordinated liabilities	12,210	12,211	12,210	12,211
Mark to market on other financial instruments at fair value through profit or loss	(55,580)	(85,627)	(55,580)	(85,627)
Loss on written off intangible assets	-	7,241	-	-
Effect of exchange rate variances on investment in subsidiaries	-	-	56,485	(26,349)
Effect of exchange rate variances on loans and receivables to banks	(122,562)	(16,054)	(122,562)	(16,054)
Effect of exchange rate variances on property, plant and equipment	(32,310)	(168)	(18,705)	882
Effect of exchange rate variances on intangible assets	(11,076)	(3,208)	(1,840)	429
Effect of exchange rate variances on defined benefit plans	52,568	(7,279)	52,568	(7,279)
Effect of exchange rate variances on subordinated liabilities	2,205,000	288,750	2,205,000	288,750
Net effect of exchange rate variances on net deferred tax liability	(29,952)	995	(26,803)	4,626
Net effect of exchange rate variances on income tax liability	492,139	(45,703)	471,717	(45,820)
Grossed up notional tax and withholding tax credits	(1,098,978)	(1,985,107)	(1,081,737)	(1,961,769)
Total	12,380,685	1,078,540	12,056,211	646,164

66. Change in operating assets

As at December 31,	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Net (increase)/decrease in derivative financial instruments	(5,542,067)	(1,281,707)	(5,542,067)	(1,281,707)
Net increase in debt securities, treasury bills & bonds and equity shares held at fair value through profit and loss	-	-	-	-
Net (increase)/decrease in balances with central banks	(9,860,186)	(1,611,091)	(9,583,144)	(928,241)
Net (increase)/decrease in placements with banks	(2,276,030)	(5,914,770)	(2,276,030)	(5,914,770)
Net (increase)/decrease in securities purchased under resale agreements	(9,513,512)	-	(9,513,512)	-
Net (increase)/decrease in other financial assets – Recognised through profit or loss/ held for trading	(1,068,607)	683,448	(1,068,607)	683,448
Net (increase)/decrease in loans and receivables to customers	(138,148,203)	(123,303,957)	(135,934,002)	(122,148,465)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	(23,381,080)	12,820,870	(23,324,699)	12,951,296
Net (increase)/decrease in financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	27,099,075	(6,002,245)	26,717,096	(2,844,501)
Net (increase)/decrease in other assets	(6,688,495)	(880,418)	(6,612,960)	(859,996)
Total	(169,379,105)	(125,489,870)	(167,137,925)	(120,342,936)

67. Change in operating liabilities

As at December 31,	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Net increase/(decrease) in due to banks	(7,882,840)	(10,853,499)	(7,019,910)	(10,487,820)
Net increase/(decrease) in derivative financial instruments	4,347,751	2,158,997	4,347,751	2,158,997
Net increase/(decrease) in securities sold under repurchase agreements	(580,991)	(20,096,576)	(572,305)	(20,190,702)
Net increase/(decrease) in deposits from banks, customers and debt securities issued	137,100,894	113,959,368	132,909,803	110,564,017
Net increase/(decrease) in other borrowings	1,575,818	14,515,940	1,575,818	14,515,940
Net increase/(decrease) in other provisions	-	(1,874)	-	(1,874)
Net increase/(decrease) in other liabilities	4,315,867	583,523	4,266,292	633,847
Net increase/(decrease) in due to subsidiaries	-	-	(33,568)	54,462
Total	138,876,499	100,265,879	135,473,881	97,246,867

68. Operating leases**68.1 Operating lease commitments (payables)**

The Group has taken on leased a number of branches and office premises under operating leases. These leases have an average life of between five to ten years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

As at December 31,	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Less than one year	1,068,724	937,070	1,013,801	890,519
Between one to five years	3,018,540	2,510,540	2,829,454	2,352,812
Over five years	2,367,826	2,186,383	2,265,638	2,076,645
Total	6,455,090	5,633,993	6,108,893	5,319,976

68.2 Operating lease commitments (receivables)

The Group has entered into operating leases to rent its own properties, (mainly consisting of areas not currently occupied by the branch). Lease agreements include clauses to enable upward revision of the rental income on a periodic basis to reflect market conditions. These leases have an average life of between five to ten years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

As at December 31,	GROUP		BANK	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Less than one year	9,597	7,327	6,380	3,140
Between one to five years	20,471	13,589	15,840	5,740
Over five years	6,941	2,800	6,941	2,800
Total	37,009	23,716	29,161	11,680

69	Financial risk review
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This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

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Introduction

As a financial intermediary, the Bank is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the Bank's activities. Managing these risks is critical for the sustainability of the Bank and plays a pivotal role in all activities of the Bank. Risk management function strives to identify potential risks in advance, analyse them and take precautionary steps to mitigate the impact of risk whilst optimising through risk adjusted returns within the risk appetite of the Bank.

Risk management framework

The overall responsibility and oversight of the risk management framework of the Bank is vested with the Board of Directors (BOD). The Board Integrated Risk Management Committee (BIRMC), a mandatory subcommittee set up by the Board, in turn is entrusted with the development of the Bank's Risk Management Policies and monitoring of due compliance of same through the Executive Integrated Risk Management Committee (EIRMC).

The Risk Management Policies spell out the risk appetite of the Bank and has incorporated risk exposure limits and controls to monitor adherence to the limits in force. These Policies and Systems are reviewed regularly to reflect the changing market conditions and the products and services offered.

The Bank strives to inculcate a risk management culture through continuous training, work ethics and standards.

Refer Note 3.2 on page 175 for more information on the risk management framework of the Bank.

Integrated Risk Management Department (IRMD)

Business Units are the risk owners and have the primary responsibility for risk management. The IRMD acts as the second line of defence in managing the risk. The IRMD through Chief Risk Officer reports to the BIRMC thus ensuring its independence.

Risk measurement and reporting

The Bank uses robust risk measurement techniques based on the type of risk and industry best practices. The Bank also carries out stress testing which is a key aspect of the Internal Capital Adequacy Assessment Process (ICAAP). The risk management framework of the Bank provides an insight on the impact of extreme, but plausible scenarios on the Bank's risk profile. The results are reported to the EIRMC and to the BIRMC on a periodic basis.

The Bank establishes policies, limits and thresholds within the risk appetite of the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (risk appetite). The monitoring and control mechanism therefore, is based on risk appetite of the Bank.

69.1 Credit risk

The financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations is referred to as credit risk. It arises principally from the loans and advances to banks and other customers, investments in debt securities and other financial instruments. In addition to the credit risk from direct funding exposure (i.e. on-balance sheet exposure), indirect liabilities such as Letters of Credit, Guarantees etc. also would expose the Bank to credit risk.

The Bank ensures stringent credit risk management practices overall elements of credit risk exposures (such as individual obligor default risk, country and sector concentration risks).

69.1.1 Credit quality analysis

69.1.1 (a) Maximum exposure to credit risk by risk rating (as per SLFRS 9)

The following table sets out information about the credit quality of financial assets measured at amortised cost, measured at FVOCI and contingent liabilities and commitments.

As at December 31, 2018		Carrying amount	Not subject to ECL	Subject to		
				12-month ECL (Stage 1)	Life time ECL – not credit impaired (Stage 2)	Life time ECL – credit impaired (Stage 3)
Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and cash equivalents						
		24,272,784	24,272,784	–	–	–
		10,392,621	–	10,392,621	–	–
		4,873,484	–	4,873,484	–	–
		–	–	–	–	–
		–	–	–	–	–
		39,538,889	24,272,784	15,266,105	–	–
		4,413	–	4,413	–	–
		39,534,476	24,272,784	15,261,692	–	–
Placements with banks						
		15,471,661	–	15,471,661	–	–
		4,437,638	–	4,437,638	–	–
		–	–	–	–	–
		–	–	–	–	–
		19,909,299	–	19,909,299	–	–
		10,784	–	10,784	–	–
		19,898,515	–	19,898,515	–	–

As at December 31, 2018		Carrying amount	Not subject to ECL	Subject to			
				12-month ECL (Stage 1)	Life time ECL – not credit impaired (Stage 2)	Life time ECL – credit impaired (Stage 3)	
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets at amortised cost – Loans and advances to banks							
Government Securities (Risk free investments)			-	-	-	-	-
Rating 0-4: Investment grade			-	-	-	-	-
Rating 5-6: Moderate risk			763,110	-	763,110	-	-
Rating 7-8: High risk			-	-	-	-	-
Rating 9: Extreme risk			-	-	-	-	-
Gross carrying amount			763,110	-	763,110	-	-
Less: Provision for impairment			36	-	36	-	-
Net carrying amount	34	238	763,074	-	763,074	-	-
Financial assets at amortised cost – Loans and advances to other customers							
Government Securities (Risk free investments)			-	-	-	-	-
Rating 0-4: Investment grade (*)			686,400,750	-	622,743,394	56,950,508	6,706,848
Rating 5-6: Moderate risk			159,144,668	-	119,388,804	32,390,548	7,365,316
Rating 7-8: High risk			8,209,350	-	3,485,765	1,911,451	2,812,134
Rating 9: Extreme risk			36,474,600	-	33,654	347,685	36,093,261
Gross carrying amount			890,229,368	-	745,651,617	91,600,192	52,977,559
Less: Provision for impairment			29,129,053	-	2,659,185	5,873,226	20,596,642
Net carrying amount	35	239	861,100,315	-	742,992,432	85,726,966	32,380,917
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables							
Government Securities (Risk free investments)			42,521,906	42,521,906	-	-	-
Rating 0-4: Investment grade (*)			41,026,809	-	41,026,809	-	-
Rating 5-6: Moderate risk			416,346	-	416,346	-	-
Rating 7-8: High risk			156,627	-	-	156,627	-
Rating 9: Extreme risk			-	-	-	-	-
Gross carrying amount			84,121,688	42,521,906	41,443,155	156,627	-
Less: Provision for Impairment			266,252	-	262,381	3,871	-
Net carrying amount	36	247	83,855,436	42,521,906	41,180,774	152,756	-
Financial assets measured at fair value through other comprehensive income/ financial Investments – Available for sale							
Government Securities (Risk free investments)			95,458,096	95,458,096	-	-	-
Rating 0-4: Investment grade			81,405,180	5,222	81,399,958	-	-
Rating 5-6: Moderate risk			239,147	239,147	-	-	-
Rating 7-8: High risk			-	-	-	-	-
Rating 9: Extreme risk			-	-	-	-	-
Gross carrying amount			177,102,423	95,702,465	81,399,958	-	-
Less: Provision for impairment			595,694	-	595,694	-	-
Net carrying amount	37	250	176,506,729	95,702,465	80,804,264	-	-

