

1. Corporate Information

1.1 Reporting Entity

The National Development Bank of Sri Lanka was incorporated under the National Development Bank of Sri Lanka Act No. 2 of 1979. In 2005, pursuant to the provisions of the National Development Bank of Sri Lanka (consequential provisions) Act No. 1 of 2005, a company by the name of 'National Development Bank Ltd.' was incorporated for the purposes of taking over the business of National Development Bank of Sri Lanka. Accordingly, on 15 June 2005, the National Development Bank Ltd. was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

In terms of the new Companies Act No. 07 of 2007, the name of the Bank was changed as 'National Development Bank PLC' ('The Bank'). The Bank was re-registered in terms of the new Companies Act on 4 July 2007 and was assigned with PQ 27 as the new Registration Number.

The Bank is listed on the Colombo Stock Exchange. The Registered Office of the Bank and its principal place of business are situated at No. 40, Navam Mawatha, Colombo 2.

The number of branches of the Bank as at 31 December 2014 was 83 (2013 - 78) and the number of staff employed as at 31 December 2014 was 1,744 (2013 - 1,583).

1.2 Principal Activities of the Bank and the Group

Bank

The principal activities of the Bank consist of retail banking, small and medium enterprise (SME) banking, corporate banking, project and infrastructure financing, investment banking, leasing, housing finance, cash management, correspondent banking, remittance services, margin trading, pawning, treasury and investment services, bancassurance and card operations.

Group

The principal activities of the Group companies comprising of the subsidiaries and the associate companies are summarised below:

Name of Group Company	Country of Incorporation	Holding % - 2014		Holding % - 2013		Principal Activities
		Direct	Indirect	Direct	Indirect	
Subsidiaries						
NDB Capital Holdings PLC (de-listed with effect from 26 January 2015)	Sri Lanka	99.9		99.6		Full service investment banking
NDB Investment Bank Ltd.	Sri Lanka	-	99.9	-	99.6	Investment banking
NDB Wealth Management Ltd.	Sri Lanka	-	99.9	-	99.6	Wealth management
NDB Securities (Pvt) Ltd.	Sri Lanka	-	99.9	-	99.6	Investment advisory and securities trading
Development Holdings (Pvt) Ltd.	Sri Lanka	58.7		58.7		Property management
NDB Capital Ltd.	Bangladesh	77.8		77.8		Investment banking
NDB Zephyr Partners Ltd.	Mauritius	-	59.8	-	-	Management of private equity funds
Associate Companies						
Ayojana Fund (Pvt) Ltd. (under liquidation)	Sri Lanka	50		50		Venture capital
NDB Venture Investments (Pvt) Ltd. (under liquidation)	Sri Lanka	50		50		Venture capital

1.3 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2014 comprise of the Bank (parent company) and the subsidiaries and associate companies.

The Bank does not have an identifiable parent company and is the ultimate parent of the NDB Group.

1.4 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2014 which comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow, Accounting Policies and Notes, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRs and LKASs, hereinafter referred to as 'SLFRSs') issued by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation of Financial Statements is also in compliance with the requirements of the Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange.

1.5 Functional and Presentation Currency

The Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees which is the currency of the primary economic environment in which the Bank and the Group operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

1.6 Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and the Group, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs.

The Board of Directors acknowledge their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors Responsibility' and the certification given on the 'Statement of Financial Position' on pages 251 to 258, pages 261 and 262 and page 272 respectively.

These Financial Statements include-

- The Statement of Profit or Loss and a Statement of Comprehensive Income providing information on the performance for the year under review (Refer pages 270 and 271).
- Statement of Financial Position providing the information on the financial position of the Bank and the Group as at the year end (Refer page 272).
- Statement of Changes in Equity providing the movement in the shareholders' funds during the year ended under review for the Bank and the Group.
- Statement of Cash Flow providing the information to the users, on the ability of the Bank and the Group to generate cash and cash equivalents and the needs for entities to utilize those cash flows (refer pages 275 and 276); and
- Notes to the Financial Statements, which comprise of the Accounting Policies and other explanatory notes and information (Refer pages 277 to 376).

1.7 Approval of the Financial Statements

The Financial Statements of the Bank and the Group for the year ended 31 December 2014 (including comparatives) have been approved and authorized for issue by the Board of Directors on 13 February 2015.

2. Basis of Preparation of Financial Statements

2.1 Preparation of Financial Statements

The Financial Statements of the Bank and the Group have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

- Investment properties which are measured at fair value
- Financial Investments - Available-for-sale which are measured at fair value
- Derivative financial instruments which are measured at fair value
- Financial assets and liabilities held-for-trading which are measured at fair value
- Freehold land and building which are measured at fair value
- Liabilities for defined benefit obligations which are recognized at the present value of the defined benefit obligations less the net totals of plan assets and unrecognized past service cost

2.2 Presentation of Financial Statements

The Bank and the Group presents their Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 51 to the Financial Statements.

2.3 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards - LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position of the Bank and the Group only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the Statement of Profit or Loss of the Bank and the Group unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Notes to the Financial Statements of the Bank and the Group.

2.4 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries and associates for the year ended 31 December 2014. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank, using consistent Accounting Policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

Subsidiaries are fully-consolidated from the date on which, control is transferred to the Bank.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position, but separate from Parent shareholders' equity.

2.5 Foreign Currency Translation

All foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the middle exchange rate of the functional currency ruling at the date of the Statement of Financial Position. The resulting gains and losses are accounted for in the Statement of Profit or Loss.

- (a) Non-monetary assets and liabilities that are measured on a historical cost basis in foreign currency are translated using the exchange rates prevailing at that date. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.
- (b) Transactions of the Foreign Currency Banking Unit have been recorded in accordance with Note (a) above. Net gains and losses are dealt within the Statement of Profit or Loss.
- (c) Forward exchange contracts are valued at the forward market rates prevailing at the date of the Statement of Financial Position. Profits or losses on such transactions are dealt within the Statement of Profit or Loss.
- (d) As at the reporting date, the assets and liabilities of overseas subsidiaries/associates are translated into the Bank's presentation currency at the rate of exchange ruling at the date of the Statement of Financial Position and their profits and losses are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.
- (e) On disposal of a foreign subsidiary/associate, the deferred cumulative amount recognized in equity relating to that particular foreign subsidiary/associate is recognized in the Statement of Profit or Loss in 'other operating expenses' or 'other operating income', respectively.

2.6 Going Concern

The Board of Directors of the Bank and its Group companies has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the ability of the Bank and its Group companies to continue as a going concern. Therefore, the Financial Statements of the Bank and the Group continue to be prepared on the going concern basis.

3. General Accounting Policies

3.1 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Bank and the Group the management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to the Financial Statements, on pages 277 to 376.

3.2 Financial Instruments

Initial Recognition Date

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Bank and the Group become a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Classification and Subsequent Measurement of Financial Assets

At inception, a financial asset is classified into one of the following categories:

- At fair value through profit or Loss
 - Held-for-trading; or
 - Designated at fair value through profit or loss
- Loans and Receivables
- Available-for-Sale or
- Held-to-Maturity

The subsequent measurement of the financial assets depends on their classifications.

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as 'Held-for-Trading' if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered into by the Bank and the Group that are not designated as hedging instruments in hedge relationships as defined in LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Gains or losses on liabilities held-for-trading are recognised in the Statement of Comprehensive Income.

The Bank and the Group has not designated any financial liabilities upon recognition, at fair value through Profit or Loss.

Other Financial Liabilities

Financial instruments issued by the Bank and the Group that are not designated at fair value through profit or loss, are classified as 'other financial liabilities', where the substance of the contractual arrangement results in the Bank and the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include, amounts due to banks, due to other customers, debt securities and other borrowed funds and subordinate debts.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the Effective Interest Rate (EIR).

Derecognition of Financial Assets and Financial Liabilities

(a) Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when -

- The rights to receive cash flows from the asset have expired,
- The Bank and the Group have transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,

- The Bank and the Group have transferred substantially all the risks and rewards of the asset, or
- The Bank and the Group have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Bank and the Group have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank and the Group could be required to repay.

(b) Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the Statement of Profit or Loss.

Re-classification of Financial Assets and Liabilities

The Bank and the Group reclassify non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Bank and the Group are permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset with a fixed maturity, reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognized in Equity is amortized to the Statement of Profit or Loss over the remaining life of the asset using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognized in the Statement of profit or loss when

such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Comprehensive Income.

The Bank and the Group may reclassify a non-derivative trading asset out of the 'held-for-trading' category and in to the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank and the Group have the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank and the Group subsequently increase their estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate. Reclassification is at the election of management, and is determined on an instrument-by-instrument basis.

The Bank and the Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank and the Group does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

3.3 Impairment of Non-Financial Assets Other than Goodwill

The Bank and the Group assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank and the Group make an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank

and the Group estimate the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

3.4 Business Combinations and Goodwill

Investments in subsidiary companies are accounted for using the purchase method of accounting in the Consolidated Financial Statements. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition (negative goodwill) is recognized directly in the Statement of Profit or Loss in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Carrying amount of the goodwill arising on acquisition of subsidiaries is presented as an intangible asset and the goodwill on an acquisition of an equity accounted investment in investment in associates is included in the carrying value of the investment.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the Statement of Profit or Loss.

3.5 New Accounting Standards that Became Effective during the Year

LKAS 1 - Presentation of Items of Other Comprehensive Income - Amendments to LKAS

The amendments to LKAS 1 introduce a grouping of items presented in Other Comprehensive Income. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of freehold land and buildings). The amendments affect presentation only and have no impact on the Bank's or Group's financial position or performance.

SLFRS 7 - 'Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities'

Amendments to SLFRS 7 requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with LKAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with LKAS 32. The necessary disclosures required by the new amendment have been included in the Notes to the Financial Statements.

SLFRS 10 - 'Consolidated Financial Statements' and LKAS 27 - 'Separate Financial Statements'

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. SLFRS 10 replaces the parts of previously existing LKAS 27 Consolidated and Separate Financial Statements that dealt with Consolidated Financial Statements and SIC - 12 Consolidation - Special Purpose Entities. SLFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its

power over the investee. To meet the definition of control in SLFRS 10, all three criteria must be met, including:

- (a) an investor has power over an investee;
- (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

SLFRS 10 had no impact on the consolidation of investments held by the Bank and the Group.

SLFRS 11 - 'Joint Arrangements' and LKAS 28 - 'Investment in Associates and Joint Ventures'

SLFRS 11 replaces LKAS 31 - 'Interests in Joint Ventures' and SIC - 13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. SLFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under SLFRS 11 must be accounted for by using the equity method. SLFRS 10 had no impact on the consolidation of investments held by the Bank and the Group.

SLFRS 12 - 'Disclosure of Interests in Other Entities'

SLFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

SLFRS 13 - 'Fair Value Measurement'

SLFRS 13 - establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. The application of SLFRS 13 has not materially impacted the fair value measurements carried out by the Bank and the Group.

SLFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including SLFRS 7 - 'Financial Instruments: Disclosures'. Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

3.6 Standards Issued But Not Yet Effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Bank and Group financial statements are disclosed below. The Bank and the Group intend to adopt these standards, if applicable, when they become effective.

(i) SLFRS 9 - Financial Instruments: Classification and Measurement

SLFRS 9, reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

This standard was originally effective for annual periods commencing on or after 01 January 2018. However the effective date has been deferred subsequently.

(ii) SLFRS 14 -Regulatory Deferral Accounts

The scope of this standard is limited to first-time adopters of SLFRS that already recognise regulatory deferral account balances in their financial statements. Consequently, the financial statements of rate regulated entities that already apply SLFRS, or that do not otherwise recognise such balances, will not be affected by this standard. This standard is effective for the annual periods beginning on or after 01 January 2016.

(iii) SLFRS 15 -Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and International Financial Reporting Interpretations Committee (IFRIC) 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01 January 2017.

None of these new standards and interpretations is expected to have an effect on the Consolidated Financial Statements of the Bank and the Group Financial Statements of the Company, except for SLFRS 9 and 15. Pending the detailed review of such standards and interpretations, the extent of the impact has not been determined by the management.

4. Gross Income

Accounting Policy

Gross income is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the Group and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Interest Income	20,974,578	20,603,610	21,151,976	20,765,842
Fee and commission income	1,866,242	1,614,106	2,564,095	2,411,273
Net gains/(losses) from trading	910,027	953,325	910,027	953,325
Net gains/(losses) from financial investments	716,507	318,303	1,330,407	914,968
Other operating income	494,591	6,167,076	248,121	257,897
Total	24,961,945	29,656,420	26,204,626	25,303,305

5. Net Interest Income

Accounting Policy

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the Effective Interest Rate (EIR).

The carrying amount of the financial assets or financial liabilities is adjusted if the Bank and the Group revise their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The Amortized cost is calculated by taking into account any discount or premium on an acquisition and fees and costs that are an integral part of the EIR. The change in the carrying amount is recorded as 'Interest income' for financial assets and 'interest expenses' for financial liabilities.

Once the recorded value of financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
5.1 Interest Income				

5.1 Interest Income

Loans and receivables - to banks	36,175	68,735	36,175	68,735
Loans and receivables - to other customers	16,771,450	17,006,117	16,738,861	16,437,695
Placements with banks	139,101	683,723	147,687	686,785
Financial assets - held-for-trading	397,010	821,202	397,010	821,202
Financial investments - held-to-maturity	725,817	1,064,839	870,688	1,652,929
Financial investments - available-for-sale	890,669	53,649	890,669	53,649
Financial investments - loans and receivables	1,759,359	790,575	1,759,359	926,606
Other interest income	254,997	114,770	311,527	118,241
Total Interest Income (a)	20,974,578	20,603,610	21,151,976	20,765,842

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
5.2 Interest Income from Sri Lanka Government Securities				
Interest income	3,397,890	3,346,578	3,397,890	3,346,578
5.3 Interest Income on Impaired Financial Assets				
Interest income on impaired loans and receivables to other customers	217,067	147,702	217,067	147,702
5.4 Interest Expenses				
Due to banks	204,532	260,403	216,832	312,341
Due to other customers	8,748,429	10,462,783	8,748,429	10,462,783
Debt securities issued and other borrowed funds	2,794,957	2,749,268	2,721,251	2,660,091
Subordinated term debts	1,552,059	319,049	1,552,059	319,049
Total Interest Expenses (b)	13,299,977	13,791,503	13,238,571	13,754,264
Net Interest Income (a)-(b)	7,674,601	6,812,107	7,913,405	7,011,578

6. Fee and Commission Income

Accounting Policy

Income from Financial Guarantees

In the ordinary course of business, the Bank and the Group issue financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the Financial Statements (within 'other liabilities') at fair value, being the premium received.

Subsequent to the initial recognition, the Bank's and the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the Statement of Profit or Loss and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the Statement of Profit or Loss in 'Fee and Commission Income' on a straight-line basis over the lifetime of the guarantee.

Income from Fee-based Activities

Fees for underwriting, advisory work, loan syndication, management of funds and all other fees and commissions are recognized on an accrual basis.

Rental Income

The rental income is recognized on an accrual basis.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Cards	74,322	75,860	74,322	75,860
Due to other customers	133,983	142,707	133,983	142,707
Guarantees	267,216	270,596	267,216	270,596
Loans and receivables to other customers	522,602	347,139	522,602	347,139
Remittances	195,189	173,329	195,189	173,329
Trade finance	567,054	543,888	567,054	543,888
Bancassurance	64,622	44,638	64,622	44,638
Fees related to investment banking and wealth management	–	–	411,026	521,309
Brokerage	–	–	130,119	122,042
Rental income	10,040	9,160	143,529	133,709
Others	31,214	6,789	54,433	36,056
Total	1,866,242	1,614,106	2,564,095	2,411,273

7. Net Gains/(Losses) from Trading

Accounting Policy

Net gains/(losses) from trading represent income from foreign exchange and include gains and losses from spot and forward contracts and other currency derivatives.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Income from foreign exchange				
- With Banks	591,484	648,588	591,484	648,588
- With Customers	318,543	304,737	318,543	304,737
Total	910,027	953,325	910,027	953,325

8. Net Gains/(Losses) from Financial Investments

Accounting Policy

All gains and losses from changes in fair value and dividend income from investments 'held-for-trading' or as 'available-for-sale' are included under Net Gain/(Losses) from Financial Investments.

'Equities' income includes the results of buying and selling, and changes in the fair value of equity securities.

'Debt Securities' income includes the realized and unrealized gains of debt securities.

'Unit Trusts' income includes change in the fair value of unit trust investments.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Equities	–	–	108,502	877
Debt Securities	568,573	213,227	568,573	213,434
Unit Trusts	147,934	105,076	653,332	700,657
Total	716,507	318,303	1,330,407	914,968

9. Other Operating Income

Accounting Policy

Other Operating income includes capital gains/(losses), dividend income, foreign exchange gains, gains from property, plant & equipment and gains from investment properties.

Dividend Income

Dividend income from group investments in subsidiary companies and associate companies and other investments in shares held for other than trading purposes, are recognized when the Bank's and the Group's right to receive the payment, is established.

Capital Gains

Capital gains from the sale of securities and from the sale of group investments represent the difference between the sales proceeds from sale of such investments and the carrying value of such investments.

The change in exchange rate differences arising from the valuation of the retained profits held in foreign currency is included under 'foreign exchange gains'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Dividend income from securities				
- Quoted investments	348	-	348	17,969
- Non-quoted investments	17,637	18,258	17,637	41,864
Dividend income from group investments				
- Quoted investments	275,767	659,136	-	-
- Non-quoted investments	46,200	41,067	-	-
Capital gains from sales of securities	7,500	9,685	7,500	43,194
Capital gains from sale of group investments	96,125	5,372,060	-	-
Foreign exchange gains	33,494	60,449	33,494	60,449
Gains on sale of property, plant & equipment	15,951	2,408	19,451	2,408
Gains on investment properties	-	-	162,000	88,000
Others	1,569	4,013	7,691	4,013
Total	494,591	6,167,076	248,121	257,897

10. Impairment for Loans and Receivables and Other Losses

Accounting Policy

The Bank and the Group recognize the changes in the impairment provisions for loans and receivables to banks and other customers, which are assessed as per the LKAS 39 - Financial Instruments: Recognition and Measurement. The methodology adopted by the Bank and the Group is explained in Note 25.5 to these Financial Statements. The Bank also makes provisions/write-backs for impairment of investments in subsidiary and associate companies and other financial assets when there is a permanent diminution in the carrying value of these investments.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Loans and receivables				
- To other customers	464,839	1,184,420	464,839	1,184,420
- Capital write-offs	63,869	76,345	63,869	76,345
	528,708	1,260,765	528,708	1,260,765
Investments in subsidiaries	37,295	20,879	-	-
Investments in associates	-	(43,442)	-	-
Total	566,003	1,238,202	528,708	1,260,765

11. Personnel Expenses

Accounting Policy

Personnel expenses include salaries and bonus, terminal benefit charges, share-based payments and other related expenses. The provisions for bonus is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Bank contributes 15% and 3% of gross salaries of employees to the Bank's Employees' Provident Fund and the Employees' Trust Fund respectively. Group Companies contribute 12% and 3% to Central Bank of Sri Lanka for eligible employees for Employees' Provident Fund contributions and Employees' Trust Fund contributions respectively.

Contributions to defined benefit plans are recognized in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability and the pension fund of the Bank in accordance with LKAS 19 - 'Employee Benefits'.

Share-based payments represent the Bank's cost on the Equity Linked Compensation Plan and the Employee Share Option Plan, which is more fully described in Note 43.2 and 46.4 to these Financial Statements.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Salary and bonus	2,212,888	1,895,144	2,542,696	2,138,517
Contribution to Employees' Provident Fund	187,917	164,154	200,146	181,132
Contribution to Employees' Trust Fund	37,583	32,835	38,702	36,488
Contribution to defined benefit plan				
- Pension Fund	7,163	5,449	7,163	5,449
- Gratuity (Note 40.1)	44,101	40,990	53,487	42,370
Share-based payments	46,504	32,323	46,504	32,323
Others	336,582	218,249	283,689	224,002
Total	2,872,738	2,389,144	3,172,387	2,660,281

12. Other Expenses

Accounting Policy

Operating expenses are recognized in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit for the year.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Directors' emoluments	32,360	28,586	36,870	32,191
Auditors' remuneration	8,388	8,019	10,872	10,008
Non-audit fees to auditors	6,262	18,176	6,262	18,176
Professional and legal expenses	58,571	33,295	72,051	42,716
Office administration and establishment expenses	1,000,622	938,032	1,176,810	999,135
Depreciation of property, plant & equipment	246,400	223,297	291,140	293,571
Amortization of intangible assets	77,190	78,807	94,050	91,068
Deposit insurance expenses	127,935	117,530	127,935	117,530
Others	878,726	1,109,317	922,238	1,299,199
Total	2,436,454	2,555,059	2,738,228	2,903,594

Directors, emoluments include fees paid to Non-Executive Directors. Remunerations paid to Executive Directors are included under salary and bonus in Note 11.

13. Tax on Financial Services

Accounting Policy

Taxes on Financial Services include Value Added Tax on Financial Services and Nation Building Tax. The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on the prescribed rates. The current regulatory tax rate is 12% (2013 - 12%).

The same base is also applied for the computation of the Nation Building Tax which was effective from 1 January 2014 and the regulatory tax rate is 2%.

	BANK & GROUP	
	2014 LKR '000	2013 LKR '000
Value Added Tax on Financial Services	882,444	910,500
National Building Tax on Financial Services	146,806	-
Total	1,029,250	910,500

14. Share of Associate Companies' Profits/(Losses)

The Group's share of profit/(loss) of an investment in an associate company which is recognized as per the equity method, is shown on the face of the Statement of Profit or Loss. This is the profit/(loss) attributable to equity holders of the associate company and, therefore, is profit/(loss) after tax and non-controlling interests in the subsidiaries of the associate.

	Percentage Holding 2014/2013	GROUP	
		2014 LKR '000	2013 LKR '000
Maldives Finance Leasing Co. (Pvt) Ltd. (Note 31.1)	35.00%	97,274	49,220
Total		97,274	49,220

15. Taxation

Accounting Policy

As per the Sri Lanka Accounting Standard - LKAS 12 - 'Income Taxes', the tax expense/tax income is the aggregate amount included in determination of profits or loss for the year in respect of income tax and deferred tax. The tax expense/income is recorded in the Statement of Profit or Loss except to the extent it relates to items recognized directly in Equity or Statement of Comprehensive Income (OCI), in which case it is recognized in OCI.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate for the year was 28% (2013 - 28%).

The components of the income tax expense for the years ended 31 December 2014 and 2013 are:

	Note	BANK		GROUP	
		2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Income tax expense					
Current year		1,128,858	982,551	1,171,176	1,088,985
Adjustment in respect of current income tax of prior years		83,708	(128,223)	72,265	(128,223)
	a	1,212,566	854,328	1,243,441	960,762
Deferred tax expense					
Temporary differences	b	126,893	194,448	105,343	190,131
Total tax charged to the Statement of Profit or Loss		1,339,459	1,048,776	1,348,784	1,150,893
Effective tax rate (%)		23	11	24	24

	Note	BANK		GROUP	
		2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Reconciliation of the total tax expense					
a. Income Tax					
Profit before tax		5,786,773	9,682,512	6,526,732	4,724,401
Income tax for the year (accounting profit @ applicable tax rate)		1,620,260	2,711,103	1,838,144	1,318,486
Tax effect of exempt income		(446,132)	(1,881,884)	(661,795)	(392,927)
Adjustment in respect of current income tax of the prior year		83,708	(128,223)	72,265	(127,691)
Add: Tax effect of expenses that are not deductible for tax purposes		1,138,532	1,210,519	1,180,876	1,235,509
(Less): Tax effect of expenses that are deductible for tax purposes		(1,186,083)	(1,049,995)	(1,198,531)	(1,065,423)
Tax effect of leasing/tax losses		2,281	(7,192)	12,482	(7,192)
Tax expenses for the year		1,212,566	854,328	1,243,441	960,762

Notional Tax Credit on Secondary Market Transactions

Any company which derives income from secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions to an amount of one ninth of the same. Accordingly, the net interest income earned by the Bank from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2014 and the notional tax credit amounts to LKR 293.8 million (2013 - LKR 224.5 million).

b. Deferred Tax

The following table shows the deferred tax expense recorded in the Statement of Profit or Loss and the Statement of Comprehensive Income due to the changes in the deferred tax assets and liabilities:

	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Statement of Comprehensive Income	Deferred Tax Assets	Deferred Tax Liabilities	Statement of Profit or Loss	Statement of Comprehensive Income
	2014 LKR '000	2014 LKR '000	2014 LKR '000	2014 LKR '000	2013 LKR '000	2013 LKR '000	2013 LKR '000	2013 LKR '000
BANK								
Provisions	(6,455)	-	34,988	-	(41,443)	-	(34,452)	-
Revaluation of financial investments available-for-sale	-	7,791	-	(33,691)	-	41,482	-	41,482
Other temporary differences	(146,304)	764,434	91,905	213,832	(109,846)	422,239	228,900	(3,372)
Total	(152,759)	772,225	126,893	180,141	(151,289)	463,721	194,448	38,110
GROUP								
Provisions	(6,455)	-	34,988	-	(41,443)	-	(34,452)	-
Revaluation of financial investments available-for-sale	-	24,881	-	(33,691)	-	58,572	-	58,572
Other temporary differences	(176,234)	767,742	70,355	213,832	(116,749)	424,071	224,583	(3,372)
Total	(182,689)	792,623	105,343	180,141	(158,192)	482,643	190,131	55,200

16. Earnings Per Share on Profit

Accounting Policy

The Group presents Basic and Diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) - 'Earnings per Share':

	GROUP	
	2014	2013
Amount used as the numerator		
Profit attributed to ordinary shareholders (LKR '000)	4,133,932	2,641,925
Amount used as the denominator		
Ordinary shares in issue for basic EPS calculation	164,600,914	160,559,308
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,469,003	160,316,441
Weighted average basic Earnings per Share (LKR)	25.14	16.48
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,469,003	160,316,441
Effect of outstanding share option schemes	148,971	54,847
Number of ordinary shares including share options	164,617,974	160,371,288
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for diluted EPS calculation	164,617,974	160,371,288
Weighted average diluted Earnings per Share (LKR)	25.11	16.47

	BANK & GROUP			
	Dividend per Share LKR	2014 LKR '000	Dividend per Share LKR	2013 LKR '000
Interim dividend paid for the prior year	–	–	5.00	823,465
Final dividend paid for the prior year	5.00	824,245	10.00	1,642,019
Interim dividend paid for the current year	7.00	1,155,587	5.00	823,465
Gross dividends paid during the year	12.00	1,979,832	20.00	3,288,949
Reversal of dividends declared in prior years	–	(2,298)	–	(67,016)
		1,977,534		3,221,933

17. Dividend Per Share

Interim dividend paid for the prior year	–	–	5.00	823,465
Final dividend paid for the prior year	5.00	824,245	10.00	1,642,019
Interim dividend paid for the current year	7.00	1,155,587	5.00	823,465
Gross dividends paid during the year	12.00	1,979,832	20.00	3,288,949
Reversal of dividends declared in prior years	–	(2,298)	–	(67,016)
		1,977,534		3,221,933

The Board of Directors of the Bank has recommended the payment of a final dividend of LKR 4.00 per share for the year ended 31 December 2014.

	2014 LKR	2013 LKR
Dividend per share	11.00	10.00

18. Analysis of Financial Instruments by Measurement Basis

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available- for-Sale LKR '000	Total LKR '000
(a) Bank - Current Year (2014)					
Assets					
Cash and cash equivalents	–	–	3,104,391	–	3,104,391
Balances with Central Bank	–	–	6,740,590	–	6,740,590
Placements with banks	–	–	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	–	–	1,903,781
Financial assets held-for-trading	2,785,277	–	–	–	2,785,277
Loans and receivables to banks	–	–	311,144	–	311,144
Loans and receivables to other customers	–	–	175,175,203	–	175,175,203
Financial investments - loans and receivables	–	–	38,302,428	–	38,302,428
Financial investments - available-for-sale	–	–	–	17,060,302	17,060,302
Financial investments - held-to-maturity	–	8,970,963	–	–	8,970,963
Other financial assets	–	–	54,450	–	54,450
Total Financial Assets	4,689,058	8,970,963	226,410,097	17,060,302	257,130,420

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	7,029,342	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	–	151,823,715	151,823,715
Debt Securities issued and other borrowed funds	–	61,955,460	61,955,460
Subordinated term debts	–	11,149,439	11,149,439
Other financial liabilities	–	2,423,677	2,423,677
Total Financial Liabilities	663,186	234,381,633	235,044,820

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available- for-Sale LKR '000	Total LKR '000
(b) Group - Current Year (2014)					
Assets					
Cash and cash equivalents	–	–	3,274,036	–	3,274,036
Balances with Central Bank	–	–	6,740,590	–	6,740,590
Placements with banks	–	–	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	–	–	1,903,781
Financial assets held-for-trading	6,028,558	–	–	–	6,028,558
Loans and receivables to banks	–	–	311,144	–	311,144
Loans and receivables to other customers	–	–	175,235,906	–	175,235,906
Financial Investments - loans and receivables	–	–	38,683,476	–	38,683,476
Financial investments - available-for-sale	–	–	–	18,057,852	18,057,852
Financial investments - held-to-maturity	–	10,167,325	–	–	10,167,325
Other financial assets	–	–	54,450	–	54,450
Total Financial Assets	7,932,339	10,167,325	227,021,493	18,057,852	263,179,009

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	7,029,342	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	–	151,485,201	151,485,201
Debt securities issued and other borrowed funds	–	61,925,802	61,925,802
Subordinated term debts	–	11,149,439	11,149,439
Other financial liabilities	–	2,423,677	2,423,677
Total Financial Liabilities	663,186	234,013,461	234,676,647

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivables LKR '000	Available- for-Sale LKR '000	Total LKR '000
(a) Bank - Previous Year (2013)					
Assets					
Cash and cash equivalents	–	–	2,611,075	–	2,611,075
Balances with Central Bank	–	–	5,339,000	–	5,339,000
Placements with banks	–	–	130,751	–	130,751
Derivative financial instruments	1,149,541	–	–	–	1,149,541
Financial assets held-for-trading	10,720,689	–	–	–	10,720,689
Loans and receivables to banks	–	–	641,628	–	641,628
Loans and receivables to other customers	–	–	136,821,532	–	136,821,532
Financial investments - loans and receivables	–	–	15,837,455	–	15,837,455
Financial investments - available-for-sale	–	–	–	5,982,450	5,982,450
Financial investments - held-to-maturity	–	17,602,249	–	–	17,602,249
Total Financial Assets	11,870,230	17,602,249	161,381,441	5,982,450	196,836,370

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	–	10,453,086	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	–	129,830,029	129,830,029
Debt securities issued and other borrowed funds	–	24,420,818	24,420,818
Subordinated term debts	–	11,682,674	11,682,674
Other financial liabilities	–	701,912	701,912
Total Financial Liabilities	817,310	177,088,519	177,905,829

	Held-for- Trading LKR '000	Held-to- Maturity LKR '000	Loans and Receivables LKR '000	Available- for-Sale LKR '000	Total LKR '000
(b) Group - Previous Year (2013)					
Assets					
Cash and cash equivalents	-	-	2,668,262	-	2,668,262
Balances with Central Bank	-	-	5,339,000	-	5,339,000
Placements with banks	-	-	130,751	-	130,751
Derivative financial instruments	1,149,541	-	-	-	1,149,541
Financial assets held-for-trading	14,194,141	-	-	-	14,194,141
Loans and receivables to banks	-	-	641,628	-	641,628
Loans and receivables to other customers	-	-	136,881,713	-	136,881,713
Financial investments - loans and receivables	-	-	16,791,701	-	16,791,701
Financial investments - available-for-sale	-	-	-	6,167,450	6,167,450
Financial investments - held-to-maturity	-	18,460,591	-	-	18,460,591
Total Financial Assets	15,343,682	18,460,591	162,453,055	6,167,450	202,424,778

	Held-for- Trading LKR '000	Amortized Cost LKR '000	Total LKR '000
Liabilities			
Due to banks	-	10,453,086	10,453,086
Derivative financial instruments	817,310	-	817,310
Due to other customers	-	129,421,813	129,421,813
Debt securities issued and other borrowed funds	-	24,390,818	24,390,818
Subordinated term debts	-	11,682,674	11,682,674
Other financial liabilities	-	701,912	701,912
Total Financial Liabilities	817,310	176,650,303	177,467,613

19. Cash and Cash Equivalents

Accounting Policy

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand and balances with banks. The cash in hand comprises of both local currency and foreign currency.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Local currency in hand	1,775,925	1,737,799	1,776,011	1,794,986
Foreign currency in hand	68,510	125,169	68,518	125,169
Balances with banks	1,259,956	748,107	1,429,507	748,107
Total	3,104,391	2,611,075	3,274,036	2,668,262

20. Balances with Central Bank

Balances with Central Bank includes the cash balance that is required as per the provisions of Section 93 of the Monetary Law Act.