Financial Reports © Notes to the Financial Statements

As at December 31, 2018		Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to		
						12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000
Off-balance sheet (**)								
Contingent liabilities and commitments								
(i) Lending commitments								
Grade 0-6: Investment grade to moderate risk				161,062,099	54,838,863	104,605,989	1,142,947	474,300
Grade 7-9: High risk to extreme risk				-	-	-	-	-
Gross carrying amount				161,062,099	54,838,863	104,605,989	1,142,947	474,300
(ii) Contingencies								
Grade 0-6: Investment grade to moderate risk				497,201,464	312,347,334	183,121,065	1,643,105	89,960
Grade 7-9: High risk to extreme risk				-	-	-	-	-
Gross carrying amount				497,201,464	312,347,334	183,121,065	1,643,105	89,960
Total contingent liabilities and commitments	59	303		658,263,563	367,186,197	287,727,054	2,786,052	564,260
Provision for Impairment	59.4	305		726,640	-	528,932	89,177	108,531

(*) Investment grade also include Cash, Gold.

(**) Amounts reported above does not include capital commitments disclosed in the Note 59 on "Contingent Liabilities and Commitments" on pages 303 to 305.

Financial assets at amortised cost – Loans and advances to other customers and contingent liabilities and commitments categorised based on Bank's internal risk rating and other financial assets are categorised based on external credit rating of respective counterparties.

69.1.1 (b) Maximum exposure to credit risk by risk rating (as per LKAS 39)

The following table sets out information about the credit quality of financial assets classified as available for sale, held to maturity and loans and receivables.

As at December 31, 2017		Note	Page No.	Loans and receivables to other customers Rs. '000	Loans and receivables to banks Rs. '000	Financial investments Rs. '000	Lending commitments and contingencies Rs. '000
Carrying amount			238 to 34 to 37	737,446,567	640,512	271,400,274	-
Amount committed/contingencies			59 303	-	-	-	563,048,700
At amortised cost – Loans and receivable							
Government Securities (Risk free investments)				-	-	40,566,702	-
Rating 0-4: Investment grade (*)				476,843,647	-	8,145,775	-
Rating 5-6: Moderate risk				249,066,153	640,512	-	-
Rating 5: High risk				2,035,633	-	-	-
Rating 7-9: Extreme risk				26,762,544	-	-	-
Gross carrying amount				754,707,977	640,512	48,712,477	-
Less: Provision for impairment (individual and collective)				17,261,410	-	-	-
Net carrying amount	34, 35 and 36	238, 239 and 247		737,446,567	640,512	48,712,477	
Financial investments – Available for sale							
Government Securities (Risk free investments)				-	-	154,167,169	-
Rating 0-4: Investment grade				-	-	546,963	-
Rating 5-6: Moderate risk				-	-	-	-
Rating 5: High risk				-	-	-	-
Rating 7-9: Extreme risk				-	-	-	-

As at December 31, 2017						
	Note	Page No.	Loans and receivables to other customers Rs. '000	Loans and receivables to banks Rs. '000	Financial investments Rs. '000	Lending commitments and contingencies Rs. '000
Gross/net carrying amount	37	250	-	-	154,714,132	-
Financial investments – Held to maturity			-	-		-
Government Securities (Risk free investments)			-	-	53,555,302	-
Rating 0-4: Investment grade			-	-	-	-
Rating 5-6: Moderate risk			-	-	10,007,450	-
Rating 5: High risk			-	-	-	-
Rating 7-9: Extreme risk			-	-	-	-
Gross/net carrying amount	36	247	-	-	63,562,752	-
Other financial instruments – Held for trading			-	-		-
Government Securities (Risk free investments)			-	-	2,357,876	-
Rating 0-4: Investment grade			-	-	314,745	-
Rating 5-6: Moderate risk			-	-	1,738,292	-
Rating 5: High risk			-	-	-	-
Rating 7-9: Extreme risk			-	-	-	-
Gross/net carrying amount	33	234	-	-	4,410,913	-
Total net carrying amount			737,446,567	640,512	271,400,274	-
Off-balance sheet (**)						
Maximum exposure						
Lending commitments						
Grade 0-6: Investment grade to moderate risk			-	-	-	124,594,675
Contingencies			-	-	-	-
Grade 0-6: Investment grade to moderate risk			-	-	-	438,454,025
Total exposure	59	303	-	-	-	563,048,700

(*) Investment grade also include Cash, Gold.

(**) Amounts reported above does not include capital commitments disclosed in the Note 59 on "Contingent Liabilities and Commitments" on pages 303 to 305.

69.1.1 (c) Credit exposure movement – ECL stage-wise

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts by class of financial instrument.

	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000
Cash and cash equivalents					
Gross carrying amount as at January 1, 2018	33,224,619	23,280,599	9,944,020	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New assets originated or purchased	9,557,624	992,185	8,565,439	-	-
Financial assets derecognised or repaid (excluding write-offs)	(3,243,354)	-	(3,243,354)	-	-

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	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000
As at December 31, 2018	39,538,889	24,272,784	15,266,105	–	–
Placements with banks					
Gross carrying amount as at January 1, 2018	17,633,269	–	17,633,269	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	19,909,299	–	19,909,299	–	–
Financial assets derecognised or repaid (excluding write-offs)	(17,633,269)	–	(17,633,269)	–	–
As at December 31, 2018	19,909,299	–	19,909,299	–	–
Financial assets at amortised cost – Loans and advances to banks					
Gross carrying amount as at January 1, 2018	640,512	–	640,512	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Foreign exchange adjustments	122,598	–	122,598	–	–
As at December 31, 2018	763,110	–	763,110	–	–
Financial assets at amortised cost – Loans and advances to other customers					
Gross carrying amount as at January 1, 2018	754,707,977	–	653,127,277	69,036,479	32,544,221
Transfer to Stage 1	–	–	18,306,726	(18,002,628)	(304,098)
Transfer to Stage 2	–	–	(31,715,554)	37,146,989	(5,431,435)
Transfer to Stage 3	–	–	(11,470,573)	(12,389,882)	23,860,455
New assets originated or purchased	422,014,584	–	389,231,399	29,382,680	3,400,505
Financial assets derecognised or repaid (excluding write-offs)	(308,833,738)	–	(271,826,591)	(27,858,893)	(9,148,254)
Write-offs	(1,107,207)	–	(1,067)	(9,567)	(1,096,573)
Changes to contractual cash flows due to modifications not resulting in derecognition	23,447,752	–	–	14,295,014	9,152,738
As at December 31, 2018	890,229,368	–	745,651,617	91,600,192	52,977,559
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables					
Gross carrying amount as at January 1, 2018	71,708,527	48,683,362	23,025,165	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	(156,627)	156,627	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	23,331,446	5,578,738	17,752,708	–	–
Financial assets derecognised or repaid (excluding write-offs)	(14,583,193)	(12,252,573)	(2,330,620)	–	–
Foreign exchange adjustments	3,664,908	512,379	3,152,529	–	–

	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000
As at December 31, 2018	84,121,688	42,521,906	41,443,155	156,627	-
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale					
Gross carrying amount as at January 1, 2018	195,279,170	151,910,811	43,368,359	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New assets originated or purchased	85,700,610	34,181,954	51,518,656	-	-
Financial assets derecognised or repaid (excluding write-offs)	(108,535,424)	(90,390,300)	(18,145,124)	-	-
Foreign exchange adjustments	4,897,118	-	4,897,118	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	(239,051)	-	(239,051)	-	-
As at December 31, 2018	177,102,423	95,702,465	81,399,958	-	-
Contingent liabilities and commitments					
Gross carrying amount as at January 1, 2018	563,048,700	257,583,082	300,521,203	3,932,984	1,011,431
Transfer to Stage 1	-	-	2,382,299	(2,322,013)	(60,286)
Transfer to Stage 2	-	-	(3,329,668)	3,335,220	(5,552)
Transfer to Stage 3	-	-	(530,422)	(175,917)	706,339
New assets originated or purchased	533,541,252	327,020,220	204,279,007	1,897,507	344,518
Financial assets derecognised or repaid (excluding write-offs)	(438,326,389)	(217,417,105)	(215,595,365)	(3,881,729)	(1,432,190)
As at December 31, 2018	658,263,563	367,186,197	287,727,054	2,786,052	564,260

Opening balances as at January 1, 2018 reported as per SLFRS 9 and reconciliation between SLFRS 9 and LKAS 39 are given in Note 12 on "Transition disclosures" on pages 196 to 201.

69.1.1 (d) Provision for impairment (ECL) movement

The following table shows reconciliations from the opening to closing balance of the provision for impairment by class of financial instrument.