The minimum cash reserve requirement was 6.0% of the Rupee deposit liabilities as at 31 December 2014 (6.0% as at 31 December 2013). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Statutory balances with Central Bank of Sri Lanka	6,740,590	5,339,000	6,740,590	5,339,000
Total	6,740,590	5,339,000	6,740,590	5,339,000

21. Placements with Banks

Accounting Policy

Placements with Banks include short-term deposits placed in banks and are subjected to insignificant risk of changes in fair value, and are used by the Bank and the Group in the management of its short-term commitments. They are recorded in the Financial Statements at their face values or the gross values, where appropriate.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Money Market Placements - in Sri Lanka	2,721,891	130,751	2,721,891	130,751
Total	2,721,891	130,751	2,721,891	130,751

22. Derivative Financial Instruments

Accounting Policy

Derivatives are financial instruments that derive their values in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorized as 'trading' unless they are designated as hedging instruments.

The Bank and the Group use derivatives such as currency SWAPs, forward foreign exchange contracts and currency options. Derivatives are recorded at fair value and recorded as assets when their fair value is positive and as liabilities when their fair value is negative. The derivatives are valued using valuation techniques which consider current market interest rates, forward interest rates and spot and forward exchange rates. Where the initially recognized fair value of a derivative contract is based on a valuation model that uses inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities.

The changes in the fair value of derivatives are included in 'Net Gains/(Losses) from financial investments'.

It is assumed that the SWAP arrangement that the Bank has, with Central Bank of Sri Lanka, would be renewed annually.

All derivatives are initially recognized and subsequently measured at fair value with all revaluation gains recognized in the Statement of Profit or Loss (except where cash flow of the net investment hedging has been achieved in which case the effective portion of changes in fair value is recognized within Other Comprehensive Income).

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Bank only has hedges of highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction (cash flow hedge).

Hedge Accounting

Hedge Accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception, the Bank and the Group document the transaction, the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank and the Group also document their assessment, both at the inception of the hedge and on an ongoing basis, if the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash Flow Hedge

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the Statement of Profit or Loss.

The amounts accumulated in Equity are reclassified to the Statement of Profit or Loss in the periods in which the hedged items, affect, Profit or Loss. When a hedging instrument is expired or is sold, or when a hedge no longer meets the criteria for hedge accounting. Any cumulative gain or loss existing in Equity at that time remains in Equity and is recognized when the forecast transaction is ultimately recognized in the Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gains or losses that were reported in Equity are immediately transferred to the Statement of Profit or Loss.

The Derivatives that do not Qualify for Hedge Accounting

The changes in the fair value of any derivative instrument which do not qualify for hedge accounting are recognized immediately in the Statement of Profit or Loss.

	BANK & GROUP			
	Financial Assets 2014 LKR '000	Financial Liabilities 2014 LKR '000	Financial Assets 2013 LKR '000	Financial Liabilities 2013 LKR '000
Currency options	1,556	1,556	5,895	5,895
Forward foreign exchange contracts	908,197	609,153	1,143,646	811,415
Currency SWAPs	994,028	52,477	–	–
Total	1,903,781	663,186	1,149,541	817,310

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

The notional amounts indicate the volume of transactions outstanding as at 31 December 2014 and are indicative of neither the market risk nor the credit risk.

		BANK & GROUP					
		Assets 2014 LKR '000	Liabilities 2014 LKR '000	Notional Amount 2014 LKR '000	Assets 2013 LKR '000	Liabilities 2013 LKR '000	Notional Amount 2013 LKR '000
Currency options	- Sales	–	1,556	579,708	–	5,895	5,134,238
	- Purchases	1,556	–	579,708	5,895	–	5,134,238
Forward foreign exchange contracts	- Sales	782,496	78,599	83,183,409	976,108	119,739	79,844,817
	- Purchases	125,701	530,554	83,573,782	167,538	691,676	80,102,293
Currency SWAPs	- Sales	–	–	–	–	–	–
	- Purchases	994,028	52,477	131,250	–	–	–
Total		1,903,781	663,186	168,047,857	1,149,541	817,310	170,215,586

22.1 Currency SWAPs

The Bank raised USD 125 million on 16 April 2014 through foreign borrowings for a period of one year and 7 years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 75 percent of the borrowing value with the same maturity on 15 January 2021.

The Bank has also raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 50 percent of the borrowing value with the same maturity on 15 July 2021.

As per Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition & Measurement), the Bank has identified this particular transaction as a 'Cash Flow Hedge' after documenting the hedge relationship.

The objective of the hedge is to reduce the variability of the cash flows of a foreign currency denominated above mentioned borrowing (only the capital portion) attributable to changes in LKR/USD exchange rate.

A brief description of the hedge is give below:

22.1 (a) SWAP Agreement - 01

Details	Description of the Hedge								
Hedged instrument	SWAP contract Counterparty - Central Bank of Sri Lanka Notional Amount - USD 93.75 million - 75 percent of the total hedge items.								
Hedged item	1 year USD denominated borrowing - USD 105 million with an option to roll over for a maximum 12 months period. Capital is repayable in full on 31 March 2015. 7 year USD denominated borrowing - USD 20 million with a grace period of 5 years, repayment periods are as follows: <table border="1"> <tr> <td>15 July 2019</td> <td>USD 5 million</td> </tr> <tr> <td>15 January 2020</td> <td>USD 5 million</td> </tr> <tr> <td>15 July 2020</td> <td>USD 5 million</td> </tr> <tr> <td>15 January 2021</td> <td>USD 5 million</td> </tr> </table>	15 July 2019	USD 5 million	15 January 2020	USD 5 million	15 July 2020	USD 5 million	15 January 2021	USD 5 million
15 July 2019	USD 5 million								
15 January 2020	USD 5 million								
15 July 2020	USD 5 million								
15 January 2021	USD 5 million								
The periods when the cash flows are expected to occur	16 April 2015								
The amount recognized in Other Comprehensive Income during the year	LKR 299 million credit to the cash flow hedge reserve								
Fair value of the Hedged item as at 31 December 2014	LKR 16,487.5 million								
Fair value of the Hedged instrument as at 31 December 2014	LKR 116.29 million								
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None								
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None								

22.1 (b) SWAP Agreement - 02

Details	Description of the Hedge																								
Hedged instrument	SWAP contract - Renewable every year Counterparty - Central Bank of Sri Lanka Notional Amount - USD 37.5 million. 50 percent of the total hedge items.																								
Hedged item	7 year USD denominated borrowing - USD 15 million with a grace period of 3.5 years. Repayment periods are as follows: <table border="1"> <tr><td>15 January 2018</td><td>USD 1.875 million</td></tr> <tr><td>15 July 2018</td><td>USD 1.875 million</td></tr> <tr><td>15 January 2019</td><td>USD 1.875 million</td></tr> <tr><td>15 July 2019</td><td>USD 1.875 million</td></tr> <tr><td>15 January 2020</td><td>USD 1.875 million</td></tr> <tr><td>15 July 2020</td><td>USD 1.875 million</td></tr> <tr><td>15 January 2021</td><td>USD 1.875 million</td></tr> <tr><td>15 July 2021</td><td>USD 1.875 million</td></tr> </table> 7 year USD denominated borrowing - USD 60 million with a grace period of 5 years. Repayment periods are as follows: <table border="1"> <tr><td>15 July 2019</td><td>USD 15 million</td></tr> <tr><td>15 January 2020</td><td>USD 15 million</td></tr> <tr><td>15 July 2020</td><td>USD 15 million</td></tr> <tr><td>15 January 2021</td><td>USD 15 million</td></tr> </table>	15 January 2018	USD 1.875 million	15 July 2018	USD 1.875 million	15 January 2019	USD 1.875 million	15 July 2019	USD 1.875 million	15 January 2020	USD 1.875 million	15 July 2020	USD 1.875 million	15 January 2021	USD 1.875 million	15 July 2021	USD 1.875 million	15 July 2019	USD 15 million	15 January 2020	USD 15 million	15 July 2020	USD 15 million	15 January 2021	USD 15 million
15 January 2018	USD 1.875 million																								
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15 July 2019	USD 15 million																								
15 January 2020	USD 15 million																								
15 July 2020	USD 15 million																								
15 January 2021	USD 15 million																								
The periods when the cash flows are expected to occur	As given above																								
The amount recognized in Other Comprehensive Income during the year	LKR 98.8 million credit to the cash flow hedge reserve																								
Fair Value of the Hedged item as at 31 December 2014	LKR 9,892.5 million																								
Fair Value of the Hedged instrument as at 31 December 2014	LKR 825.26 million																								
Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur	None																								
The amount that was reclassified from equity to profit or loss as a reclassification adjustment	None																								

22.1 (c) Total amount recognized in the Statement of Comprehensive Income relating to the currency SWAPs.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
SWAP Agreement 01	98,836	–	98,836	–
SWAP Agreement 01	299,016	–	299,016	–
Total	397,852	–	397,852	–

22.1 (d) The expected impact to the Statement of Profit or Loss on the Hedge is as follows:

	Less than One Year LKR million	More than One Year LKR million
Forecast receivable cash flow	17,265	–
Forecast payable cash flow	(14,473)	(19,284)
	2,792	(19,284)

23. Financial Assets Held-for-Trading

Accounting Policy

Financial assets held-for-trading consist of quoted equity securities, Unit Trust Investments and Government Debt Securities, that have been acquired principally for the purpose of selling or repurchasing in the near term, and are recorded at fair values using assumptions that a market participant would make, when valuing such instruments. The quoted equity securities and the Unit Trust Investments are valued using the market prices published by the Colombo Stock Exchange. Government Debt Securities are valued using discounted cash flow techniques which incorporate market interest rates for investments in Government Securities.

The changes in the fair value are recognized in 'Net Gain/(Loss) from financial investments'. Dividend income is recorded in 'Net Gain/(Loss) from financial investments' according to the terms of the contract, or when the right to receive the payment has been established.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Sri Lanka Government Securities - Treasury Bills	51,534	5,061,675	51,534	5,061,675
Sri Lanka Government Securities - Treasury Bonds	480,732	4,053,939	480,732	4,053,939
Equity Securities	–	–	713,868	336,293
Investment in Unit Trusts	2,253,011	1,605,075	4,782,424	4,742,234
Total	2,785,277	10,720,689	6,028,558	14,194,141

Financial assets held-for-trading pledged as collateral amounted to LKR 532 million as at 31 December 2014 (2013 - LKR 9,115 million).

24. Loans and Receivables to Banks

Accounting Policy

Loans and receivables to Banks include refinance lending to other banks with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables to banks are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss.

The losses arising from impairment are recognized in the Statement of Profit or Loss as 'impairment for loans and receivables and other losses'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Gross loans and receivables - Refinance loans in local currency	311,144	641,628	311,144	641,628
(Less): Allowance for impairment charges	–	–	–	–
Net loans and receivables - Refinance loans in local currency	311,144	641,628	311,144	641,628

25. Loans and Receivables to Other Customers

Accounting Policy

Loans and receivables to other customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank and the Group intend to sell immediately or in the near term and those that the Bank and the Group, upon initial recognition, designate as at fair value through profit or loss.
- Those that the Bank and the Group, upon initial recognition, designate as available-for-sale.
- Those for which the Bank and the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'loans and receivables to other customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'interest income' in the Statement of Profit or loss. The losses arising from impairment are recognized in the Statement of Profit or Loss as 'impairment for loans and receivables and other losses'.

Write-off of Loans and Receivables

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security.

Rescheduled Loan Facilities

Where possible, the Bank and the Group seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral Valuation

The Bank and the Group seek to use collateral, where possible, to mitigate their risks on loans and receivables to other customers. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and other credit enhancements.

To the extent possible, the Bank and the Group use active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

Leasing and Hire Purchases

Assets leased to customers under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Lease and Hire purchase rentals receivable in the Statement of Financial Position include total lease and hire purchase payments due net of unearned interest income not accrued to revenue and allowance for impairment.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Gross loans and receivables to other customers	180,189,406	141,009,004	180,250,109	141,069,185
(Less): Allowance for impairment charges for loans and receivables (Note 25.5) (a)	5,014,203	4,187,472	5,014,203	4,187,472
Net loans and receivables to other customers	175,175,203	136,821,532	175,235,906	136,881,713

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
25.1 Loans and Receivables to Other Customers - By Product				
Long-term loans	39,723,175	25,231,706	39,723,697	25,231,706
Medium and short-term loans	43,261,887	33,566,630	43,261,887	33,566,630
Overdrafts	24,275,911	18,459,862	24,259,447	18,443,398
Trade finance loans	34,177,923	32,776,432	34,177,923	32,776,432
Consumer loans	18,934,195	14,620,469	18,934,195	14,620,469
Leasing and hire purchases (Note 25.6)	11,612,539	8,428,409	11,612,539	8,428,409
Housing loans	6,403,174	4,764,297	6,403,174	4,764,297
Pawning	416,594	2,232,748	416,594	2,232,748
Staff loans	1,052,993	928,451	1,129,638	1,005,096
Islamic loans	331,015	-	331,015	-
Total	180,189,406	141,009,004	180,250,109	141,069,185

25.2 Loans and Receivables to Other Customers - By Currency

Sri Lanka Rupee	135,682,065	107,171,530	135,742,768	107,231,710
United States Dollar	43,330,879	32,632,514	43,330,879	32,632,514
Sterling Pound	5,213	264,378	5,213	264,378
Euro	1,146,721	918,679	1,146,721	918,679
Australian Dollar	1,798	1,921	1,798	1,921
Others	22,730	19,982	22,730	19,983
Total	180,189,406	141,009,004	180,250,109	141,069,185

	BANK			
	2014		2013	
	LKR '000	%	LKR '000	%

25.3 Loans and Receivables to Other Customers - By Industry

Food, beverages and tobacco	7,352,472	4.1	6,147,979	4.4
Agriculture, agro-business and fisheries	25,825,680	14.3	23,822,627	16.9
Textiles and garments	18,576,296	10.3	15,762,846	11.2
Wood and paper products	1,712,788	1.0	1,411,804	1.0
Leather and plastic products	3,421,065	1.9	2,068,823	1.5
Metals, chemicals and engineering	9,951,950	5.5	10,464,249	7.4
Hotels and tourism	5,637,670	3.1	3,442,992	2.4
Utilities	9,707,923	5.4	4,968,585	3.5
Constructions and housing finance	18,950,619	10.5	11,500,264	8.2
Services	24,338,304	13.5	17,081,395	12.1
Transport	5,137,648	2.9	3,778,090	2.7
Consumer	33,568,891	18.6	24,792,450	17.6
Trading	15,958,787	8.9	15,725,082	11.2
Others	49,313	0.0	41,818	0.0
Total	180,189,406	100.0	141,009,004	100.0

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
25.4 Loans and Receivables to Other Customers - By Province				
Western Province	157,093,779	124,579,550	157,154,482	124,639,731
Southern Province	4,985,666	3,632,923	4,985,666	3,632,923
North-Western Province	4,266,750	3,404,250	4,266,750	3,404,250
Central Province	4,372,669	2,932,843	4,372,669	2,932,843
Northern Province	3,151,333	906,496	3,151,333	906,496
Sabaragamuwa Province	2,741,651	2,113,614	2,741,651	2,113,614
North-Central Province	1,447,569	1,195,847	1,447,569	1,195,847
Eastern Province	1,022,989	1,515,788	1,022,989	1,515,788
Uva Province	1,107,000	727,693	1,107,000	727,693
Total	180,189,406	141,009,004	180,250,109	141,069,185

The province-wise disclosure is made based on the location of the branch from which the facilities have been disbursed.

25.5 Allowance for Impairment Charges for Loans and Receivables to Other Customers Accounting Policy

The Bank and the Group assess at each Reporting date, whether there is any objective evidence that loans and receivables to other customers are impaired. Loans and receivables to other customers are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loans and receivables that can be reliably estimated.

The Bank and the Group review their individually-significant loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, the management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables to other customers that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes into account data from the loan portfolio such as, loan ownership types, levels of arrears, industries etc. and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, and exchange rates).

Individually Assessed Loans and Receivables to other Customers

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realization; and
- a significant downgrading in credit rating by an external credit rating agency.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Such interest income is recorded as part of 'interest income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collectively Assessed Loans and Receivables to other Customers

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the credit risk characteristics such as asset type, industry, past-due status and other relevant factors.

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous groups of loans that is not considered individually significant.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

25.5 (a) Allowance for Impairment Charges for Loans and Receivables to Other Customers

	BANK & GROUP									
	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing & Hire Purchases LKR '000	Housing Loans LKR '000	Pawning LKR '000	Staff Loans LKR '000	Total LKR '000
As at 1 January 2014	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472
Charges/(reversals) for the year	500,618	289,444	91,205	(209,658)	175,772	64,942	(4,273)	(59,310)	61	848,801
Amounts written-off	-	-	(22,070)	-	-	-	-	-	-	(22,070)
As at 31 December 2014	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	9,629	5,014,203
Individual impairment	268,304	910,763	788,786	261,757	-	1,085	-	49,741	9,154	2,289,590
Collective impairment	1,035,792	292,252	511,727	148,647	535,360	148,298	32,425	19,637	475	2,724,613
Total	1,304,096	1,203,015	1,300,513	410,404	535,360	149,383	32,425	69,378	9,629	5,014,203
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	3,222,626	6,341,040	1,880,602	5,849,401	-	191,551	-	179,955	9,154	17,674,329
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	1,450,046	1,753,998	896,769	1,141,446	-	7,370	-	128,766	9,154	5,387,549
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	1,181,742	843,235	107,983	879,689	-	6,285	-	79,025	-	3,097,959

BANK & GROUP										
	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing & Hire Purchases LKR '000	Housing Loans LKR '000	Pawning LKR '000	Staff Loans LKR '000	Total LKR '000
As at 1 January 2013	930,383	449,089	797,844	359,060	280,155	49,735	42,763	7,947	6,146	2,923,122
Charges/(reversals) for the year	204,151	464,482	433,534	261,002	79,433	34,706	(6,065)	120,741	3,422	1,595,406
Amounts written-off	(331,056)	-	-	-	-	-	-	-	-	(331,056)
As at 31 December 2013	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472
Individual impairment	194,309	717,745	552,936	340,580	-	3,233	-	10,134	9,128	1,828,065
Collective impairment	609,169	195,826	678,442	279,482	359,588	81,208	36,698	118,554	440	2,359,407
Total	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472
Gross amount of loans individually determined to be impaired, before deduction of individually assessed impairment allowances	2,356,833	2,635,835	1,049,859	1,780,766	-	178,814	-	14,886	9,128	8,026,121
Gross amount of loans individually impaired, before deduction of individually assessed impairment allowances	705,826	1,278,155	661,878	600,480	-	8,084	-	14,886	9,128	3,278,437
Gross amount of loans individually impaired, after deduction of individually assessed impairment allowances	511,517	560,410	108,942	259,900	-	4,851	-	4,752	-	1,450,372

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

25.5 (b) Movements in the Allowances for Individual and Collective Impairment Charges during the year for Loans and Receivables to Other Customers

Individual Impairment

As at 1 January	1,828,065	979,186	1,828,065	979,186
Charge/(reversals) to Statement of Profit or Loss	461,525	1,179,935	461,525	1,179,935
Write-off during the year	-	(331,056)	-	(331,056)
As at 31 December	2,289,590	1,828,065	2,289,590	1,828,065

Collective Impairment

As at 1 January	2,359,407	1,943,936	2,359,407	1,943,936
Charge/(reversals) to Statement of Profit or Loss	387,276	415,471	387,276	415,471
Write-off during the year	(22,070)	-	(22,070)	-
As at 31 December	2,724,613	2,359,407	2,724,613	2,359,407
Total	5,014,203	4,187,472	5,014,203	4,187,472

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
25.6 Leasing and Hire Purchases				
Gross lease and hire purchase rentals receivables	14,671,685	10,468,941	14,671,685	10,468,941
Less: Unearned income	3,059,146	2,040,532	3,059,146	2,040,532
Total lease and hire purchase rentals receivables	11,612,539	8,428,409	11,612,539	8,428,409
(Less): Allowance for impairment charges [Note 25.6.(a)]	149,383	84,441	149,383	84,441
Total	11,463,156	8,343,968	11,463,156	8,343,968

	BANK & GROUP	
	2014 LKR '000	2013 LKR '000
25.6 (a) Allowance for Impairment Charges		
As at 1 January	84,441	49,735
Charges for the year	64,942	34,706
As at 31 December	149,383	84,441
Individual impairment	1,085	3,233
Collective impairment	148,298	81,208
Total	149,383	84,441
Gross amount of loans individually determined to be impaired, before deduction of the individually assessed impairment allowance	191,551	178,814
Gross amount of loans individually impaired, before deduction of the individually assessed impairment allowance	7,370	8,084
Gross amount of loans individually impaired, after deduction of the individually assessed impairment allowance	6,285	4,851

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

25.6 (b) Movements in Individual and Collective Impairment Provision during the year for Lease & Hire Purchase Rentals Receivables

Individual Impairment

As at 1 January	3,233	–	3,233	–
Charge to Statement of Profit or Loss	(2,148)	3,233	(2,148)	3,233
As at 31 December	1,085	3,233	1,085	3,233

Collective Impairment

As at 1 January	81,208	49,735	81,208	49,735
Charge/(write back) to Statement of Profit or Loss	67,090	31,473	67,090	31,473
As at 31 December	148,298	81,208	148,298	81,208
Total	149,383	84,441	149,383	84,441

25.7 Maturity of Leasing and Hire Purchases

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
25.7(a) Gross Lease and Hire Purchase Rentals Receivables within One Year				
Total rental receivables	602,767	412,692	602,767	412,692
(Less): Allowance for impairment charges	(48,123)	(29,265)	(48,123)	(29,265)
Interest in suspense	(82,559)	(68,242)	(82,559)	(68,242)
Unearned income	(22,829)	(11,848)	(22,829)	(11,848)
Net rentals receivables within one year	449,256	303,337	449,256	303,337
25.7(b) Gross Lease and Hire Purchase Rentals Receivables after One Year				
Total rental receivables	14,197,184	10,164,395	14,197,184	10,164,395
(Less): Allowance for impairment charges	(101,260)	(55,176)	(101,260)	(55,176)
Interest in suspense	(45,707)	(39,904)	(45,707)	(39,904)
Unearned income	(3,036,317)	(2,028,684)	(3,036,317)	(2,028,684)
Net rentals receivables after one year	11,013,900	8,040,631	11,013,900	8,040,631
Total	11,463,156	8,343,968	11,463,156	8,343,968

26. Financial Investments - Loans and Receivables

Accounting Policy

Financial investments - Loans and receivables include government securities, unquoted debt instruments and securities purchased under resale agreements and quoted debentures. After initial measurement, these are subsequently measured at amortized cost using the EIR, less provision for impairment. The amortization is included in interest income in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss in impairment charges for loans and other losses.

Securities Purchased Under Resale Agreements

The Bank and the Group purchase a financial asset and simultaneously enter into an agreement to resell the asset (or similar asset) at a fixed price at a future date. The arrangement is accounted for as a financial asset in the Financial Statements of the Bank and the Group, reflecting the transactions economic substance as a loan granted by the Bank and the Group. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method with the corresponding interest receivable being recognized in the Statement of Profit or Loss.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Sri Lanka Development Bonds	13,662,172	10,781,368	13,662,172	10,781,369
Redeemable cumulative preference shares	69,421	136,262	69,421	136,262
Securitized	-	-	-	91,698
Quoted debentures	-	-	381,048	854,943
Securities purchased under resale agreements	24,570,835	4,919,825	24,570,835	4,927,429
Total	38,302,428	15,837,455	38,683,476	16,791,701

There were no securities purchased under resale agreements which were pledged as collateral for borrowings under repurchase agreements as at 31 December 2014. (2013 - LKR 4,920 million).

27. Financial Investments - Available-for-Sale

Accounting Policy

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss.

Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank and the Group have not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity (Other Comprehensive Income) in the 'Available-for-Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Statement of Profit or Loss in 'net gain/(loss) from financial investments'. Where the Bank and the Group hold more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the Effective Interest Rate (EIR).

Dividends earned whilst holding available-for-sale financial investments are recognized in the Statement of Profit or Loss as 'other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss in 'impairment for loans and receivables and other losses' and is removed from the 'Available-for-Sale Reserve'.

Impairment of Financial Investments - Available-for-Sale

The Bank and the Group review their debt securities classified as available-for-sale investments to assess whether they are impaired by performing a counter party risk assessment at each Reporting date.

The Bank and the Group also record impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank and the Group identify facilities which have been impaired for more than six months and considers impairment adjustments if the impairment is more than 20% of the carrying value of the investment.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Sri Lanka Government Securities - Treasury Bills	5,068,917	582,449	5,068,917	582,449
Sri Lanka Government Securities - Treasury Bonds	11,891,025	4,889,272	11,891,025	4,889,272
Sovereign Bonds	–	505,939	–	505,939
Quoted ordinary shares	–	–	812,550	–
Non-quoted ordinary shares	100,360	4,790	285,360	189,790
Total	17,060,302	5,982,450	18,057,852	6,167,450

Financial investments available-for-sale, pledged as collateral amounted to LKR 16,960 million as at 31 December 2014 (2013 - LKR 2,657 million).

The majority of non-quoted ordinary shares include share investments that have been made primarily for the regulatory purpose. Such investments are recorded at cost due to unavailability of information to value such investments at fair value.

28. Financial Investments Held-to-Maturity

Accounting Policy

Financial investments - held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank and the Group have the intention and ability to hold to maturity. After initial measurement, financial investments - held-to-maturity are subsequently recorded at amortized cost using the EIR, less impairment. The amortization is included in 'interest income' in the Statement of Profit or Loss.

If the Bank and the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as 'available-for-sale'. Furthermore, the Bank and the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Sri Lanka Government Securities - Treasury Bills	–	5,620,318	–	5,620,318
Sri Lanka Government Securities - Treasury Bonds	7,052,992	10,379,471	7,052,992	10,379,471
Debentures	1,917,971	1,602,460	3,114,333	2,460,802
Total	8,970,963	17,602,249	10,167,325	18,460,591

Financial Investments held-to-maturity, pledged as collateral amounted to LKR 7,052 million as at 31 December 2014 (2013 - Nil).

29. Investments - Held-for-Sale

Accounting Policy

Non-current assets and disposal groups (including both the assets and liabilities of the disposal groups) are classified as Investments - 'held-for-sale' when their carrying amounts will be recovered principally through sale, they are available-for-sale in their present condition and their sale is highly probable. Non-current assets held-for-sale and disposal groups are measured at the lower of their carrying amount and fair value less cost to sell, except for those assets and liabilities that are not within the scope of the measurement requirements of SLFRS 5 - 'Non-current Assets Held-for-Sale and Discontinued Operations' such as deferred taxes, financial instruments, investment properties, insurance contracts and assets and liabilities arising from employee benefits. These are measured in accordance with the accounting policies described above. Immediately before the initial classification as 'held-for-sale', the carrying amounts of the asset (or assets and liabilities in the disposal group) are measured in accordance with applicable SLFRSs. On subsequent remeasurement of a disposal group, the carrying amounts of the assets and liabilities noted above that are not within the scope of the measurement requirements of SLFRS 5 are remeasured in accordance with applicable SLFRSs before the fair value less costs to sell of the disposal group is determined.

Investments - Held-for-Sale includes the investment in NDB Venture Investment (Pvt) Ltd., an associate company, which is under liquidation. A special resolution has been passed by the Board of Directors of the Company to wind up the affairs voluntarily and appointed the liquidator, for the distribution of the assets during the year 2015. The amount shown in the Statement of Financial Position is the fair value of the investment which the Bank will receive at the disposal date an impairment provision has not been made as sufficient liquidity assets are available in the Financial Statements of the Company as at 31 December 2014.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
NDB Venture Investments (Pvt) Ltd.	18,525	–	33,301	–
Total	18,525	–	33,301	–

30. Investments in Subsidiary Companies

Accounting Policy

Investments in subsidiaries are accounted at cost less impairment in the Financial Statements of the Bank. The net assets of each subsidiary company are reviewed at each Reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognized to the extent of its net assets loss.

Corporate Status	Percentage Holding %	2014 Cost LKR '000	Percentage Holding %	2013 Cost LKR '000	
30.1 Bank					
NDB Capital Holdings PLC	de-listed	99.9	1,748,141	99.6	1,748,142
Development Holdings (Pvt) Ltd.	Non-quoted	58.7	228,150	58.7	228,150
NDB Capital Ltd.	Non-quoted	77.8	130,673	77.8	130,673
Less: Allowance for impairment of investments (Note 30.2)			(106,674)		(69,380)
Total			2,000,290		2,037,585

NDB Capital Holdings PLC was officially de-listed from the Colombo Stock Exchange on 26 January 2015. Accordingly the change in the name of the Company would come into effect upon the issuance of the new certificate of Incorporation from the Registrar of Companies.

	2014 LKR '000	2013 LKR '000
30.2 Movement in the Allowance for Impairment of Investments		
As at 1 January	69,380	48,500
Charge to Statement of Profit or Loss	37,294	20,880
As at 31 December	106,674	69,380

30.3 Summarized Financial Information of the NDB Group's Investments in Subsidiaries

	Total	NDB Investment Bank Ltd.	NDB Capital Ltd.	NDB Capital Holdings PLC	NDB Securities (Pvt) Ltd.	Development Holdings (Pvt) Ltd.	NDB Wealth Management Ltd.
2014							
Total assets	10,082,798	564,784	47,917	6,167,361	516,325	2,215,899	570,512
Total liabilities	437,375	32,378	17,555	70,187	201,212	69,004	47,039
Net assets	9,645,423	532,406	30,362	6,097,174	315,113	2,146,895	523,473
Gross income	1,797,518	169,912	22,872	755,126	166,539	335,746	347,323
Profits	1,159,406	60,329	(51,901)	664,864	25,555	288,449	172,110
2013							
Total assets	9,633,423	602,217	98,563	5,745,245	779,609	2,006,019	401,770
Total liabilities	759,964	107,017	16,992	46,403	489,151	59,994	40,407
Net assets	8,873,459	495,200	81,571	5,698,842	290,458	1,946,025	361,363
Gross income	1,802,517	376,290	58,666	784,331	107,744	256,211	219,275
Profits	1,151,031	176,671	6,279	681,216	6,764	193,484	86,617

30.4 The Bank has a 100% holding in NDB Industrial Estates (Pvt) Ltd., in which company, LKR 30 has been invested as share capital. The Company is currently under liquidation.