	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Cash and cash equivalents						
Provision for impairment (ECL) as at January 1, 2018			5,286	-	-	5,286
Transfer to Stage 1			-	-	-	-
Transfer to Stage 2			-	-	-	-
Transfer to Stage 3			-	-	-	-
Net remeasurement of impairment			(1,577)	-	-	(1,577)
New assets originated or purchased			4,989	-	-	4,989
Financial assets derecognised or repaid (excluding write-offs)			(4,862)	-	-	(4,862)
Foreign exchange adjustments			577	-	-	577
As at December 31, 2018	29.1	231	4,413	-	-	4,413

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	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Placements with banks			-	-	-	-
Provision for impairment (ECL) as at January 1, 2018			31,533	-	-	31,533
Transfer to Stage 1			-	-	-	-
Transfer to Stage 2			-	-	-	-
Transfer to Stage 3			-	-	-	-
New assets originated or purchased			9,980	-	-	9,980
Financial assets derecognised or repaid (excluding write-offs)			(31,533)	-	-	(31,533)
Foreign exchange adjustments			804	-	-	804
As at December 31, 2018	31.1	233	10,784	-	-	10,784
Financial assets at amortised cost – Loans and advances to banks						
Provision for impairment (ECL) as at January 1, 2018			139	-	-	139
Transfer to Stage 1			-	-	-	-
Transfer to Stage 2			-	-	-	-
Transfer to Stage 3			-	-	-	-
Net remeasurement of impairment			(103)	-	-	(103)
As at December 31, 2018	34.1	238	36	-	-	36
Financial assets at amortised cost – Loans and advances to other customers						
Provision for impairment (ECL) as at January 1, 2018			3,041,886	4,165,027	14,211,503	21,418,416
Transfer to Stage 1			631,565	(552,887)	(78,678)	-
Transfer to Stage 2			(360,245)	627,849	(267,604)	-
Transfer to Stage 3			(96,237)	(852,199)	948,436	-
Net remeasurement of impairment			(1,174,547)	611,267	2,971,392	2,408,112
New assets originated or purchased			1,148,995	643,753	1,595,640	3,388,388
Financial assets derecognised or repaid (excluding write-offs)			(543,484)	(891,569)	(660,184)	(2,095,237)
Write-offs and recoveries			(800)	(819)	(355,284)	(356,903)
Foreign exchange adjustments			12,052	4,470	278,179	294,701
Unwinding of discount			-	-	(360,876)	(360,876)
Other movements			-	-	10,466	10,466
Changes to contractual cash flows due to modifications not resulting in derecognition			-	2,118,334	2,303,652	4,421,986
As at December 31, 2018	35.2	242	2,659,185	5,873,226	20,596,642	29,129,053

	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Life time ECL – not credit impaired (Stage 2) Rs. '000	Life time ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and loans and receivables						
Provision for impairment (ECL) as at January 1, 2018			69,680	–	–	69,680
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			(691)	691	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			65,916	3,180	–	69,096
New assets originated or purchased			128,049	–	–	128,049
Financial assets derecognised or repaid (excluding write-offs)			(573)	–	–	(573)
As at December 31, 2018	36.1	248	262,381	3,871	–	266,252
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale						
Provision for impairment (ECL) as at January 1, 2018			194,256	–	–	194,256
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			109,424	–	–	109,424
New assets originated or purchased			372,576	–	–	372,576
Financial assets derecognised or repaid (excluding write-offs)			(80,562)	–	–	(80,562)
As at December 31, 2018	37.2	251	595,694	–	–	595,694
Contingent liabilities and commitments						
Provision for impairment (ECL) as at January 1, 2018			656,764	111,946	78,949	847,659
Transfer to Stage 1			52,852	(27,051)	(25,801)	–
Transfer to Stage 2			(9,201)	9,557	(356)	–
Transfer to Stage 3			(559)	(3,920)	4,479	–
Net remeasurement of impairment			(47,426)	20,362	24,163	(2,901)
New assets originated or purchased			343,083	72,898	97,571	513,552
Financial assets derecognised or repaid (excluding write-offs)			(469,481)	(94,615)	(70,474)	(634,570)
Foreign exchange adjustments			2,900	–	–	2,900
As at December 31, 2018	59.4	305	528,932	89,177	108,531	726,640

69.1.1 (e) Age analysis by class of financial assets

The maximum exposure to credit risk for class of financial assets by risk rating and by age are given below:

<i>As at December 31, 2017</i>	Loans and receivables to other customers	Loans and receivables to banks	Financial investments	Lending commitments and contingencies
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government Securities (Risk free investments)	–	–	250,647,049	–
Gross carrying amount	–	–	250,647,049	–
Neither past due nor individually impaired				
Rating 0-4: Investment grade	472,230,045	–	9,007,483	282,344,809
Rating 5-6: Moderate risk	244,352,749	640,512	11,745,742	280,703,891
Gross carrying amount	716,582,794	640,512	20,753,225	563,048,700
Past due but not individually impaired				
Less than 3 months	8,160,289	–	–	–
3 to 6 months	856,410	–	–	–
6 to 12 months	724,801	–	–	–
12 to 18 months	469,520	–	–	–
More than 18 months	4,870,915	–	–	–
Gross carrying amount	15,081,935	–	–	–
Individually impaired				
Less than 3 months	12,533,705	–	–	–
3 to 6 months	1,292,185	–	–	–
6 to 12 months	404,605	–	–	–
12 to 18 months	1,209,297	–	–	–
More than 18 months	7,603,456	–	–	–
Gross carrying amount	23,043,248	–	–	–
Total gross carrying amount	754,707,977	640,512	271,400,274	563,048,700
Less: Provision for impairment				
Individual	7,853,654	–	–	–
Collective	9,407,756	–	–	–
Total provision for impairment	17,261,410	–	–	–
Total net carrying amount	737,446,567	640,512	271,400,274	563,048,700

The methodology of the impairment assessment is explained in the Note 19 on pages 208 to 212.

69.1.1 (f) Credit quality by class of financial assets

The table below shows the credit quality by the class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating:

As at December 31, 2017			Neither past due nor individually impaired			Past due but not individually impaired	Individually impaired	Total
	Note	Page No.	Government guarantee	Investment grade	Moderate risk			
			Rs. '000	Rs. '000	Rs. '000			
					Rs. '000	Rs. '000	Rs. '000	
Cash and cash equivalents	29	231	-	33,224,619	-	-	-	33,224,619
Balances with central banks	30	232	44,801,446	-	-	-	-	44,801,446
Placements with banks	31	233	-	17,633,269	-	-	-	17,633,269
Securities purchased under resale agreements			-	-	-	-	-	-
Derivative financial assets	32	233	-	2,334,536	-	-	-	2,334,536
Other financial instruments – Held for trading	33	234	2,357,876	314,745	1,738,292	-	-	4,410,913
Loans and receivables to banks	34	238	-	-	640,512	-	-	640,512
Loans and receivables to other customers	35	239	-	469,669,456	242,786,716	9,800,801	15,189,594	737,446,567
Corporate banking			-	249,817,145	86,639,832	5,776,899	3,931,899	346,165,775
Amortised cost			-	251,613,579	87,342,167	6,116,798	6,517,529	351,590,073
Less: Provision for impairment			-	1,796,434	702,335	339,899	2,585,630	5,424,298
Personal banking			-	219,852,311	156,146,884	4,023,902	11,257,695	391,280,792
Amortised cost			-	220,616,463	157,010,582	8,965,140	16,525,719	403,117,904
Less: Provision for impairment			-	764,152	863,698	4,941,238	5,268,024	11,837,112
Financial investments – Held to maturity	36	247	63,562,752	-	-	-	-	63,562,752
Government Securities			63,562,752	-	-	-	-	63,562,752
Other investments			-	-	-	-	-	-
Financial investments – Loans and receivables	36	247	40,566,702	8,145,775	-	-	-	48,712,477
Government securities			40,566,702	-	-	-	-	40,566,702
Other investments			-	8,145,775	-	-	-	8,145,775
Financial investments – Available for sale	37	250	154,167,169	546,963	-	-	-	154,714,132
Government Securities			154,167,169	-	-	-	-	154,167,169
Quoted shares			-	500,278	-	-	-	500,278
Unquoted shares			-	46,685	-	-	-	46,685
Investment in unit trusts			-	-	-	-	-	-
Total			305,455,945	531,869,363	245,165,520	9,800,801	15,189,594	1,107,481,223

69.1.1 (g) Financial assets recognised through profit or loss(FVTPL)/ held-for-trading measured at fair value

Held-for-trading investments in debt and equity securities

The table below sets out the credit quality of debt and equity securities classified as financial assets recognised through profit or loss/ held-for-trading measured at fair value. Debt securities include investments made by the Bank in Government Securities of Sri Lanka and Bangladesh. The analysis of equity securities is based on Fitch Rating Nomenclature or Equivalent Ratings, where applicable.

	Note	Page No.	2018 Rs. '000	2017 Rs. '000
Debt instruments at FVTPL				
Government Securities – Sri Lanka				
Treasury bills			1,947,069	654,438
Treasury bonds			729,974	1,703,438
Government Securities – Bangladesh				
Treasury bills			1,722,637	278,618
Treasury bonds			351,680	1,459,674
Subtotal – Debt instruments at FVTPL			4,751,360	4,096,168
Equity instruments at FVTPL				
Rated AAA			21,958	12,341
Rated AA+ to AA-			12,798	16,492
Rated A+ to A			523,574	60,879
Rated BBB+			7,138	5,710
Unrated			203,339	219,323
Subtotal – Equity instruments at FVTPL			768,807	314,745
Total	33	234	5,520,167	4,410,913

Credit exposure arising from derivative transactions

Credit risk arising from derivative financial instruments at any time is limited to those with positive fair values, as reported in the Statement of Financial Position. With gross settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the counterparty failing to deliver the counter value.