30.5 NDB Capital Holdings PLC entered into a shareholders' agreement with NDB Zephyr Partners Ltd. on 15 December 2014 to invest LKR 49.61 million in 60% ordinary shares and 60% redeemable preference shares in NDB Zephyr Partners Ltd., a Management Company based in Mauritius, which manages Sri Lanka's largest country dedicated private equity fund. Accordingly, the equity investment took place on 2 January 2015.

31. Investments in Associate Companies

Accounting Policy

The Group's investments in its associate companies are accounted for using the equity method. An associate is an entity in which the Group has significant influence. Under the equity method, the investment in the associate is carried in the Statement of Financial Position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Statement of Profit or Loss reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Financial Statements of the associate companies are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the Accounting Policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each Reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of associate companies profits/(losses)' in the Statement of Profit or Loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the Statement of Profit or Loss.

	Corporate Status	Percentage Holding %	2014 Cost LKR '000	Percentage Holding %	2013 Cost LKR '000
31.1 Bank					
Maldives Finance Leasing Co. (Pvt) Ltd.	Non-quoted	–	–	35	165,462
NDB Venture Investments (Pvt) Ltd.	Under liquidation	–	–	50	18,525
Ayojana Fund (Pvt) Ltd.	Under liquidation	50	100	50	100
Less: Allowance for impairment of investments (Note 31.2)			(100)		(122,120)
Total			–		61,967

The Board of Directors of the Bank, at its meeting held on 20 March 2014, approved the divestiture of its investment in 224,875 shares amounting to 35% of the shares in Maldives Finance Leasing Company (Pvt) Ltd. to Tree Top Investments (Pvt) Ltd., a company incorporated in the Republic of Maldives. Accordingly, the divestment took place during April 2014. The net realized gain by the Bank on the divestment amounted to LKR 96 million.

	2014 LKR '000	2013 Cost LKR '000
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31.2 Movement in the Allowance for Impairment of Investments

As at 1 January	122,120	165,562
Reversal to Statement of Profit or Loss	(122,120)	(43,442)
As at 31 December	–	122,120

	Corporate Status	Percentage Holding %	As at 31.12.2014 LKR '000	As at 31.12.2013 LKR '000
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31.3 Group

Maldives Finance Leasing Co. (Pvt) Ltd.	Non-quoted	35	–	43,443
NDB Venture Investments (Pvt) Ltd. (under liquidation)	Non-quoted	50	–	33,301
Total			–	76,744

	2014 LKR '000	2013 Cost LKR '000
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31.4 Summarized Financial Information of the NDB Group's Investments in its Associate companies

Total assets	–	397,232
Total liabilities	–	206,497
Net assets	–	190,724
Gross income	–	116,204
Profits	–	49,220

32. Investment Property

Accounting Policy

Distinction Between Investment Properties and Owner-Occupied Properties

The Bank and the Group determine whether a property qualifies as an investment property by considering whether the property generates cash flows largely independently of the other assets held by the entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Bank and the Group account for the portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if as an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. The Bank and the Group consider each property separately in making its judgment.

Valuation of Investment Properties

The Land and Building of Development Holdings (Pvt) Ltd., which is held to earn rental income and for capital appreciations have been classified as an 'investment property', and is reflected at fair value.

Investment properties are initially recognized at cost. Subsequent to the initial recognition, the investment properties are stated at fair values. The Bank and the Group engage an External Independent Valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, to determine the fair value of land and building. In estimating the fair values, the Independent Valuer considers current market prices of similar assets, so as to reflect market conditions at the Reporting date. Gains or losses arising from changes in the fair values are included in the Statement of Profit or Loss, in the year in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Investment properties are derecognized when disposed of or permanently withdrawn from use because no future economic benefits are expected. Any gains or losses on retirement or disposal are recognized in the Statement of Profit or Loss in the year of retirement or disposal.

	GROUP	
	2014 LKR '000	2013 LKR '000
As at 1 January	1,383,693	1,295,693
Change in the fair value during the year	162,000	88,000
As at 31 December	1,545,693	1,383,693

Basis of Valuation

Investment properties are stated at fair value, which has been determined based on valuations performed by a Professional Valuer Mr A A M Fathihu, B.Sc. (Hons.), EMV, FIV Sri Lanka.

The income approach using the current market rent including passing rents has been used as the methodology by the valuer to value the Investment Property as recommended by SLFRS 13 - 'Fair Value measurements'.

Significant Assumptions Used for the Valuation

- Outgoing at 40% of estimated rent (2013 - 40%)
- Capitalize YP at 16% (2013 - 6.35%)

33. Intangible Assets

Accounting Policy

The intangible assets of the Bank and the Group include the value of computer software and software under development. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank and the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 December 2014 and 2013 is given below.

Computer software - 5 years.

Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is included in the Statement of Profit or Loss in the year in which the asset is derecognized.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
33.1 Computer Software				
Cost/Valuation				
As at 1 January	507,344	485,769	572,407	548,728
Additions during the year	67,330	23,330	92,138	25,573
Disposals during the year	(4,129)	(1,755)	(5,844)	(1,894)
Transfers/adjustments	(5,539)	–	(5,539)	–
As at 31 December	565,006	507,344	653,162	572,407
Depreciation/Amortization				
As at 1 January	292,128	213,455	320,938	230,004
Charge for the year	77,190	78,807	94,050	91,068
Disposals during the year	(3,966)	–	(5,418)	–
Transfers/Adjustments	–	(134)	–	(134)
As at 31 December	365,352	292,128	409,570	320,938
Net book value as at 31 December (a)	199,654	215,216	243,592	251,469

33.2 Software Under Development

Cost/Valuation

As at 1 January	45,209	–	45,209	–
Additions during the year	63,621	48,285	63,621	48,285
Transfers/Adjustments	(55,352)	(3,076)	(55,352)	(3,076)
As at 31 December (b)	53,478	45,209	53,478	45,209
Net book value of total intangible assets (a) + (b)	253,132	260,425	297,070	296,678

34. Property, Plant & Equipment

Accounting Policy

Change in the Accounting Policy

Revaluation of Freehold Land and Buildings (Property, Plant & Equipment)

The Bank and the Group reassessed their accounting policy for property, plant & equipment with respect to measurement of certain classes of property, plant & equipment after initial recognition. The Bank and Group have previously measured all property, plant & equipment using the 'cost model' as set out LKAS 16.30, whereby after initial recognition of the asset classified as property, plant & equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

However, during the current year the Bank and the Group elected to change the method of accounting for freehold land and buildings classified under property, plant & equipment to the 'revaluation model', since the Bank and Group believe that the revaluation model, more effectively demonstrates the financial position of freehold land and buildings.

After the initial recognition, the Bank and the Group use the revaluation model, whereby, land and buildings will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Bank and the Group applied the exemptions in LKAS 8; 'Accounting Policies and changes in Accounting Estimates and Errors', which exempts this change in accounting policy from retrospective application and extensive disclosure requirements.

Basis of Recognition

Property, plant & equipment are recognized, if it is probable that future economic benefits associated with the asset will flow to the Bank and the Group and the cost of the asset can be reliably measured.

Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Cost Model

The Bank and the Group apply the 'Cost Model' to all property, plant & equipment other than freehold land and buildings and record at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Bank and the Group adopted the revaluation model for the entire class of freehold land and buildings for measurement during the year 2014. Such properties are carried at revalued amounts, being their fair value at the reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Bank and the Group are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

The Bank and the Group engage an Independent Valuer to determine the fair value of freehold land and buildings. In estimating the fair values, the Independent Valuer considers current market prices of similar assets.

Subsequent Cost

There are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Bank and the Group and it can be reliably measured.

Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year, the asset is derecognized.

Useful Life Time of Property, Plant & Equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The Bank and the Group review the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 December 2014 and 2013, are as follows:

Buildings/improvements	20 years
Motor vehicles	4 years
Furniture and office equipment	5 years
Computer equipment	5 years

The depreciation rates are determined separately for each significant part of the assets and depreciation is provided proportionately for the completed number of months the asset is in use, if it is purchased or sold during the financial year.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

Leasehold assets are amortized over the lower of the useful life and the lease period of the respective assets.

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work-in-Progress LKR '000	Total LKR '000
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34.1 The Movement in Property, Plant & Equipment - Bank

(a) Cost or Valuation

As at 1 January 2013	165,016	618,746	540,223	172,492	453,446	–	1,949,923
Additions during the year	–	50,332	56,350	53,669	76,369	46,997	283,717
Disposals during the year	–	–	(4,827)	(22,095)	(235)	–	(27,157)
Transfers/adjustments	–	(362)	(136)	–	2,384	(43,574)	(41,688)
As at 31 December 2013	165,016	668,716	591,610	204,066	531,964	3,423	2,164,795
Additions during the year	–	30,913	89,567	198	81,566	59,802	262,046
Disposals during the year	–	(1,429)	(7,543)	(19,159)	(6,066)	–	(34,197)
Revaluation adjustment during the year	266,484	817,701	–	–	–	–	1,084,185
Transfers/adjustments	–	(301,216)	–	–	–	(44,173)	(345,389)
As at 31 December 2014	431,500	1,214,685	673,634	185,105	607,464	19,052	3,131,440

(b) Depreciation/Amortization

As at 1 January 2013	–	398,550	314,746	88,433	291,997	–	1,093,726
Charge for the year	–	49,062	76,172	38,059	60,004	–	223,297
On disposals	–	–	(5,434)	(20,417)	(209)	–	(26,060)
Transfers/adjustments	–	(502)	(136)	–	1,580	–	942
As at 31 December 2013	–	447,110	385,348	106,075	353,372	–	1,291,905
Charge for the year	–	57,361	80,525	39,896	68,618	–	246,400
On disposals	–	(605)	(7,526)	(19,159)	(5,855)	–	(33,145)
Transfers/adjustments	–	(301,216)	–	–	–	–	(301,216)
As at 31 December 2014	–	202,650	458,347	126,812	416,135	–	1,203,944
Net book value as at 31 December 2014	431,500	1,012,035	215,287	58,293	191,329	19,052	1,927,496
Net book value as at 31 December 2013	165,016	221,606	206,262	97,991	178,592	3,423	872,890

Location	Extent (Perches)	Cost or Revaluation of Land LKR '000	Buildings (Square Feet)	Cost or Revaluation of Buildings LKR '000	Total Value LKR '000	Accumulated Depreciation LKR '000	Written Down Value LKR '000	As a % of Total Cost
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34.2 Freehold Land and Buildings

Head Office - Dharmapala Mawatha No. 103A, Dharmapala Mawatha, Colombo 7	20.00	420,000	41,143	320,166	740,166	2,583	737,583	54.1
Head Office - Navam Mawatha No. 40, Navam Mawatha, Colombo 02	1.43	11,500	95,343	621,981	633,481	6,522	626,959	45.9
	21.43	431,500	136,486	942,147	1,373,647	9,105	1,364,542	100.0
Add: Improvement to buildings of the Bank branches					272,538	193,545	78,993	
Net book value as at 31 December 2014					1,646,185	202,650	1,443,535	

34.3 Freehold Land & Buildings on a Cost Basis

The carrying amount of Bank's revalued freehold land and buildings that would have been included in the Financial Statements and the assets being carried at cost less depreciation is as follows:

Location	Cost 2014 LKR '000	Accumulated Depreciation 2014 LKR '000	Net Book Value 2014 LKR '000	Cost 2013 LKR '000	Accumulated Depreciation 2013 LKR '000	Net Book Value 2013 LKR '000
Class of assets						
Freehold land	165,016	–	165,016	165,016	–	165,016
Freehold buildings	698,200	500,887	197,313	668,716	447,110	221,606
Total	863,216	500,887	362,329	833,732	447,110	386,622

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work-in- Progress LKR '000	Total LKR '000

34.4 The Movement in Property, Plant & Equipment - Group

(a) Cost or Valuation

As at 1 January 2013	165,016	923,053	581,802	233,305	590,109	–	2,493,285
Additions during the year	–	50,525	61,360	54,120	77,426	46,997	290,428
Disposals during the year	–	–	(4,827)	(22,095)	(235)	–	(27,157)
Transfers/adjustments	–	(362)	(136)	–	2,375	(43,574)	(41,697)
As at 31 December 2013	165,016	973,216	638,199	265,330	669,675	3,423	2,714,859
Additions during the year	–	30,913	98,210	41,424	93,768	59,802	324,117
Disposals during the year	–	(1,429)	(10,816)	(19,159)	(4,506)	–	(35,910)
Revaluation adjustment during the year	266,484	817,701	–	–	–	–	1,084,185
Transfers/adjustments	–	(301,216)	–	–	–	(44,173)	(345,389)
As at 31 December 2014	431,500	1,519,185	725,593	287,595	758,937	19,052	3,741,862

(b) Depreciation/Amortization

As at 1 January 2013	–	398,550	347,887	117,220	407,128	–	1,270,785
Charge for the year	–	50,115	81,971	47,976	113,509	–	293,571
On disposals	–	(1,372)	(5,434)	(20,417)	(209)	–	(27,432)
Transfers/adjustments	–	–	(136)	–	1,580	–	1,444
As at 31 December 2013	–	447,293	424,288	144,779	522,008	–	1,538,368
Charge for the year	–	77,586	86,019	51,965	75,570	–	291,140
On disposals	–	(605)	(10,731)	(20,339)	(7,402)	–	(39,077)
Disposals during the year	–	(301,216)	–	–	–	–	(301,216)
As at 31 December 2014	–	223,058	499,576	176,405	590,176	–	1,489,215
Net book value as at 31 December 2014	431,500	1,296,127	226,017	111,190	168,761	19,052	2,252,647
Net book value as at 31 December 2013	165,016	525,923	213,911	120,551	147,667	3,423	1,176,491

34.5 Fully Depreciated Property, Plant & Equipment

The initial cost of fully depreciated property, plant & equipment as at 31 December 2014, which are still in use as at 31 December 2014 are as follows:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Computer equipment	247,999	209,304	278,814	218,254
Buildings	119,357	195,573	119,550	208,073
Motor vehicles	37,050	33,758	45,882	33,758
Office equipment and furniture	256,062	224,556	353,140	232,081
Total	660,468	663,191	797,386	692,166

35. Other Assets

Accounting Policy

The Bank and the Group classify all their other assets as 'other financial assets' and 'other non-financial assets'. Other assets mainly comprises of deposits and prepayments, unamortized staff costs and sundry receivables. Deposits are carried at historical cost less provision for impairment. Prepayments are amortized during the period in which they are utilized and are carried at historical less provision for impairment.

As all staff loans granted at below market interest rates, are recognized at fair value, the difference between the fair value and the amount disbursed was treated as day 1 difference. The Day 1 difference is classified as 'unamortized staff cost' and is amortized over the loan period by using the EIR. The staff loans are subsequently measured at amortized costs.

Other financial assets and other non-financial assets included under other assets are summarised below:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Other financial assets (Note 35.1)	54,450	–	54,450	–
Other non-financial assets (Note 35.2)	1,399,283	1,189,391	1,821,885	1,458,737
Total	1,453,733	1,189,391	1,876,335	1,458,737

35.1 Other Financial Assets

Investment control account	54,450	–	54,450	–
	54,450	–	54,450	–

35.2 Other Non-Financial Assets

Sundry receivables	635,310	333,160	994,923	591,602
Deposits and prepayments	232,286	244,312	273,269	301,886
Unamortized staff cost (Note 35.3)	529,883	541,525	551,889	565,249
Employees Share Ownership Plan (Note 35.4)	–	68,747	–	–
Others	1,804	1,647	1,804	–
Total	1,399,283	1,189,391	1,821,885	1,458,737

35.3 Unamortized Staff Cost

As at 1 January 2014	541,525	445,842	565,249	466,562
Add: Adjustment for new grants and settlements	66,059	168,728	68,757	178,290
Charged to personnel expenses	(77,701)	(73,045)	(82,117)	(79,603)
As at 31 December 2014	529,883	541,525	551,889	565,249

35.4 The Colombo Stock Exchange (CSE), by Listing Rule 5.6 amended the rules relating to Employee Share Option Schemes (ESOS) and Employee Share Purchase Schemes (ESPS), by mandating that such schemes should result in the shares being offered to eligible employees for 'purchase' or 'subscription' in the case of ESOS and 'acquisition' in the case of ESPS, specifically prohibiting open ended schemes. In compliance with this ruling and the Transitional Provisions thereto, the Board of Directors of National Development Bank PLC (Bank) approved the dissolution of the NDB Employee Share Option Plan (ESOP) and the distribution of the ESOP shares amounting to 4,133,726 to the eligible employees of the Bank. Accordingly the unamortized cost on the ESOP has been charged to the Statement of Profit or Loss.

36. Due to Banks

Accounting Policy

Due to banks include call money borrowings and credit balances in Nostro accounts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Borrowings from local banks	6,498,487	9,053,574	6,498,487	9,053,574
Due to foreign banks	530,855	1,399,512	530,855	1,399,512
Total	7,029,342	10,453,086	7,029,342	10,453,086

36.1 Due to Banks - By Currency

Local currency	3,450,598	505,918	3,450,598	505,918
Foreign currency	3,578,744	9,947,168	3,578,744	9,947,168
Total	7,029,342	10,453,086	7,029,342	10,453,086

37. Due to Other Customers

Accounting Policy

Due to other customers include non-interest bearing deposits, savings deposits, term deposits, margins and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

37.1 Due to Other Customers - By Products

Savings deposits	24,056,643	20,737,295	24,056,642	20,737,295
Time deposits	115,167,079	97,457,473	114,866,084	97,100,708
Demand deposits	12,291,825	11,099,605	12,254,307	11,048,154
Margins	237,751	489,251	237,751	489,251
Other deposits	70,417	46,405	70,417	46,405
Total	151,823,715	129,830,029	151,485,201	129,421,813

	BANK				GROUP			
	2014 LKR '000	%	2013 LKR '000	%	2014 LKR '000	%	2013 LKR '000	%

37.2 Due to Other Customers - By Currency

Local Currency Deposits

Savings deposits	18,291,268	12	14,419,607	11	18,291,268	12	14,419,607	11
Time deposits	86,689,126	57	76,149,198	59	86,388,131	57	75,792,434	59
Demand deposits	10,073,086	7	9,081,419	7	10,035,568	7	9,029,968	7
Margins	181,050	-	462,539	-	181,050	-	462,539	-
Other deposits	29,031	-	16,681	-	29,030	-	16,680	-
Sub total	115,263,561	76	100,129,444	77	114,925,047	76	99,721,228	77

Foreign Currency Deposits

Savings deposits	5,765,375	4	6,317,688	5	5,765,375	4	6,317,688	5
Time deposits	28,477,953	19	21,308,275	16	28,477,953	19	21,308,275	16
Demand deposits	2,218,739	1	2,018,186	2	2,218,739	1	2,018,186	2
Margins	56,701	-	26,712	-	56,701	-	26,712	-
Other deposits	41,386	-	29,724	-	41,386	-	29,724	-
Sub total	36,560,154	24	29,700,585	23	36,560,154	24	29,700,585	23
Total	151,823,715	100	129,830,029	100	151,485,201	100	129,421,813	100

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

37.3 Due to Other Customers - By Province

Western Province	137,661,581	118,274,186	137,323,068	117,865,969
North-Western Province	3,400,871	2,819,643	3,400,871	2,819,644
Southern Province	2,681,806	2,104,254	2,681,806	2,104,254
Central Province	2,683,919	2,374,189	2,683,919	2,374,189
Sabaragamuwa Province	2,596,387	1,926,321	2,596,387	1,926,321
Eastern Province	671,416	617,021	671,416	617,021
Northern Province	850,963	657,371	850,963	657,371
North-Central Province	524,847	544,081	524,847	544,081
Uva Province	751,925	512,963	751,924	512,963
Total	151,823,715	129,830,029	151,485,201	129,421,813

38. Debt Securities Issued and Other Borrowed Funds

Accounting Policy

Debt Securities issued and other borrowed funds represent the funds borrowed by the Bank and the Group for long-term and short-term liquidity funding requirements and include borrowings from concessionary credit lines, institutional borrowings, securities sold under repurchase agreements and non-quoted debentures. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on debt securities and borrowed funds are recognized in the Statement of Profit or Loss, under 'Interest Expenses'.

Securities Sold Under Repurchase Agreements

The Bank and the Group sell a financial asset and simultaneously enter into an agreement to repurchase the asset (or similar asset) at a fixed price at a future date. Such an arrangement is accounted for as a financial liability and the underlying asset continues to be recognized in the Financial Statements of the Bank and the Group, as the Bank and the Group retain substantially all risks and rewards of ownership. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method with the corresponding interest paid/payable being recognized in the Statement of Profit or Loss, under 'Interest Expenses'.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Concessionary credit lines	2,343,544	3,553,877	2,343,544	3,553,877
Refinance borrowings	3,398,459	3,460,599	3,398,459	3,460,599
Foreign borrowings	31,155,496	5,207,343	31,155,496	5,207,343
Securities sold under repurchase agreements	24,630,586	11,771,598	24,630,928	11,771,598
Local borrowings	27,290	27,290	27,290	27,290
Non-quoted debentures - (Note 38.1)	400,085	400,111	370,085	370,111
Total	61,955,460	24,420,818	61,925,802	24,390,818

38.1 Non-quoted Debentures

Non-quoted debentures consist of 400,000 unlisted unsecured redeemable debentures of LKR 1,000/- each issued by the Bank in 2011 of which details are given below:

	Interest Payable Frequency	Issue Date	Maturity Date	BANK		GROUP	
				2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Floating Rate Debenture							
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	30.06.2011	30.06.2016	110,000	110,000	110,000	110,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	18.07.2011	30.06.2016	50,000	50,000	50,000	50,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	19.07.2011	30.06.2016	40,000	40,000	40,000	40,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	21.07.2011	30.06.2016	200,085	200,111	170,085	170,111
				400,085	400,111	370,085	370,111

The maturity of the non-quoted debentures are given below:

Due within one year	85	111	85	111
Due after one year	400,000	400,000	370,000	370,000
Total	400,085	400,111	370,085	370,111

39. Deferred Tax Liabilities

Accounting Policy

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply for the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the Statement of Financial Position.

Reconciliation of Net Deferred Tax Liability	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Deferred Tax Liabilities				
Accelerated depreciation for tax purposes	80,670	71,502	83,977	73,334
Revaluation of surplus on freehold buildings	230,729	–	230,729	–
Finance leases	453,037	350,737	453,037	350,737
Gains on financial investments - available-for-sale	7,791	41,482	24,881	58,572
Total	772,227	463,721	792,624	482,643
Deferred Tax Assets				
Defined benefit plans	69,273	47,603	76,577	46,915
Carry forward loss on leasing business	64,929	62,243	64,929	62,243
Loss on other operations	–	–	22,625	7,591
Deferred expenses to be claimed in income tax liability of future years	12,103	–	12,103	–
Allowance for impairment charges	6,455	41,443	6,455	41,443
Total	152,760	151,289	182,689	158,192
Net deferred Tax Liability	619,467	312,432	609,935	324,451

Deferred tax charge to the statement of Profit or Loss and the statement of Comprehensive Income	Statement of Profit or Loss				Statement of Comprehensive Income			
	BANK		GROUP		BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Deferred tax charge to the Statement of Profit or Loss and the Statement of Comprehensive Income								
Deferred Tax Liabilities								
Accelerated depreciation for tax purposes	9,167	14,489	10,643	15,999	–	–	–	–
Revaluation of buildings at fair value	–	–	–	–	230,729	–	230,729	–
Finance leases	102,298	112,169	102,298	112,169	–	–	–	–
Gains on financial investments - available-for-sale	–	–	–	–	(33,691)	41,482	(33,691)	58,572
Total	111,465	126,658	112,941	128,168	197,038	41,482	197,038	58,572
Deferred Tax Assets								
Defined benefit plans	(4,772)	(10,017)	(12,765)	(8,253)	(16,897)	(3,372)	(16,897)	(3,372)
Carry forward loss on leasing business	(2,686)	42,026	(2,686)	42,026	–	–	–	–
Loss on other operations	–	70,233	(15,034)	62,642	–	–	–	–
Deferred expenses to be claimed in income tax liability of future years	(12,103)	–	(12,103)	–	–	–	–	–
Provision for impairment losses	34,988	(34,452)	34,988	(34,452)	–	–	–	–
Total	15,427	67,790	(7,600)	61,963	(16,897)	(3,372)	(16,897)	(3,372)
Net impact	126,892	194,448	105,341	190,131	180,141	38,110	180,141	55,200

40. Employee Benefit Liabilities

Accounting Policy

Employee benefit liabilities include the provisions made for retirement gratuity and pension fund.

Retirement Gratuity

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit method. Actuarial gains and losses are recognized as income or expense in the Statement of Comprehensive Income during the financial year in which it arose.

Pension Fund

The Bank operates an approved employee non-contributory pension fund for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Employees who joined since 1999 are not covered under the said pension scheme. These employees are entitled to retirement gratuity. Up to 31 December 2002, annual contributions to the pension fund was payable by the Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation carried out each year.

Basis of Measurement

The cost of the defined benefit plans (retirement gratuity and pension fund) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given in Note 40.1 (b) and 40.2 (b).

In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the Bank's and the Group's policy on salary revisions.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
40.1 Provision for Retirement Gratuity				
As at 1 January	170,008	122,191	214,830	165,633
Provision made during the year				
Statement of Profit or Loss [Note 40.1 (a)]	44,101	40,990	53,487	42,370
Statement of Comprehensive Income [Note 40.1 (a)]	60,348	12,042	60,348	12,042
Contribution made for retirement gratuity	104,449	53,032	113,835	54,412
Benefits paid by the plan	(27,446)	(5,215)	(27,446)	(5,215)
As at 31 December	247,011	170,008	301,219	214,830
40.1 (a) Contribution Made for Retirement Gratuity				
Current service cost	25,400	23,246	25,400	23,246
Interest cost	18,701	17,744	28,087	19,124
Amount recognised in the Statement of Profit or Loss	44,101	40,990	53,487	42,370
Recognition of transitional liability/(asset)	38,540	25,672	38,540	25,672
Liability experience loss/(gain)	21,808	3,942	21,808	3,942
Liability loss/(gain) due to changes in assumptions	–	(17,572)	–	(17,572)
Amount recognised in the Statement of Comprehensive Income	60,348	12,042	60,348	12,042

40.1 (b) Assumptions and the sensitivity of the assumptions used for the provision of retirement gratuity

An actuarial valuation of the retirement gratuity liability was carried out as at 31 December 2014 and 31 December 2013 by Messrs Piyal S Goonetilleke and Associates, a professional actuary.

The valuation method used by the Actuary to value the Liability is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

	31 December 2014	31 December 2013
Actuarial Assumptions		
Discount rate	9%	11%
Salary increment rate	7%	8%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

Sensitivity of Assumptions Used in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and the Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

BANK					
		2014	2013		
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of profit or loss Increase/(Reduction) in results for the year LKR million	Sensitivity Effect on Employment Benefit obligation Increase/(Decrease) in the Liability LKR million
1%		21.79	(21.79)	15.47	(15.47)
(-1%)		(25.27)	25.27	(17.93)	17.93
	1%	(24.78)	24.78	(17.75)	17.75
	(-1%)	21.76	(21.76)	15.58	(15.58)

40.1 (c) The expected Benefit Payout in the future years for Retirement Gratuity

	2014 LKR '000	2013 LKR '000
Within the next 12 months	18,052	15,108
Between 2 and 5 years	176,414	132,492
Beyond 5 years	325,703	278,448

The expected benefits are estimated based on the same assumptions used to measure the benefit obligation of the Bank at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 12.5 years (2013 - 12.5 years).

40.2 Pension Fund

The amount recognized in the Statement of Financial Position is as follows:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Present value of funded obligation as at 31 December	604,818	533,685	604,818	533,685
Fair value of plan assets as at 31 December	(670,398)	(634,172)	(670,398)	(634,172)
Retirement Benefit (Asset)/Liability*	(65,580)	(100,487)	(65,580)	(100,487)

* The over payment is recognized as pre-paid expenses in Other Assets.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
40.2 (a) Contribution made to the Pension Fund				
Current service cost	18,753	18,233	18,753	18,233
Interest cost	(11,590)	(12,784)	(11,590)	(12,784)
Amount recognized in the Statement of Profit or Loss	7,163	5,449	7,163	5,449
Assets loss/(gain) arising during the year	23,508	5,928	23,508	5,928
Liability experience loss	10,612	6,313	10,612	6,313
Liability loss/(gain) due to changes in assumptions	16,751	11,160	16,751	11,160
Difference between the return on plan assets	(6,391)	-	(6,391)	-
Effect of net assets recognition in the pension fund	34,907	-	34,907	-
Amount recognised in the Statement of comprehensive Income	79,387	23,401	79,387	23,401

40.2 (b) Assumptions and the sensitivity of the assumptions used for the Pension Fund

An actuarial valuation of the Pension Fund was carried out as at 31 December 2014 and 31 December 2013 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

The valuation method used by the Actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

	2014	2013
Actuarial Assumptions		
Discount rate	10%	11%
Salary increment	6%	8%
Annual return on assets rate	7%	10%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

Sensitivity of Assumptions Employed in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate and the life expectancy on the profit or loss and employment benefit obligation for the year.

BANK					
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	2014		2013	
		Sensitivity Effect on Statement of profit or loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of Profit or Loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million
1%		54.73	(54.73)	47.87	(47.87)
(-1%)		(64.26)	64.26	(56.13)	56.13
	1%	(21.03)	21.03	(20.31)	20.31
	(-1%)	19.57	(19.57)	18.77	(18.77)

Increase/(Decrease) in Life Expectancy	2014		2013	
	Sensitivity Effect on Statement of profit or loss Increase/(Reduction) in Results for the Year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million	Sensitivity Effect on Statement of Profit or Loss Increase/(Reduction) in results for the year LKR million	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR million
+ 1 Year	(7.81)	7.81	(3.19)	6.19
- 1 Year	8.10	(8.10)	6.43	(6.43)

The major categories of plan assets of the fair value of the total plan assets are as follows:

	2014 LKR '000	2012 LKR '000
Investments in Government Securities	537,270	515,276
Investment in fixed deposits	113,500	112,893
	650,770	628,169

40.2 (c) The Expected Benefit Payout from the Pension Fund in the Future Years

Within the next 12 months	32,866	33,958
Between 2 and 5 years	202,991	156,983
Beyond 5 years	432,625	321,421

The expected benefits are based on the same assumptions used to measure the Bank's and the Group's benefit obligation at the end of the year and include benefits attributable to estimated future employee service.

The average duration of the defined benefit obligation is 24 years as at 31 December 2014 (2013 - 26.6 years).