The tables below show analysis of credit exposures arising from derivative financial assets and liabilities:

As at December 31, 2018	Derivative type							
	Forward		SWAPS		Spot		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Derivative financial assets (Note 1)	53,846,072	3,340,657	97,890,850	4,567,868	4,189,939	1,437	155,926,861	7,909,962
Derivative financial liabilities (Note 2)	38,630,808	(2,069,807)	85,093,565	(5,946,484)	2,255,444	(5,492)	125,979,817	(8,021,783)
Note 1								
Derivative financial assets by counterparty type								
With banks	11,448,568	502,967	97,019,953	4,560,325	1,808,638	613	110,277,159	5,063,905
Other customers	42,397,504	2,837,690	870,897	7,543	2,381,301	824	45,649,702	2,846,057
Total	53,846,072	3,340,657	97,890,850	4,567,868	4,189,939	1,437	155,926,861	7,909,962
Note 2								
Derivative financial liabilities by counterparty type								
With banks	24,576,549	(1,219,725)	79,194,194	(5,308,624)	703,977	(474)	104,474,720	(6,528,823)
Other customers	14,054,259	(850,082)	5,899,371	(637,860)	1,551,467	(5,018)	21,505,097	(1,492,960)
Total	38,630,808	(2,069,807)	85,093,565	(5,946,484)	2,255,444	(5,492)	125,979,817	(8,021,783)
As at December 31, 2017								
As at December 31, 2017	Derivative type							
	Forward		SWAPS		Spot		Total	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Derivative financial assets (Note 1)	35,831,935	1,264,900	80,896,084	1,067,259	4,432,721	2,377	121,160,740	2,334,536
Derivative financial liabilities (Note 2)	26,602,410	(1,015,648)	83,904,746	(2,660,838)	1,569,843	(2,008)	112,076,999	(3,678,494)
Note 1								
Derivative financial assets by counterparty type								
With banks	10,081,268	170,229	78,629,102	972,827	3,617,099	2,375	92,327,469	1,145,431
Other customers	25,750,667	1,094,671	2,266,982	94,432	815,622	2	28,833,271	1,189,105
Total	35,831,935	1,264,900	80,896,084	1,067,259	4,432,721	2,377	121,160,740	2,334,536
Note 2								
Derivative financial liabilities by counterparty type								
With banks	3,146,244	(61,900)	83,904,746	(2,660,838)	1,569,843	(2,008)	88,620,833	(2,724,746)
Other customers	23,456,166	(953,748)	-	-	-	-	23,456,166	(953,748)
Total	26,602,410	(1,015,648)	83,904,746	(2,660,838)	1,569,843	(2,008)	112,076,999	(3,678,494)

69.1.2 Credit-impaired financial assets

Reconciliation of changes in the net carrying amount of life time ECL credit impaired (Stage 3) loans and advances as detailed below:

<i>As at December 31,</i>	2018 Rs. '000
Stage 3 loans and advances to other customers as at January 1,	18,332,717
Newly classified as impaired loans and advances during the year	23,569,470
Net change in already impaired loans and advances during the year	(1,055,006)
Net payment, write-off and recoveries and other movement during the year	(8,466,264)
Impaired loans and advances to customers as at December 31,	32,380,917

Reconciliation of changes in the net carrying amount of individually impaired loans and advances as detailed below:

<i>As at December 31,</i>	2017 Rs. '000
Impaired loans and advances to other customers as at January 1,	13,648,620
Newly classified as impaired loans and advances during the year	8,177,859
Net change in already impaired loans and advances during the year	361,095
Net payment, write-off and recoveries and other movement during the year	(6,997,980)
Impaired loans and advances to customers as at December 31,	15,189,594

Refer Note 19 for methodology of impairment assessment, on "Impairment losses on loans and advances to other customers" on pages 208 to 212.

Details of provision for impairment for loans and advances to other customers, are detailed in Note 35 on pages 239 to 247.

Set out below is an analysis of the gross and net carrying amounts of life time ECL credit impaired (Stage 3) loans and advances to other customers by risk rating:

<i>As at December 31,</i>	2018	
	Gross carrying amount Rs. '000	Net carrying amount Rs. '000
Rating 0-4: Investment grade	6,706,848	6,473,040
Rating 5-6: Moderate risk	7,365,316	7,093,268
Rating 7-8 : High risk	2,812,134	2,320,231
Rating 9: Extreme risk	36,093,261	16,494,378
Total	52,977,559	32,380,917

Set out below is an analysis of the gross and net carrying amounts of individually impaired loans and advances to other customers by risk rating.

As at December 31,	2017	
	Gross carrying amount Rs. '000	Net carrying amount Rs. '000
Rating 0-4: Investment grade	4,613,603	4,470,693
Rating 5-6: Moderate risk	4,713,404	4,600,908
Rating 7-9: High risk	763,567	642,017
Rating 7-9: Extreme risk	12,952,674	5,475,976
Total	23,043,248	15,189,594

69.1.3 Sensitivity of impairment provision on loans and advances to other customers

The Bank has estimated the impairment provision on loans and advances to other customers as at December 31, 2018, subject to various assumptions. The changes to such assumptions may lead to changes in inputs used for the computation of the impairment provision.

The following table demonstrates the sensitivity of the impairment provision of the Bank as at December 31, 2018 to a reasonably possible change in PDs, LGDs and forward looking information.

Sensitivity on ECL	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement (Rs. '000)
	Stage 1 (Rs. '000)	Stage 2 (Rs. '000)	Stage 3 (Rs. '000)	Total (Rs. '000)	
PD 1% increase across all age buckets	1,593,338	467,401	-	2,060,739	(2,060,739)
PD 1% decrease across all age buckets *	(1,228,148)	(346,349)	-	(1,574,497)	1,574,497
LGD 5% increase	392,875	863,216	980,975	2,237,066	(2,237,066)
LGD 5% decrease *	(390,600)	(859,138)	(976,572)	(2,226,310)	2,226,310
Probability weighted Economic Scenarios					
- Base case 10% increase, worst case 5% decrease and best case 5% decrease	(4,387)	(7,014)	-	(11,401)	11,401
- Base case 10% decrease, worst case 5% increase and best case 5% increase	4,382	7,342	-	11,724	(11,724)

* The PD/LGD decrease is capped to 0%, if applicable.

69.1.4 Collateral held

Loan-to-value ratio of residential mortgage lending

The table below stratifies eligible credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral, which is used for the computation of Capital Adequacy Ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

As at December 31,	2018		2017	
	Rs. '000	Composition (%)	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	10,948,270	27.20	11,804,905	29.83
51% – 70%	8,888,518	22.08	8,952,662	22.62
71% – 90%	11,025,696	27.39	10,466,905	26.45
91% – 100%	1,807,976	4.50	1,600,415	4.04
More than 100% *	7,576,759	18.83	6,745,986	17.06
	40,247,219	100.00	39,570,873	100.00

* LTV ratio of more than 100% has been arisen due to subsequent disbursements made to the borrower after the initial valuation of the property (the denominator).

Assets obtained by taking the possession of collaterals

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and transparent manner and the proceeds are used to reduce or recover the outstanding claims and the amount recovered in excess of the dues is refunded to the customer.

69.1.5 Concentration of credit risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e., single borrower/group, industry sectors, product, counterparty and country etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Credit Policy Committee, the Executive Integrated Risk Management Committee and the Board Integrated Risk Management Committee to capture the developments in the market, political and economic environment both locally and globally to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

The maximum exposure to credit risk in respect of each item of financial assets in the Statement of Financial Position as at December 31, as per industry sector and by geographical region of financial assets is given below:

69.1.5 (a) Industry wise distribution

As at December 31, 2018	Agriculture, Forestry and Fishing	Manufacturing	Tourism	Transportation and storage	Construction	Infrastructure development	Wholesale and retail trade	Information technology and communication services
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets								
Cash and cash equivalents	-	-	-	-	-	-	-	-
Balances with central banks	-	-	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-	-	-	-
Derivative financial assets	144,810	1,850,312	9,420	-	12	-	254,533	5
Financial assets recognised through profit or loss/Held for trading	2,028	47,212	4,848	-	30,897	-	103,084	9,587
Government securities	-	-	-	-	-	-	-	-
Quoted equity securities	2,028	47,212	4,848	-	30,897	-	103,084	9,587
Financial assets at amortised cost – loans and advances to banks	-	-	-	-	-	-	-	-
Financial assets at amortised cost – loans and advances to other customers	81,667,447	98,451,570	56,566,467	10,892,443	38,586,302	18,888,958	208,633,620	13,204,339
Loans and advances*	81,667,447	98,451,570	56,566,467	10,892,443	38,586,302	18,888,958	208,633,620	13,204,339
Financial assets at amortised cost – debt and other financial instruments/ financial investments – Held to maturity and loans & receivables	-	-	-	-	152,756	-	1,868,572	-
Government securities	-	-	-	-	-	-	-	-
Other investments	-	-	-	-	152,756	-	1,868,572	-
Financial assets measured at fair value through other comprehensive income/ financial investments – available for sale	-	9,642	-	-	180,285	-	-	-
Government securities	-	-	-	-	-	-	-	-
Equity securities	-	9,642	-	-	180,285	-	-	-
Total	81,814,285	100,358,736	56,580,735	10,892,443	38,950,252	18,888,958	210,859,809	13,213,931

* Loans and advances to other customers referred above do not agree with the Note 35.1 (c-i) on page 241 since the amounts presented are net of impairment provisions.

In 2018, industry-wise distribution note has been prepared based on the new CBSL classification.