40.2 (d) The total amount recognised in the Statement of comprehensive Income relating to the Employee Benefit liability.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Retirement Gratuity [Note 40.2 (a)]	79,387	23,401	79,387	23,401
Pension Fund [Note 40.1 (a)]	60,348	12,042	60,348	12,042
Total	139,735	35,443	139,735	35,443

41. Other Liabilities

Accounting Policy

Other liabilities include other financial liabilities and other non-financial liabilities. Other non-financial liabilities include fees, expenses and other amounts payable for deposit insurance, dividend payable and other provisions. These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognized when the Bank and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Other financial liabilities and other non-financial liabilities included under other liabilities are summarised below:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Other financial liabilities (Note 41.1)	2,423,677	701,912	2,423,677	701,912
Other non-financial liabilities (Note 41.2)	3,752,970	2,983,753	3,937,165	3,148,377
Total	6,176,647	3,685,665	6,360,842	3,850,289

41.1 Other Financial Liabilities

Unpresented cheques/pay orders	2,387,210	667,182	2,387,210	667,182
Others	36,467	34,730	36,467	34,730
Total	2,423,677	701,912	2,423,677	701,912

41.2 Other Non-Financial Liabilities

Accrued expenses	571,246	575,079	772,389	631,942
Provision for deposit insurance	34,250	34,500	34,500	34,500
Dividend payable (Note 41.3)	51,428	40,656	51,428	40,656
Other liabilities	3,096,046	2,333,518	3,078,848	2,441,279
Total	3,752,970	2,983,753	3,937,165	3,148,377

	BANK & GROUP	
	2014 LKR '000	2013 LKR '000
41.3 Dividend Payable		
Balance as at 1 January	40,656	249,201
Interim dividend declared for the prior year	–	821,010
Final dividend declared for the prior year	824,245	1,642,019
Interim dividend declared for the current year	1,155,587	823,465
Reversal of dividends declared in prior years [Note 41.3.1 (a)]	(2,298)	(64,560)
Dividend paid	(1,966,762)	(3,430,479)
As at 31 December	51,428	40,656

41.3 (a) Reversal of Dividends Declared in Prior Years

Reversal of dividends declared in previous years represents unclaimed dividends which are written back after six years and cancellation of dividends of unregistered shareholders.

42. Subordinated Term Debts

Accounting Policy

Subordinated term debts represent the funds borrowed by the Bank and the Group for long-term and short-term funding requirements and include foreign institutional borrowings and quoted debentures. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on subordinated debts are recognized in the Statement of Profit or Loss. The direct costs attributable to these term debts are amortized over the term of the loan and are offset, in the presentation of the subordinate term debts in the Statement of Financial Position.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
As at 1 January	11,682,674	2,188,350	11,682,674	2,188,350
Additions during the year	–	9,954,542	–	9,954,542
Redemptions during the year	(563,082)	(511,650)	(563,082)	(511,650)
Balance before adjusting for amortized interest	11,119,592	11,631,242	11,119,592	11,631,242
Net effect on amortized interest payable	29,847	51,432	29,847	51,432
As at 31 December (Note 42.1)	11,149,439	11,682,674	11,149,439	11,682,674

42.1 Subordinated Term Debts - by Products

Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	Amount in FCY	BANK		GROUP		
					2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	
42.1 (a) Term Loans									
Nederland's Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)									
FMO Loan I	Semi Annually	20 Jan. 2006	1 Oct 2015	AWDR +5%	EUR 7,500,000	190,797	384,467	190,797	384,467
FMO Loan II	Semi Annually	18 Dec. 2007	15 Oct 2017	Avg (6 months AWDR, 6 months T Bill rate) + 3%	USD 15,000,000	1,000,911	1,343,665	1,000,911	1,343,665
Total (a)						1,191,708	1,728,132	1,191,708	1,728,132

Interest Payable Frequency	Issued Date	Maturity Date	BANK		GROUP		
			2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	
42.1 (b) Debentures							
Fixed Rate Debenture							
Type A - 13.0% - (60 Months)	Semi Annually	19 December 2013	18 December 2018	1,242,526	1,237,065	1,242,526	1,237,065
Type B - 13.40% - (60 Months)	Annually	19 December 2013	18 December 2018	1,522,148	1,521,968	1,522,148	1,521,968
Type C - 13.90% - (120 Months)	Annually	19 December 2013	18 December 2023	3,620,874	3,620,995	3,620,874	3,620,995
Type D - 14.00% - (144 Months)	Annually	19 December 2013	18 December 2025	3,572,183	3,574,514	3,572,183	3,574,513
Total (b)				9,957,731	9,954,542	9,957,732	9,954,542
Total subordinated term debts (a)+(b)				11,149,439	11,682,674	11,149,439	11,682,674

The maturity of the subordinated term debts are given below:

Due within one year	511,650	511,650	511,650	511,650
Due after one year	10,637,789	11,171,024	10,637,789	11,171,024
	11,149,439	11,682,674	11,149,439	11,682,674

	BANK				GROUP			
	Number of Shares	2014 LKR '000	Number of Shares	2013 LKR '000	Number of Shares	2014 LKR '000	Number of Shares	2013 LKR '000
Issued and fully paid	164,693,034	1,172,904	164,201,902	1,093,095	160,559,308	943,746	164,201,902	1,093,095
Adjustment on Employee Share Ownership Plan	-	-	-	-	4,131,850	229,158	(4,133,726)	(229,158)
Adjustment on Equity Linked Compensation Plan	-	-	-	-	(491,132)	(79,809)	-	-
Issue of shares under the Equity Linked Compensation Plan (Note 43.2)	400,888	52,258	491,132	79,809	400,888	52,258	491,132	79,809
Total	165,093,922	1,225,162	164,693,034	1,172,904	164,600,914	1,145,353	160,559,308	943,746

43. Capital

	BANK & GROUP			
	2014 Number of Shares	2014 LKR '000	2013 Number of Shares	2013 LKR '000
43.1 Stated Capital	165,093,922	1,225,162	164,693,034	1,172,904

43.2 Issue of Shares Under the Equity Linked Compensation Plan (ELCP)

The Bank obtained approval of the shareholders at an Extraordinary General Meeting held in April 2010, to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. Accordingly, the ELCP created a maximum of 3% of the ordinary voting shares, half of such shares are to be awarded as share options and the other half as share grants in equal proportions. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

43.2 (a) The details of the share grant and the share options made available to the relevant staff members are given below:

	2014	2013
Share Grant		
Award 01 - (01 July 2010) - vested on 30 June 2013		
Numbers of ordinary shares awarded	491,132	491,132
Award 04 - (01 July 2013) - to be vested on 30 June 2016		
Numbers of ordinary shares awarded	491,132	491,132
Total number of shares granted under the share grant scheme	982,264	982,264
Share Option		
Award 01 - (01 July 2010) - exercisable from 1 July 2011 to 30 June 2014		
Number of shares allocated at a price of LKR 124.21	491,132	491,132
Number of shares exercised at a price of LKR 124.21	337,146	-
Number of shares cancelled	153,986	-
Award 04 - (01 July 2013) - exercisable from 1 July 2014 to 30 June 2017		
Number of shares allocated at a price of LKR 162.86	491,132	491,132
Number of shares exercised at a price of LKR 162.86	63,742	-
Number of shares to be exercised	427,390	-
43.2 (b) Expense arising from ELCP recognised in the Statement of Profit or Loss	46,504	32,323

43.2 (c) The following tables list the inputs to the models used for the award 4 (option plan)

Expected volatility (%) -	2%
Risk-free interest rate (%)	7.50%
Expected life of share options (years)	3
Exercise share price	162.86

43.2 (d) Number of shares issued to the eligible staff members during the year as per the ELCP is given below:

	BANK & GROUP			
	2014 Number of Shares	2014 LKR '000	2013 Number of Shares	2013 LKR '000
Award 01 - (1 July 2010)	337,146	41,877	491,132	79,809
Award 04 - (1 July 2013)	63,742	10,381	-	-
Total	400,888	52,258	491,132	79,809

44. Statutory Reserve Fund

The Statutory Reserve Fund is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred to elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of said reserve fund is equal to the stated capital of the Bank.

The balance in the Statutory Reserve Fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
As at 1 January	958,527	878,718	958,527	878,718
Transferred from retained earnings (Note 45)	52,258	79,809	52,258	79,809
As at 31 December	1,010,785	958,527	1,010,785	958,527

	2014			2013		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 1 January	5,805,707	9,847,553	15,653,260	5,805,707	6,240,549	12,046,256
Total comprehensive income for the year	–	3,295,225	3,295,225	–	7,691,165	7,691,165
Transferred from/(to) Investment Fund Account	–	1,706,751	1,706,751	–	(782,419)	(782,419)
Transferred to Statutory Reserve Fund	–	(52,258)	(52,258)	–	(79,809)	(79,809)
Dividends paid and reversals of dividends of prior years	–	(1,977,534)	(1,977,534)	–	(3,221,933)	(3,221,933)
As at 31 December	5,805,707	12,819,737	18,625,444	5,805,707	9,847,553	15,653,260

45. Retained Earnings

(a) Bank

	2014			2013		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 1 January	5,805,707	9,847,553	15,653,260	5,805,707	6,240,549	12,046,256
Total comprehensive income for the year	–	3,295,225	3,295,225	–	7,691,165	7,691,165
Transferred from/(to) Investment Fund Account	–	1,706,751	1,706,751	–	(782,419)	(782,419)
Transferred to Statutory Reserve Fund	–	(52,258)	(52,258)	–	(79,809)	(79,809)
Dividends paid and reversals of dividends of prior years	–	(1,977,534)	(1,977,534)	–	(3,221,933)	(3,221,933)
As at 31 December	5,805,707	12,819,737	18,625,444	5,805,707	9,847,553	15,653,260

	2014			2013		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 1 January	5,805,707	14,926,094	20,731,801	5,805,707	16,410,347	22,216,054
Total comprehensive income for the year	–	4,011,426	4,011,426	–	2,599,908	2,599,908
Transferred from/(to) Investment Fund Account	–	1,706,751	1,706,751	–	(782,419)	(782,419)
Adjustment on Employee Share Ownership Plan	–	(161,060)	(161,060)	–	–	–
Adjustment on Equity Linked Compensation Plan	–	(13,301)	(13,301)	–	–	–
Transferred to Statutory Reserve Fund	–	(52,258)	(52,258)	–	(79,809)	(79,809)
Dividends paid and reversals of dividends of prior years	–	(1,977,535)	(1,977,535)	–	(3,221,933)	(3,221,933)
As at 31 December	5,805,707	18,440,117	24,245,824	5,805,707	14,926,094	20,731,801

(b) Group

	2014			2013		
	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000	General Reserve LKR '000	Retained Earnings LKR '000	Total LKR '000
As at 1 January	5,805,707	14,926,094	20,731,801	5,805,707	16,410,347	22,216,054
Total comprehensive income for the year	–	4,011,426	4,011,426	–	2,599,908	2,599,908
Transferred from/(to) Investment Fund Account	–	1,706,751	1,706,751	–	(782,419)	(782,419)
Adjustment on Employee Share Ownership Plan	–	(161,060)	(161,060)	–	–	–
Adjustment on Equity Linked Compensation Plan	–	(13,301)	(13,301)	–	–	–
Transferred to Statutory Reserve Fund	–	(52,258)	(52,258)	–	(79,809)	(79,809)
Dividends paid and reversals of dividends of prior years	–	(1,977,535)	(1,977,535)	–	(3,221,933)	(3,221,933)
As at 31 December	5,805,707	18,440,117	24,245,824	5,805,707	14,926,094	20,731,801

	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000

46. Other Reserves

46. (a) Current Year 2014

Revaluation Reserve (Note 46.1)	–	853,456	853,456	–	853,456	853,456
Available-for-Sale Reserve (Note 46.2)	106,669	(1,419)	105,250	150,614	11,741	162,355
Investment Fund Account (Note 46.3)	1,706,751	(1,706,751)	–	1,706,751	(1,706,751)	–
Share Based Payment Reserve (Note 46.4)	22,367	(2,124)	20,243	22,367	37,781	60,148
Cash Flow Hedge Reserve [Note 22.1 (c)]	–	397,852	397,852	–	397,852	397,852
Total	1,835,787	(458,986)	1,376,801	1,879,732	(405,921)	1,473,811

	BANK			GROUP		
	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000	Opening Balance LKR '000	Movement/ Transfers LKR '000	Closing Balance LKR '000

46. (b) Previous Year 2013

Available-for-Sale Reserve (Note 46.2)		106,669	106,669	–	150,614	150,614
Investment Fund Account (Note 46.3)	924,332	782,419	1,706,751	924,332	782,419	1,706,751
Share Based Payment Reserve (Note 46.4)	–	22,367	22,367	–	22,367	22,367
Total	924,332	911,455	1,835,787	924,332	955,400	1,879,732

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000

46.1 Revaluation Reserve

Surplus on revaluation of freehold land and building	1,084,185	–	1,084,185	–
Deferred tax effect on revaluation surplus on freehold building	(230,729)	–	(230,729)	–
Net Revaluation Reserve	853,456	–	853,456	–

46.2 Available-for-Sale Reserve

As at 1 January	148,151	–	209,186	–
Net gains/(losses) on re-measuring financial investments - available-for-sale	459,062	148,151	472,222	209,186
Reclassification of retained earnings to Available-for-Sale Reserve	(494,172)	–	(494,172)	–
As at 31 December	113,041	148,151	187,236	209,186
Less tax on Available-for-Sale Reserve	(7,791)	(41,482)	(24,881)	(58,572)
Net Available-for-Sale Reserve	105,250	106,669	162,355	150,614

46.3 Investment Fund Account

As proposed in the 2011 Government Budget, as and when taxes are paid after 1 January 2011, licensed banks must make transfers to the Investment Fund Account to build up a permanent fund within the Bank. Accordingly, such account has been established and operated based on the guideline on the operation of the investment fund account issued by Central Bank of Sri Lanka on 29 April 2011 with the concurrence of the Commissioner General of Inland Revenue.

- (i) 8% of the profit calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT.
- (ii) 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payment of tax.

However, as per the circular issued by the Central Bank of Sri Lanka dated 31 July 2014, the operation of the Fund ceased with effect from 01 October 2014 and therefore the balance available in the Investment Fund Account was transferred to the retained earnings by the Bank on this date.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
As at 1 January	1,706,751	924,332	1,706,751	924,332
Transferred from retained earnings	124,983	782,419	124,983	782,419
Transferred to retained earnings	(1,831,734)	–	(1,831,734)	–
As at 31 December	–	1,706,751	–	1,706,751

Loans Granted by Utilizing the Funds in the Investment Fund Account

The loans disbursed by utilizing the Investment Fund Account balance, are included under Long-term loans in Note 25, Loans and Receivable to Other Customers.

	BANK & GROUP							
	Interest Rates	Tenure Years	Number of Loans Granted	2014 Total	Interest Rates	Tenure Years	Number of Loans Granted	2013 Total
	%			LKR '000	%			LKR '000

Sector

a. Cultivation of agriculture/ plantation crops	9.0 - 18.0	5 - 7	25	89,558	11.0 - 18.0	5 - 7	29	124,039
b. Factory/mills modernization			35	159,134			39	215,022
c. Small and medium enterprises			285	1,169,271			253	1,226,571
d. Information technology and BPO			–	–			1	1,514
e. Infrastructure development			1	497			2	3,125
f. Education			1	2,308			1	3,295
i. Construction of hotels			10	42,994			15	103,255
			357	1,463,762			340	1,676,821

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
46.4 Share Based Payment Reserve				
As at 1 January	22,367	–	22,367	–
Adjustments	(2,124)	22,367	(2,124)	22,367
Transferred during the year	–	–	39,905	–
As at 31 December	20,243	22,367	60,148	22,367

The share based payment reserve represents the fair value of the options available as per the Equity Linked Compensation Plan (Refer Note 43.2).

47. Non-Controlling Interests

Accounting Policy

Non-controlling interests represent the portion of profit and loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this resulting in a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of net assets acquired is recognized as equity. Therefore no goodwill is recognized as a result of such transactions.

	GROUP	
	2014 LKR '000	2013 LKR '000
NDB Wealth Management Ltd.	1,989	1,373
NDB Capital Holdings PLC (de-listed)	23,169	21,663
NDB Capital Ltd.	6,740	17,336
Development Holdings (Pvt) Ltd.	887,528	804,486
NDB Securities (Pvt) Ltd.	2,023	1,901
NDB Investment Bank Ltd .	1,197	1,089
Total	922,646	847,848

48. Commitments and Contingencies

Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities.

Commitments and contingencies represent 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 reliably measured.