	Financial services	Professional, scientific and technical activities	Arts, entertainment and recreation	Education	Healthcare, social services and support services	Consumption	Lending to overseas entities	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	39,534,476	-	-	-	-	-	-	39,534,476
	54,384,590	-	-	-	-	-	-	54,384,590
	19,898,515	-	-	-	-	-	-	19,898,515
	9,513,512	-	-	-	-	-	-	9,513,512
	5,636,056	-	-	13,913	-	901	-	7,909,962
	5,290,863	-	-	-	31,648	-	-	5,520,167
	4,751,360	-	-	-	-	-	-	4,751,360
	539,503	-	-	-	31,648	-	-	768,807
	763,074	-	-	-	-	-	-	763,074
	39,550,148	22,979,537	917,964	2,573,713	18,134,481	164,968,496	85,084,830	861,100,315
	39,550,148	22,979,537	917,964	2,573,713	18,134,481	164,968,496	85,084,830	861,100,315
	81,834,108	-	-	-	-	-	-	83,855,436
	77,226,928	-	-	-	-	-	-	77,226,928
	4,607,180	-	-	-	-	-	-	6,628,508
	176,308,182	8,620	-	-	-	-	-	176,506,729
	176,262,360	-	-	-	-	-	-	176,262,360
	45,822	8,620	-	-	-	-	-	244,369
	432,713,524	22,988,157	917,964	2,587,626	18,166,129	164,969,397	85,084,830	1,258,986,776

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As at December 31, 2017	Agriculture and fishing	Manufacturing	Tourism	Transport	Construction	Traders	New economy	Financial and business services
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets								
Cash and cash equivalents	-	-	-	-	-	-	-	33,224,619
Balances with central banks	-	-	-	-	-	-	-	-
Placements with banks	-	-	-	-	-	-	-	17,633,269
Securities purchased under resale agreements	-	-	-	-	-	-	-	-
Derivative financial assets	-	2,261	-	-	-	586,294	-	1,745,507
Other financial instruments – Held for trading	-	107,107	5,732	-	27,781	26,674	48,207	78,102
Government Securities	-	-	-	-	-	-	-	-
Equity securities – Quoted shares	-	107,107	5,732	-	27,781	26,674	48,207	78,102
Loans and receivables to banks	-	-	-	-	-	-	-	640,512
Loans and receivables to other customers*	68,713,903	112,807,745	44,937,470	16,820,822	104,314,394	110,304,070	17,031,993	47,045,113
Financial investments – Available for sale	-	13,213	-	-	141,093	-	-	392,657
Government securities	-	-	-	-	-	-	-	-
Equity securities – Quoted shares	-	13,213	-	-	141,093	-	-	345,972
Equity securities – Unquoted shares	-	-	-	-	-	-	-	46,685
Investment in unit trusts	-	-	-	-	-	-	-	-
Financial investments – Held to maturity	-	-	-	-	-	-	-	-
Government Securities	-	-	-	-	-	-	-	-
Financial investments – Loans and receivables	-	2,233,016	-	-	-	997,423	-	4,678,169
Government Securities	-	-	-	-	-	-	-	-
Investment in unit trusts	-	2,233,016	-	-	-	997,423	-	4,678,169
Total	68,713,903	115,163,342	44,943,202	16,820,822	104,483,268	111,914,461	17,080,200	105,437,948

(*) Loans and advances to other customers referred above do not agree with the Note 35.1 (c-i) on page 241 due to impairment provisions.

Government	Infrastructure	Other services	Other customers	Total
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
-	-	-	-	33,224,619
44,801,446	-	-	-	44,801,446
-	-	-	-	17,633,269
-	-	-	-	-
-	-	474	-	2,334,536
4,096,168	21,142	-	-	4,410,913
4,096,168	-	-	-	4,096,168
-	21,142	-	-	314,745
-	-	-	-	640,512
-	20,086,388	62,567,873	132,816,796	737,446,567
154,167,169	-	-	-	154,714,132
154,167,169	-	-	-	154,167,169
-	-	-	-	500,278
-	-	-	-	46,685
-	-	-	-	-
63,562,752	-	-	-	63,562,752
63,562,752	-	-	-	63,562,752
40,566,702	-	237,167	-	48,712,477
40,566,702	-	-	-	40,566,702
-	-	237,167	-	8,145,775
307,194,237	20,107,530	62,805,514	132,816,796	1,107,481,223

69.1.5 (b) Geographical distribution of loans and advances

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 77% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) as at December 31, 2018. Although, Western Province is attracted with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the branches and corporate banking division situated in the Western Province and thereby reflecting a fairly diversified geographical concentration contrary to the figures given below:

As at December 31, 2018

Country/province	Loans and advances by product											
	Overdrafts Rs.'000	Trade finance Rs.'000	Lease receivables Rs.'000	Credit cards Rs.'000	Pawning Rs.'000	Staff loans Rs.'000	Housing loans Rs.'000	Personal loans Rs.'000	Long-term loans Rs.'000	Short-term loans Rs.'000	Bills of exchange Rs.'000	Total Rs.'000
Sri Lanka												
Central	12,368,967	324,872	1,712,947	733,356	53,850	-	3,501,982	1,800,433	22,507,179	1,877,627	77,610	44,958,823
Eastern	837,297	80,053	706,974	198,809	35,451	-	497,996	747,745	2,216,533	564,293	-	5,885,151
North Central	805,965	82,445	1,494,023	204,983	15,137	-	634,625	1,332,540	4,770,804	937,344	-	10,277,866
Northern	3,143,610	87,895	1,693,133	253,598	533,642	-	1,019,034	1,026,339	4,751,635	794,454	-	13,303,340
North Western	6,935,115	1,108,179	3,074,187	675,442	127,025	-	3,600,616	2,381,712	13,177,842	1,840,553	29,935	32,950,606
Sabaragamuwa	5,642,132	557,051	2,605,371	436,668	52,130	-	2,959,708	1,234,729	9,822,913	734,262	43,195	24,088,159
Southern	6,295,802	1,595,289	3,810,335	728,965	97,658	-	5,478,350	2,456,355	14,566,446	977,492	27,975	36,034,667
Uva	1,554,385	4,711	1,014,336	223,610	21,940	-	2,058,215	827,396	5,039,094	474,082	-	11,217,769
Western	91,827,217	67,267,786	21,210,246	8,698,453	608,281	9,127,287	40,600,871	21,432,269	241,468,259	89,931,190	5,127,244	597,299,103
Bangladesh	7,358,447	5,808,033	493,995	100,803	-	171,191	821,429	541,227	13,970,300	36,430,294	19,389,112	85,084,831
Total	136,768,937	76,916,314	37,815,547	12,254,687	1,545,114	9,298,478	61,172,826	33,780,745	332,291,005	134,561,591	24,695,071	861,100,315

As at December 31, 2017

Country/province	Loans and advances by product											
	Overdrafts Rs.'000	Trade finance Rs.'000	Lease receivables Rs.'000	Credit cards Rs.'000	Pawning Rs.'000	Staff loans Rs.'000	Housing loans Rs.'000	Personal loans Rs.'000	Long-term loans Rs.'000	Short-term loans Rs.'000	Bills of exchange Rs.'000	Total Rs.'000
Sri Lanka												
Central	9,105,845	234,423	1,916,498	411,761	45,545	-	3,068,331	1,477,341	18,850,775	1,475,025	10,947	36,596,491
Eastern	1,117,710	30,735	627,422	96,299	24,244	-	359,754	530,338	2,204,475	138,066	-	5,129,043
North Central	1,106,922	87,888	1,502,978	105,245	9,554	-	563,567	424,136	5,643,030	369,027	-	9,812,347
Northern	2,526,778	95,605	1,216,214	117,523	430,787	-	737,940	777,142	3,536,515	434,081	-	9,872,585
North Western	6,748,789	948,591	2,956,376	356,880	117,380	-	3,301,358	1,833,343	12,636,399	1,737,537	8,657	30,645,310
Sabaragamuwa	5,023,234	544,685	2,638,106	213,385	46,153	-	2,863,952	950,615	8,441,449	805,885	137,733	21,665,197
Southern	6,014,775	1,464,661	3,603,623	388,474	89,707	-	4,908,557	1,948,311	13,632,876	968,028	10,519	33,029,531
Uva	1,516,886	25,906	1,006,287	121,106	16,417	-	1,832,132	629,553	4,376,394	425,507	-	9,950,188
Western	76,142,919	50,154,096	21,747,218	6,956,843	555,710	7,831,111	34,700,747	18,696,937	225,372,988	75,412,905	3,941,857	521,513,331
Bangladesh	5,193,417	3,925,396	258,288	58,047	-	117,336	476,542	385,564	10,368,545	25,758,410	12,690,999	59,232,544
Total	114,497,275	57,511,986	37,473,010	8,825,563	1,335,497	7,948,447	52,812,880	27,653,280	305,063,446	107,524,471	16,800,712	737,446,567

Please refer Note 35 on page 239 for the gross carrying amount of the loans and advances to other customers.

69.2 Liquidity risk

Liquidity risk is the Bank's inability to meet on or off-balance sheet contractual and contingent financial obligations, as they fall due without incurring unacceptable losses. The principal objective in liquidity risk management is to assess the need for funds to meet such obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time, under both normal and stressed conditions.

Therefore, the Bank continuously analyses and monitors its liquidity profile, maintains adequate levels of high quality liquid assets, ensures access to diverse funding sources and has contingency funding agreements with peer banks to meet any unforeseen liquidity requirements. Exposures and ratios against tolerance limits as well as stressed scenarios are regularly monitored in order to identify the Bank's liquidity position and potential funding requirements.

Assets and Liability Management Committee (ALCO)

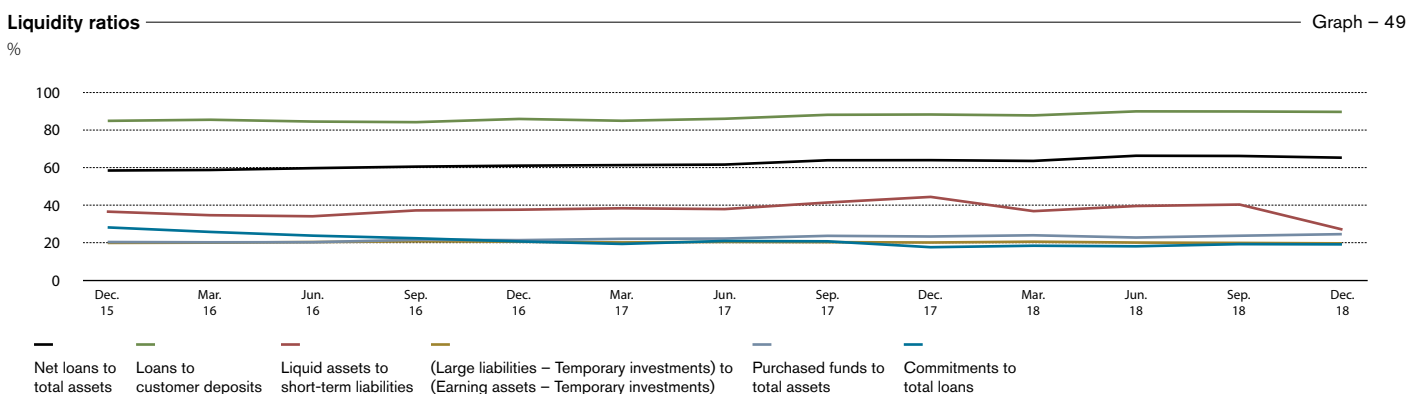
ALCO chaired by the Managing Director, has representatives from Treasury, Corporate Banking, Personal Banking, Risk and Finance Departments. The Committee meets fortnightly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep the Banks' liquidity at healthy levels, whilst satisfying the regulatory requirements.

69.2.1 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total liabilities excluding shareholders' funds. For this purpose, "liquid assets" include cash and cash equivalents, placements with banks and Government Securities (net). Details of the reported ratio of liquid assets to external liabilities of the Domestic Banking Unit (DBU) and the Off shore Banking Centre (OBC) as at reporting dates are as follows:

	Domestic Banking Unit		Off shore Banking Centre	
	2018 %	2017 %	2018 %	2017 %
As at December 31,	24.47	27.28	30.20	30.95
Average for the period	25.43	26.66	30.81	31.72
Maximum for the period	28.82	27.98	39.21	37.00
Minimum for the period	23.80	25.75	27.30	27.80
Statutory minimum requirement	20.00	20.00	20.00	20.00

The graph below depicts the trends in liquidity ratios of the Bank calculated on a quarterly basis during the period from December 2017 to December 2018:



69.2.2 Maturity analysis of financial assets and financial liabilities
69.2.2 (a) Remaining contractual period to maturity – Bank

(i) Remaining contractual period to maturity of the assets employed by the Bank as at December 31, is detailed below:

As at December 31,	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as at December 31, 2018	Total as at December 31, 2017
	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest earning assets:							
Financial assets							
Cash and cash equivalents	8,959,135	-	-	-	-	8,959,135	3,457,539
Balances with central banks	5,908,142	2,000,899	-	68,550	-	7,977,591	1,155,988
Placements with banks	19,898,515	-	-	-	-	19,898,515	17,633,269
Securities purchased under resale agreements	9,513,512	-	-	-	-	9,513,512	-
Derivative financial assets	-	-	-	-	-	-	-
Financial assets recognised through profit or loss/ held for trading – Measured at fair value	4,751,360	-	-	-	-	4,751,360	4,096,168
Financial assets at amortised cost – Loans and advances to banks	-	-	-	-	-	-	-
Financial assets at amortised cost – Loans and advances to other customers	320,738,308	201,409,774	193,654,783	99,943,495	45,353,955	861,100,315	737,446,567
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and Loans and receivables	8,599,196	11,063,223	30,343,068	30,561,901	3,288,048	83,855,436	112,275,229
Financial assets measured at fair value through other comprehensive income/financial Investments – Available for sale	14,825,940	50,792,907	55,334,538	54,075,631	1,233,344	176,262,360	154,167,169
Total interest earning assets as at December 31, 2018	393,194,108	265,266,803	279,332,389	184,649,577	49,875,347	1,172,318,224	
Total Interest earning assets as at December 31, 2017	277,041,769	281,538,977	258,419,287	162,241,360	50,990,536		1,030,231,929
Non-interest earning assets:							
Financial assets							
Cash and cash equivalents	30,575,341	-	-	-	-	30,575,341	29,767,080
Balances with central banks	27,250,735	16,305,044	1,237,212	809,047	804,961	46,406,999	43,645,458
Placements with banks	-	-	-	-	-	-	-
Securities purchased under resale agreements	-	-	-	-	-	-	-
Derivative financial assets	3,304,750	3,982,426	589,427	-	33,359	7,909,962	2,334,536
Financial assets recognised through profit or loss/ held for trading – Measured at fair value	768,807	-	-	-	-	768,807	314,745
Financial assets at amortised cost – Loans and advances to banks	-	-	763,074	-	-	763,074	640,512
Financial assets at amortised cost – Loans and advances to other customers	-	-	-	-	-	-	-
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and loans and receivables	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	-	-	-	20,651	223,718	244,369	546,963

As at December 31,	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as at December 31, 2018	Total as at December 31, 2017
	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Non-financial assets							
Investments in subsidiaries	-	-	-	-	4,263,631	4,263,631	3,065,935
Investments in associates	-	-	-	-	44,331	44,331	44,331
Property, plant and equipment	-	-	-	-	15,301,246	15,301,246	14,634,710
Intangible assets	-	-	-	-	906,112	906,112	776,810
Leasehold property	-	-	-	-	71,652	71,652	72,594
Deferred tax assets	-	-	-	-	-	-	-
Other assets	17,802,945	225,991	1,890,106	530,631	3,461,449	23,911,122	17,298,162
Total Non-interest earning assets as at December 31, 2018	79,702,578	20,513,461	4,479,819	1,360,329	25,110,459	131,166,646	-
Total Non-interest earning assets as at December 31, 2017	70,311,817	15,953,121	2,669,183	1,253,732	22,953,983		113,141,836
Total assets – As at December 31, 2018	472,896,686	285,780,264	283,812,208	186,009,906	74,985,806	1,303,484,870	
Total assets – As at December 31, 2017	347,353,586	297,492,098	261,088,470	163,495,092	73,944,519		1,143,373,765
Percentage – As at December 31, 2018*	36.29	21.92	21.77	14.27	5.75	100.00	
Percentage – As at December 31, 2017*	30.38	26.02	22.83	14.30	6.47		100.00

(*) Total assets of each maturity bucket as a percentage of total assets employed by the Bank.

(ii) Remaining contractual period to maturity of the liabilities and shareholders' funds employed by the Bank as at the date of Statement of Financial Position is detailed below:

As at December 31,	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as at December 31, 2018	Total as at December 31, 2017
	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest-bearing liabilities:							
Financial Liabilities							
Due to banks	11,625,888	16,648,582	-	-	-	28,274,470	48,954,474
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchase agreements	38,858,224	6,974,167	3,272,071	-	-	49,104,462	49,676,767
Financial Liabilities recognised through profit or loss – Measured at fair value	-	-	-	-	-	-	-
Financial liabilities at amortised cost – Due to depositors	504,105,648	352,184,128	24,892,407	14,112,967	16,088,136	911,383,286	789,533,286
Financial liabilities at amortised cost – Other borrowings	266,300	1,499,941	8,463,641	8,507,200	6,624,830	25,361,912	23,786,094
Subordinated liabilities	739,373	387,827	9,477,720	22,104,087	5,283,450	37,992,457	25,165,924
Total interest-bearing liabilities as at December 31, 2018	555,595,433	377,694,645	46,105,839	44,724,254	27,996,416	1,052,116,587	
Total Interest-bearing liabilities as at December 31, 2017	524,871,276	306,214,684	38,492,219	30,031,857	37,506,509		937,116,545

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As at December 31,	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as at December 31, 2018	Total as at December 31, 2017
	Rs. '000	Rs.'000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Non-interest bearing liabilities:							
Financial liabilities							
Due to banks	21,826,611	-	-	-	-	21,826,611	8,166,517
Derivative financial liabilities	3,404,297	4,432,899	184,587	-	-	8,021,783	3,678,494
Securities sold under repurchase agreements	-	-	-	-	-	-	-
Financial liabilities recognised through profit or loss – measured at fair value	-	-	-	-	-	-	-
Financial liabilities at amortised cost – due to depositors	71,654,028	-	-	-	-	71,654,028	60,594,225
Financial liabilities at amortised cost – other borrowings	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-
Non-financial liabilities							
Debt securities issued	-	-	-	-	-	-	-
Current tax liabilities	1,274,349	5,292,009	-	-	-	6,566,358	4,143,911
Deferred tax liabilities	(554,786)	(328,268)	(515,164)	151,947	1,892,519	646,248	3,274,826
Other provisions	-	-	-	-	-	-	-
Other liabilities	15,524,380	2,387,328	2,045,280	838,683	3,410,680	24,206,351	19,225,364
Due to subsidiaries	40,955	-	-	-	-	40,955	74,523
Equity							
Stated capital	-	-	-	-	39,147,882	39,147,882	37,143,541
Statutory reserves	-	-	-	-	7,354,143	7,354,143	6,476,952
Retained earnings	-	-	-	-	5,063,076	5,063,076	4,987,446
Other reserves	-	-	-	-	66,840,848	66,840,848	58,491,421
Total non-interest bearing liabilities as at December 31, 2018	113,169,834	11,783,968	1,714,703	996,630	123,709,148	251,368,283	
Total non-Interest bearing liabilities as at December 31, 2017	75,376,089	14,424,025	3,532,019	1,636,826	111,288,261		206,257,220
Total liabilities and equity – as at December 31, 2018	668,765,267	389,478,613	47,820,542	45,714,884	151,705,564	1,303,484,870	
Total liabilities and equity – as at December 31, 2017	600,247,365	320,638,709	42,024,238	31,668,683	148,794,770		1,143,373,765
Percentage – as at December 31, 2018*	51.30	29.88	3.67	3.51	11.64	100.00	
Percentage – as at December 31, 2017*	52.50	28.04	3.68	2.77	13.01		100.00

(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage of total liabilities and shareholders' funds employed by the Bank.

69.2.2 (b) Non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the reporting date

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the reporting date:

<i>As at December 31,</i>	2018	2017
	Rs. '000	Rs. '000
Financial assets		
Non-derivative financial assets		
Balances with central banks	2,919,770	2,329,368
Financial assets at amortised cost – Loans and advances to banks	763,074	640,512
Financial assets at amortised cost – Loans and advances to other customers	338,952,233	307,676,926
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and Loans and receivables	64,193,017	73,901,390
Financial assets measured at fair value through other comprehensive income/ financial investments – Available for sale	110,887,882	49,613,501
Total	517,715,976	434,161,697
Financial liabilities		
Non-derivative financial liabilities		
Securities sold under repurchase agreements	3,272,071	2,746,663
Financial liabilities at amortised cost – Due to depositors	55,093,510	45,325,787
Financial liabilities at amortised cost – Other borrowings	23,595,671	21,036,561
Subordinated liabilities	36,865,257	24,630,973
Total	118,826,509	93,739,984

69.2.3 Liquidity reserves

The table below sets out the components of the Bank's liquidity reserves:

<i>As at December 31,</i>	2018		2017	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Balances with central banks	54,384,590	54,384,590	44,801,446	44,801,446
Balances with other banks	15,266,105	15,266,105	9,944,020	9,944,020
Coins and notes held	24,272,784	24,272,784	23,280,599	23,280,599
Unencumbered debt securities issued by sovereigns	219,505,833	216,080,931	172,149,322	171,675,912
Total	313,429,312	310,004,410	250,175,387	249,701,977

69.2.4 Financial assets available to support future funding

The table below sets out the availability of the Bank's financial assets to support future funding.

As at December 31, 2018			Encumbered		Unencumbered		Total Rs. '000
			Pledged as collateral	Other	Available as collateral	Other	
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	
	Note	Page No					
Cash and cash equivalents	29	231	-	-	39,534,476	-	39,534,476
Balances with central banks	30	232	-	39,412,442	14,972,148	-	54,384,590
Placements with banks	31	233	-	-	19,898,515	-	19,898,515
Securities purchased under resale agreements			-	-	9,513,512	-	9,513,512
Derivative financial assets	32	233	-	-	7,909,962	-	7,909,962
Financial assets recognised through profit or loss/ held for trading – Measured at fair value	33	234	-	-	5,520,167	-	5,520,167
Financial assets at amortised cost – Loans and advances to banks *	34	238	-	763,074	-	-	763,074
Financial assets at amortised cost – Loans and advances to other customers	35	239	-	-	861,100,315	-	861,100,315
Financial assets at amortised cost – Debt and other financial instruments/financial investments – Held to maturity and Loans and receivables	36	247	-	-	83,855,436	-	83,855,436
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	37	250	49,267,013	-	127,239,716	-	176,506,729
Total			49,267,013	40,175,516	1,169,544,247	-	1,258,986,776

As at December 31, 2017			Encumbered		Unencumbered		Total Rs. '000
			Pledged as collateral	Other	Available as collateral	Other	
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	
	Note	Page No					
Cash and cash equivalents	29	231	-	-	33,224,619	-	33,224,619
Balances with central banks	30	232	-	39,766,630	5,034,816	-	44,801,446
Placements with banks	31	233	-	-	17,633,269	-	17,633,269
Securities purchased under resale agreements			-	-	-	-	-
Derivative financial assets	32	233	-	-	2,334,536	-	2,334,536
Other financial instruments – Held for trading	33	234	-	-	4,410,913	-	4,410,913
Loans and receivables to banks *	34	238	-	640,512	-	-	640,512
Loans and receivables to other customers	35	239	-	-	737,446,567	-	737,446,567
Financial investments – Held to maturity	36	247	-	-	63,562,752	-	63,562,752
Financial investments – Loans and receivables	36	247	-	-	48,712,477	-	48,712,477
Financial investments – Available for sale **	37	250	58,768,665	-	95,945,467	-	154,714,132
Total			58,768,665	40,407,142	1,008,305,416	-	1,107,481,223

(*) Represents an amount where the Bank is prevented from exercising the right of lien against the claim made by the Bank due to a Court action.

(**) Market value of securities pledged as collateral is considered as encumbered.

69.3 | Market risk

Market risk is the risk of losses in on or off-balance sheet positions arising out of movements in prices affecting foreign exchange exposures, interest rate instruments, equity/debt instruments and commodity exposures. The Bank monitors market risk in both trading and non-trading portfolios on an ongoing basis.

69.3.1 | Exposure to market risk – trading and non-trading portfolio

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

As at December 31, 2018		Market risk measurement			
		Carrying amount Rs. '000	Trading portfolios Rs. '000	Non-trading portfolios Rs. '000	
	Note	Page No			
Assets subject to market risk					
Cash and cash equivalents	29	231	20,050,789	–	20,050,789
Balances with central banks	30	232	14,517,678	–	14,517,678
Placements with banks	31	233	19,898,515	–	19,898,515
Securities purchased under resale agreements			9,513,512	–	9,513,512
Derivative financial assets	32	233	7,909,962	7,909,962	–
Financial assets recognised through profit or loss/held for trading – Measured at fair value	33	234	5,520,167	5,520,167	–
Financial assets at amortised cost – Loans and advances to banks	34	238	763,074	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	35	239	861,100,315	–	861,100,315
Financial assets at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and Loans and receivables	36	247	83,855,436	–	83,855,436
Financial assets measured at fair value through other comprehensive income/ Financial Investments – Available for sale	37	250	176,506,729	–	176,506,729
Total			1,199,636,177	13,430,129	1,186,206,048
Liabilities subject to market risk					
Due to banks	45	278	50,101,081	–	50,101,081
Derivative financial liabilities	46	278	8,021,783	8,021,783	–
Securities sold under repurchase agreements			49,104,462	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	47	280	937,860,201	–	937,860,201
Financial liabilities at amortised cost – Other borrowings	48	281	25,361,912	–	25,361,912
Subordinated liabilities	52	291	37,992,457	–	37,992,457
Total			1,108,441,896	8,021,783	1,100,420,113

<i>As at December 31, 2017</i>			Market risk measurement		
	Note	Page No	Carrying amount Rs. '000	Trading portfolios Rs. '000	Non-trading portfolios Rs. '000
Assets subject to market risk					
Cash and cash equivalents	29	231	12,387,967	–	12,387,967
Balances with central banks	30	232	4,601,606	–	4,601,606
Placements with banks	31	233	17,633,269	–	17,633,269
Derivative financial assets	32	233	2,334,536	2,334,536	–
Other financial instruments – Held for trading	33	234	4,410,913	4,410,913	–
Loans and receivables to banks	34	238	640,512	–	640,512
Loans and receivables to other customers	35	239	737,446,567	–	737,446,567
Financial investments – Available for sale	37	250	154,714,132	–	154,714,132
Financial investments – Held to maturity	36	247	63,562,752	–	63,562,752
Financial investments – Loans and receivables	36	247	48,712,477	–	48,712,477
Total			1,046,444,731	6,745,449	1,039,699,282
Liabilities subject to market risk					
Due to banks	45	278	57,120,991	–	57,120,991
Derivative financial liabilities	46	278	3,678,494	3,678,494	–
Securities sold under repurchase agreements			49,676,767	–	49,676,767
Due to other customers/deposits from customers	47	280	807,630,072	–	807,630,072
Other borrowings	48	281	23,786,094	–	23,786,094
Subordinated liabilities	52	291	25,165,924	–	25,165,924
Total			967,058,342	3,678,494	963,379,848

69.3.2 Exposure to interest rate risk – Sensitivity analysis

69.3.2 (a) Exposure to interest rate risk – Non-trading portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments gives rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is maintained within prudent levels.

The tables below analyse the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amounts and categorised by the earlier of contractual re-pricing or maturity dates.

Interest rate gap position of the non-trading portfolio of the Bank is given below:

As at December 31, 2018	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Non-sensitive Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	7,899,330	-	-	-	-	31,635,146	39,534,476
Balances with central banks	14,517,678	-	-	-	-	39,866,912	54,384,590
Placements with banks	19,898,515	-	-	-	-	-	19,898,515
Securities purchased under resale agreements	9,513,512	-	-	-	-	-	9,513,512
Derivative financial assets	-	-	-	-	-	-	-
Other financial instruments held for trading	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	-	-	-	763,074	763,074
Financial assets at amortised cost – Loans and advances to other customers	533,455,698	150,401,109	84,419,598	45,481,563	39,900,194	7,442,153	861,100,315
Financial assets measured at amortised cost – Debt and other financial instruments/ financial investments – Held to maturity and Loans and receivables	6,812,657	11,090,082	25,554,127	35,456,787	3,292,181	1,649,602	83,855,436
Financial assets measured at fair value through other comprehensive income/financial investments – Available for sale	71,716,497	50,398,511	46,968,746	4,400,562	1,235,701	1,786,712	176,506,729
Total financial assets	663,813,887	211,889,702	156,942,471	85,338,912	44,428,076	83,143,599	1,245,556,647
Financial liabilities							
Due to banks	26,297,708	4,574,999	7,320,000	7,320,000	-	4,588,374	50,101,081
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchased agreements	39,075,611	6,771,810	3,257,041	-	-	-	49,104,462
Financial liabilities at amortised cost – Due to depositors	512,016,994	351,834,901	23,818,232	13,279,035	13,153,783	68,934,369	983,037,314
Financial liabilities at amortised cost – Other borrowings	19,559,972	514,797	1,005,084	737,950	3,544,109	-	25,361,912
Subordinated liabilities	14,566,489	-	9,748,678	8,393,840	5,283,450	-	37,992,457
Total financial liabilities	611,516,774	363,696,507	45,149,035	29,730,825	21,981,342	73,522,743	1,145,597,226
Interest rate sensitivity gap	52,297,113	(151,806,805)	111,793,436	55,608,087	22,446,734	9,620,856	99,959,421
Cumulative gap	52,297,113	(99,509,692)	12,283,744	67,891,831	90,338,565	99,959,421	

Financial Reports © Notes to the Financial Statements

As at December 31, 2017	Up to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Non-sensitive	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets							
Cash and cash equivalents	3,952,578	-	-	-	-	29,272,041	33,224,619
Balances with central banks	4,601,606	-	-	-	-	40,199,840	44,801,446
Placements with banks	16,097,269	1,536,000	-	-	-	-	17,633,269
Securities purchased under resale agreements	-	-	-	-	-	-	-
Derivative financial assets	-	-	-	-	-	-	-
Other financial instruments – Held for trading	-	-	-	-	-	-	-
Loans and receivables to banks	-	-	-	-	-	640,512	640,512
Loans and receivables to other customers	460,905,113	134,400,971	65,554,128	38,341,792	31,537,815	6,706,748	737,446,567
Financial investments – Available for sale	10,573,104	68,317,215	46,631,198	28,638,006	-	554,609	154,714,132
Financial investments – Held to maturity	4,077,406	9,871,844	12,885,242	29,661,660	7,066,600	-	63,562,752
Financial investments – Loans and receivables	41,140,625	1,893,522	5,678,330	-	-	-	48,712,477
Total financial assets	541,347,701	216,019,552	130,748,898	96,641,458	38,604,415	77,373,750	1,100,735,774
Financial liabilities							
Due to banks	44,703,696	5,366,253	-	-	-	7,051,042	57,120,991
Derivative financial liabilities	-	-	-	-	-	-	-
Securities sold under repurchase agreements	36,290,396	10,652,592	2,733,779	-	-	-	49,676,767
Due to other customers/Deposits from customers	457,830,953	286,182,073	16,482,261	12,360,297	10,739,911	66,532,016	850,127,511
Other borrowings	18,293,434	814,083	1,002,777	908,493	2,767,307	-	23,786,094
Subordinated liabilities	11,664,201	327,156	-	9,500,724	3,673,843	-	25,165,924
Total financial liabilities	568,782,680	303,342,157	20,218,817	22,769,514	17,181,061	73,583,058	1,005,877,287
Interest rate sensitivity gap	(27,434,979)	(87,322,605)	110,530,081	73,871,944	21,423,354	3,790,692	94,858,487
Cumulative gap	(27,434,979)	(114,757,584)	(4,227,503)	69,644,441	91,067,795	94,858,487	

69.3.2 (b) Exposure to interest rate risk – Non-trading portfolio (rate shocks)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Bank's Income Statement as at the reporting date, due to change in interest rates by 100 bps with all other variables held constant:

Sensitivity of projected net interest income

Net Interest Income (NII)	2018		2017	
	Parallel increase	Parallel decrease	Parallel increase	Parallel decrease
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
At at December 31,	1,560,756	(1,557,263)	1,243,611	(1,241,623)
Average for the period	1,493,675	(1,490,832)	920,414	(918,225)
Maximum for the period	1,646,558	(1,639,199)	1,243,611	(1,241,623)
Minimum for the period	1,269,334	(1,267,132)	706,442	(704,325)

Foreign exchange position as at December 31, 2017

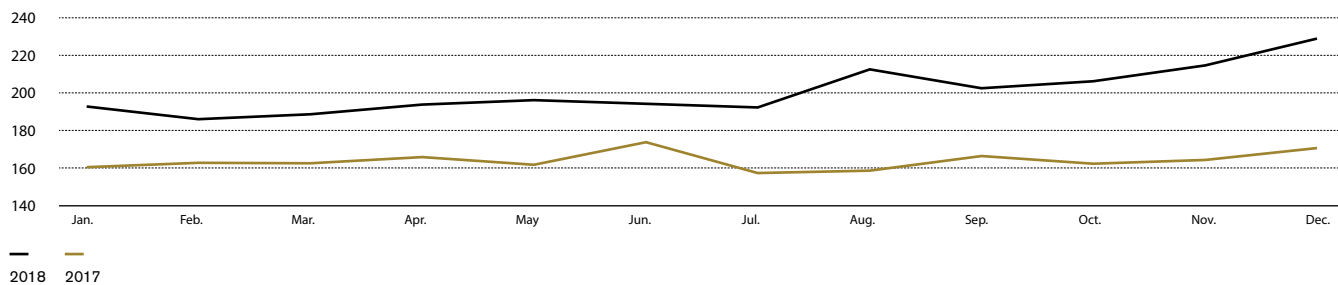
Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in Rs.
	Assets	Liabilities	Net	Assets	Liabilities	Net				
	2 '000	3 '000	4=2-3 '000	5 '000	6 '000	7=5-6 '000				
United States Dollar	22,289	22,822	(533)	5,350	389	4,961	2,734	-	7,162	1,100,083
Great Britain Pound	388	473	(85)	36	-	36	20	-	(29)	(5,991)
Euro	5,479	5,696	(217)	-	-	-	(52)	-	(269)	(49,344)
Japanese Yen	12,181	8,754	3,427	11,278	18,042	(6,764)	372	-	(2,965)	(4,039)
Indian Rupee	-	-	-	-	-	-	-	-	-	-
Australian Dollar	482	633	(151)	106	16	90	10	-	(51)	(6,106)
Canadian Dollar	65	13	52	-	-	-	(34)	-	18	2,201
Other currencies in USD	705	354	351	-	170	(170)	(88)	-	93	14,285
Total exposure							USD 2,595		USD 6,843	1,051,089
Total capital funds (capital base) as per the audited Basel III computation (Capital base of the Bank as at December 31, 2017)										122,415,882
Total exposure as a percentage of total capital funds (%)										0.86

The Bank regularly carries out sensitivity analysis on Net Open Position (NOP) due to possible changes in the USD/LKR exchange rate to assess the exposure to Foreign Exchange (FX) Risk. An appropriate shock based on historical USD/LKR exchange rate is applied on the NOP which is measured against the Board-approved threshold limits.

Sensitivity of Fx Position – Impact of 1% change in Exchange Rate (Sri Lankan Operation)

Graph – 51

+/- Rs. Mn.



69.3.4 Exposure to equity price risk

Equity price risk arises as a result of any change in market prices and volatilities of individual equities. The Bank conducts mark-to-market calculations on a daily, quarterly and on a need basis to identify the impact due to changes in equity prices.

The table below summarises the impact (both to Income Statement and to equity) due to a change of 10% on equity prices.

	2018			2017		
	Financial assets recognised through profit or loss Rs. '000	Financial assets fair value through other comprehensive income Rs. '000	Total Rs. '000	Held for trading Rs. '000	Available for sale Rs. '000	Total Rs. '000
Market value of equity securities as at December 31,	768,807	195,149	963,956	314,745	500,278	815,023
Stress Level	Impact on Income Statement	Impact on OCI	Impact on equity	Impact on Income Statement	Impact on OCI	Impact on equity
Shock of 10% on equity prices (upward)	76,881	19,515	96,396	31,475	50,028	81,503
Shock of 10% on equity prices (downward)	(76,881)	(19,515)	(96,396)	(31,475)	(50,028)	(81,503)

69.4 Operational risk

Operational risk arises due to inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputational losses to the Bank.

The operational risk management framework of the Bank has been defined under the Board-approved operational risk management policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank, and a detailed testing and verification of the Bank's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent backup facility for business continuity planning.

69.5 Capital management and Pillar III disclosures as per Basel III

Objective

The Bank is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

69.5.1 Regulatory capital

Capital adequacy ratio (CAR) is calculated based on the CBSL directions stemming from Basel III accord. These guidelines require the Bank to maintain a CAR not less than 8.875% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 12.875% in relation to total risk weighted assets.

<i>As at December 31,</i>	2018 Rs. '000	2017 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	107,110,518	94,151,253
Total common equity Tier 1 (CET1) capital	110,822,797	96,696,269
Equity capital (stated capital)/assigned capital	39,147,882	37,143,541
Reserve fund	7,354,143	6,476,952
Published retained earnings/(accumulated retained losses)	5,726,294	1,798,112
Published accumulated other comprehensive income (OCI)	352,491	(1,522,156)
General and other disclosed reserves	58,241,987	52,799,820
Unpublished current year's profit/(losses) and gains reflected in OCI	-	-
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to CET1 capital	3,712,279	2,545,016
Goodwill (net)	-	-
Other intangible assets (net)	906,114	776,812
Revaluation losses of property, plant and equipment	3,813	3,813
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	2,802,352	1,764,391
Additional Tier 1 (AT1) capital after adjustments	-	-
Total additional Tier 1 (AT1) capital	-	-
Qualifying additional Tier 1 capital instruments	-	-
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to AT1 capital	-	-
Investment in own shares	-	-
Others (Specify)	-	-
Tier 2 Capital after adjustments	40,287,823	28,264,629
Total Tier 2 Capital	40,287,823	28,264,629
Qualifying Tier 2 capital instruments	33,103,574	22,799,002
Revaluation gains	3,087,658	2,024,804
Loan loss provisions	4,096,591	3,440,823
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	-	-
Total adjustments to Tier 2 capital	-	-
Investment in own shares	-	-
Others (specify)	-	-
CET1 capital	107,110,518	94,151,253
Total Tier 1 capital	107,110,518	94,151,253
Total capital	147,398,341	122,415,882

69.5.2 | Capital allocation

The Management monitors the capital adequacy ratio on a regular basis to ensure that it operates well above the internal limit set by the Bank. The allocation of capital between specific operations and activities, to a large extent, driven by optimisation of return on capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases, the regulatory requirements do not fully reflect the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required level by the regulator.

69.5.3 | Pillar III disclosures as per Basel III

Disclosures under these requirements mainly include the regulatory capital requirements and liquidity, risk weighted assets, discussion on adequacy to meet current and future capital requirements of banks and linkages between financial statements and regulatory exposures. It is required to disclose the templates specified by the Central Bank of Sri Lanka as per Basel III – Minimum disclosure requirements with effective from July 1, 2017.

70. | Events after the reporting period

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements other than disclosed below.

70.1 | Interim dividend – 2018

The Bank declared and paid a second interim dividend of Rs. 3.00 per share on February 15, 2019 to both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2018.

In accordance with the Sri Lanka Accounting Standard – LKAS 10 on “Events after the Reporting Period”, this second interim dividend has not been recognised as a liability as at December 31, 2018. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 14% has been imposed on dividends declared.

70.2 | Final dividend – 2018

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2.00 per share which will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2018.

This final dividend is yet to be approved at the Annual General Meeting to be held on March 28, 2019. In accordance with the Sri Lanka Accounting Standard – LKAS 10 on “Events after the reporting period”, this proposed final dividend has not been recognised as a liability as at December 31, 2018. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 14% has been imposed on dividends declared.

Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 22, 2019 has been audited by Messrs Ernst & Young.