To meet the financial needs of customers, the Bank and the Group enter into various irrevocable commitments and contingent liabilities. These consist of the financial guarantees, letters of credit and forward foreign exchange contracts and other undrawn commitments to lend. The letters of credit and guarantees commit the Bank and the Group to make payments on behalf of customers in the event of a specific act, generally related to import or export of goods. The guarantees and standby letters of credit carry a similar credit risk to loans/contingent liabilities and are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
48.1 Business Commitments				
Undisbursed financing commitments	93,937,028	63,999,574	93,940,238	63,999,574
Guarantees	15,584,522	15,723,292	15,586,541	15,723,292
Performance and bid bonds	6,503,688	3,930,319	6,503,688	3,930,319
Letters of credit	7,521,595	7,287,156	7,521,595	7,287,156
Forward foreign exchange contracts	100,448,034	79,844,817	100,448,034	79,844,817
Acceptances	7,148,766	6,415,082	7,148,766	6,415,082
Total	231,143,633	177,200,240	231,148,862	177,200,240

48.2 Capital Commitments

The capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements is as follows:

	BANK		GROUP	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Approved and contracted for	85,240	57,700	85,240	57,700
Approved and not contracted for	104,160	–	104,160	–
Total	189,400	57,700	189,400	57,700

48.3 Litigation against the Bank

In the normal course of business, the Bank is a party to various types of litigation, including litigation with borrowers who are in default in terms of their loan agreements. As of the date of the Statement of Financial Position, twenty six clients have filed cases against the Bank. The Bank's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or the future operations of the Bank.

49. Fair Value of Financial Instruments

Accounting Policy

The following is a description of how fair values are determined for financial instruments and non-financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's and the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Instruments

Derivatives - Assets and Liabilities

Derivative products are foreign exchange contracts and foreign exchange options which are valued using market observable inputs.

Financial Assets – Held-for-Trading

Financial assets - held-for-trading are measured at fair value and include government securities, equity securities and investments in unit trusts. The government securities are valued based on the market rates published by the money brokers. For equity securities, the Bank uses quoted market prices in active markets as at the reporting date. The unit trust investments are valued at unit prices published in active markets.

Financial Investments – Available-for-sale

Financial investments - Available-for-sale consist of non-quoted equities and government securities. The government securities are valued based on the market rates of the money brokers as at the reporting date and non-quoted equities are valued using valuation techniques available for similar investments.

Non-Financial Instruments

Property, Plant & Equipment

Valuation Model

The fair value of the freehold land and building presented in the Financial Statements is provided by an independent valuer based on the valuations carried out at the reporting date of 30 September 2014.

Freehold land - valuations performed by the valuer are based on the market approach (direct comparison method), for similar properties in the same location and conditions.

Freehold buildings - valuations performed by the valuer are based on the cost approach (current replacement cost).

Valuation Framework

The freehold land and buildings of the Bank and the Group are revalued every three years to ensure that the carrying amount does not differ materially from the fair values at the reporting date.

Fair Values of Financial Instruments and Non-Financial Instruments are determined according to the following hierarchy:

Level 1 - quoted market price (unadjusted): financial instruments with quoted prices in active markets

Level 2 - valuation techniques using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 - valuation techniques with significant unobservable inputs: This category includes all instruments valued using valuation techniques where one or more significant inputs are unobservable.

49. (a) Determination of Fair Value of Financial Instruments by Hierarchy

The following table shows an analysis of financial instruments recorded at fair value by the level of the fair value hierarchy:

31 December 2014	BANK Fair Value Measurement Using			Total LKR '000
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	908,198	–	908,198
Currency SWAP	–	–	994,028	994,028
Financial Assets – Held-for-Trading				
Treasury bills	51,534	–	–	51,534
Treasury bonds	480,732	–	–	480,732
Investment in unit trusts	2,253,011	–	–	2,253,011
Financial Investments – Available-for-Sale				
Treasury bills	5,068,917	–	–	5,068,917
Treasury bonds	11,891,025	–	–	11,891,025
Non-quoted ordinary shares	–	100,360	–	100,360
Total Financial Assets	19,745,219	1,010,114	994,028	21,749,361
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	609,153	–	609,153
Currency SWAP	–	–	52,477	52,477
Total Financial Liabilities	–	610,709	52,477	663,186

31 December 2013	BANK Fair Value Measurement Using			Total LKR '000
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	–	5,895	–	5,895
Forward foreign exchange contracts	–	1,143,646	–	1,143,646
Financial Assets - Held-for-Trading				
Treasury bills	5,061,675	–	–	5,061,675
Treasury bonds	4,053,939	–	–	4,053,939
Investment in unit trusts	1,605,075	–	–	1,605,075
Financial Investments - Available-for-Sale				
Treasury bills	582,449	–	–	582,449
Treasury bonds	4,889,272	–	–	4,889,272
Non-quoted ordinary shares	–	4,790	–	4,790
Sovereign bonds	505,939	–	–	505,939
Total Financial Assets	16,698,349	1,154,331	–	17,852,680
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	5,895	–	5,895
Forward foreign exchange contracts	–	811,415	–	811,415
Total Financial Liabilities	–	817,310	–	817,310

31 December 2014	GROUP Fair Value Measurement Using			Total LKR '000
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000	
Financial Assets				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	908,198	–	908,198
Currency SWAP	–	–	994,028	994,028
Financial Assets - Held-for-Trading				
Treasury bills	51,534	–	–	51,534
Treasury bonds	480,732	–	–	480,732
Equity securities	713,868	–	–	713,868
Investment in unit trusts	4,782,424	–	–	4,782,424
Financial Investments - Available-for-Sale				
Treasury bills	5,068,917	–	–	5,068,917
Treasury bonds	11,891,025	–	–	11,891,025
Quoted ordinary shares	812,550	–	–	812,550
Non-quoted ordinary shares	–	100,360	185,000	285,360
Total Financial Assets	23,801,050	1,010,144	1,179,028	25,990,192
Financial Liabilities				
Derivative Financial Instruments				
Currency options	–	1,556	–	1,556
Forward foreign exchange contracts	–	609,153	–	609,153
Currency SWAP	–	–	52,477	52,477
Total Financial Liabilities	–	610,709	52,477	663,186

31 December 2013	GROUP				Total LKR '000
	Fair Value Measurement Using				
	Quoted Prices in Active Markets Level 1 LKR '000	Significant Observable Inputs Level 2 LKR '000	Significant Unobservable Inputs Level 3 LKR '000		
Financial Assets					
Derivative Financial Instruments					
Currency options	–	5,895	–		5,895
Forward Foreign Exchange contracts	–	1,143,646	–		1,143,646
Financial Assets - Held-for-Trading					
Treasury bills	5,061,675	–	–		5,061,675
Treasury bonds	4,053,939	–	–		4,053,939
Equity Securities	336,293	–	–		336,293
Investment in unit trusts	4,742,234	–	–		4,742,234
Financial Investments - Available-for-Sale					
Treasury bills	582,449	–	–		582,449
Treasury bonds	4,889,272	–	–		4,889,272
Sovereign bonds	505,939	–	–		505,939
Non-quoted ordinary shares	–	4,790	185,000		189,790
Total Financial Assets	20,171,801	1,154,331	185,000		21,511,132
Financial Liabilities					
Derivative Financial Instruments					
Currency options	–	5,895	–		5,895
Forward foreign exchange contracts	–	811,415	–		811,415
Total Financial Liabilities	–	817,310	–		817,310

49. (b) Movements in Level 3 Financial Instruments and Non-Financial Instruments Measured at Fair Value

The level of the fair value hierarchy of financial instruments and non-financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 financial instruments and non-financial instruments which are recorded at fair value.

		BANK				
Included in		At 1 January 2014 LKR '000	Additions/ Disposals during the year LKR '000	Total gains/ (Losses) Recorded in Statement of Profit or Loss LKR '000	Total Gains/ (Losses) Recorded in Equity LKR '000	At 31 December 2014 LKR '000
Financial Assets						
Currency SWAP	Derivative financial instruments	–	596,176	–	397,852	994,028
Non-Financial Assets						
Freehold land	Property, plant & equipment	165,016	–	–	266,484	431,500
Freehold building	Property, plant & equipment	221,606	(27,272)	–	817,701	1,012,035
		386,622	568,904	–	1,482,037	2,437,563
Financial Liabilities						
Currency SWAP	Derivative financial instruments	–	52,477	–	–	52,477
		–	52,477	–	–	52,477
		GROUP				
31 December 2014	Included in	At 1 January 2014 LKR '000	Additions/ Disposals during the year LKR '000	Total gains/ (Losses) Recorded in Statement of Profit or Loss LKR '000	Total gains/ (Losses) Recorded in Equity LKR '000	At 31 December 2014 LKR '000
Financial Assets						
Currency SWAP	Derivative financial instruments	–	596,176	–	397,852	994,028
Non-Financial Assets						
Freehold land	Property, plant & equipment	165,016	–	–	266,484	431,500
Freehold building	Property, plant & equipment	525,923	(47,497)	–	817,701	1,296,127
Investment property	Investment property	1,383,693	–	162,000	–	1,545,693
Financial Assets						
Non-quoted equity Securities	Financial investments - available-for-sale	185,000	–	–	–	185,000
		1,955,325	568,894	162,000	1,482,037	4,168,256
Financial Liabilities						
Currency SWAP	Derivative Financial Instruments	–	52,477	–	–	52,477
		–	52,477	–	–	52,477

Unobservable Inputs Used in Measuring the Fair Value

The table below sets out information about significant unobservable inputs used at 31 December 2014 in measuring non-financial instruments categorized as Level 3 in the fair value hierarchy:

BANK					
Type of Instrument	Fair Values at 31 December 2014	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Navam Mawatha					
Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch - LKR 8 million	Positive impact to the fair value
Building	LKR 612.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor - 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 420 million	Direct comparison method	Per perch value	Per perch - LKR 7 million	Positive impact to the fair value
Building	LKR 320 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 12,500 per square feet and discount factor - 0.62	Positive impact to the fair value from both factors
GROUP					
Type of Instrument	Fair Values at 31 December 2014	Valuation Technique	Significant Unobservable Inputs	Range of Estimates (Weighted Average) for Unobservable Inputs	Fair Value Measurement Sensitivity to Unobservable Inputs
Navam Mawatha					
Land	LKR 11.5 million	Direct comparison method	Per perch value	Per perch - LKR 8 million	Positive impact to the fair value
Building	LKR 612.5 million	Current replacement cost	Replacement cost/ depreciation factor rate	LKR 13,500 per square feet and discount factor - 0.48	Positive impact to the fair value from both factors
Dharmapala Mawatha					
Land	LKR 420 million	Direct comparison method	Per perch value	Per perch - LKR 7 million	Positive impact to the fair value
Building	LKR 320 million	Current replacement cost	Replacement cost/ Depreciation Factor Rate	LKR 12,500 per square feet and discount factor - 0.62	Positive impact to the fair value from both factors
Navam Mawatha					
Investment Property	LKR 1,850 million	Income approach	Rent per square feet	Rentable area at LKR 148/- Non-rentable area at LKR 88.50	Positive impact to the fair value

49. (c) Fair Value of the Financial Assets and Financial Liabilities that are Not Carried at Fair Value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial assets and liabilities that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Fair Value Classification	BANK			
		2014		2013	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 49 (d)	3,104,391	3,104,391	2,611,075	2,611,075
Balances with Central Bank	Note 49 (d)	6,740,590	6,740,590	5,339,000	5,339,000
Placements with banks	Note 49 (d)	2,721,891	2,721,891	130,751	130,751
Loans and receivables to banks	Level 2	311,144	313,781	641,628	650,235
Loans and receivables to other customers	Level 2	175,175,203	177,054,711	136,821,532	140,694,797
Financial investments - loans and receivable	Level 2	38,302,428	38,302,428	15,837,455	15,837,455
Financial investments - held-to-maturity	Level 1	8,970,963	8,903,391	17,602,249	17,440,886
Other financial assets	Note 49 (d)	54,450	54,450	-	-
Total Financial Assets		235,381,060	237,195,633	178,983,690	182,704,199
Financial Liabilities					
Due to banks	Note 49 (d)	7,029,342	7,029,342	10,453,086	10,453,086
Due to other customers	Level 2	151,823,715	149,393,839	129,830,029	130,000,256
Debt securities issued and other borrowed funds	Level 2	61,955,460	61,955,460	24,420,818	24,420,818
Subordinated term debts	Level 2	11,149,439	11,149,439	11,682,674	11,682,674
Other financial liabilities	Note 49 (d)	2,423,677	2,423,677	701,912	701,912
Total Financial Liabilities		234,381,633	231,951,757	177,088,519	177,258,746

49. (d) Basis of Measurement for the Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed Rate Financial Instruments

The fixed rate financial instruments include the Loans and receivables to banks and other customers, Financial Investments - loans and receivables and Due to customers, Due to banks, Debt securities issued and other borrowed funds and Subordinated term debts.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

Financial Investments Held-to-Maturity

The fair value of financial investments held-to-maturity is estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

	Fair value Classification	GROUP			
		2014		2013	
		Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets					
Cash and cash equivalents	Note 49 (d)	3,274,036	3,274,036	2,668,262	2,668,262
Balances with Central Bank	Note 49 (d)	6,740,590	6,740,590	5,339,000	5,339,000
Placements with banks	Note 49 (d)	2,721,891	2,721,891	130,751	130,751
Loans and receivables to banks	Level 2	311,144	313,781	641,628	650,235
Loans and receivables to other customers	Level 2	175,235,905	176,994,008	136,881,713	140,694,797
Financial investments - loans and receivable	Level 2	38,683,476	38,683,476	16,791,701	16,791,701
Financial investments - held-to-maturity	Level 1	10,167,325	10,099,754	18,460,591	18,421,094
Other financial assets	Note 49 (d)	54,450	54,450	-	-
Total Financial Assets		237,188,817	238,881,986	180,913,646	184,695,840
Financial Liabilities					
Due to banks	Note 49 (d)	7,029,342	7,029,342	10,453,086	10,453,086
Due to other customers	Level 2	151,485,201	149,055,326	129,421,813	130,000,256
Debt securities issued and other borrowed funds	Level 2	61,925,802	61,925,802	24,390,818	24,390,819
Subordinated term debts	Level 2	11,149,439	11,149,439	11,682,674	11,682,674
Other financial liabilities	Note 49 (d)	2,423,677	2,423,677	701,912	701,912
Total Financial Liabilities		234,013,461	231,583,586	176,650,303	177,228,747

50. Risk Management

Introduction

Taking risks is inherent in any bank's strategic plan but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Bank's and the Group's risk strategy focuses on managing principal risks faced by the Bank and the Group while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures.

The Bank and the Group are mainly exposed to credit risk, liquidity risk, market risk and operational risk. Market risk could be further subdivided into trading and non-trading risks. Exposure to country risk and any risks due to changes in environment, technology and industry is managed through the Bank and the Group's strategic planning process.

Risk Management Framework of the Bank

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to the Integrated Risk Management Committee (IRMC) for the overall risk management approach and for approving the risk management strategies and principles. IRMC meets quarterly to review and assess the Bank's overall risks and to focus on policy recommendations and strategies in an integrated manner and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank and the Group to set appropriate risk limits and controls and to monitor adherence to established limits.

The Bank's Assets and Liabilities Committee (ALCO) reviews all market and liquidity related exposures, excesses on a monthly basis and decisions are made to facilitate the business requirements. These decisions are further reviewed at IRMC and by the Board.

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate policies and to focus more clearly on defined risk areas. The membership of these committees comprises of the Chief Executive Officer, Group Chief Financial Officer, the Heads of Business Units, Treasury and representatives of the Group Risk Management.

The Committees meet regularly to review the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

The Bank's treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Risk Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established by the Bank which reflects the business strategy and market environment of the Bank as well as the Bank's risk appetite.

Information compiled is examined and processed in order to analyze, control and identify risks on a timely basis. The compiled information is presented to the IRMC, Credit and Market Risk Policy Committee, and the Board of Directors receives a risk report once a quarter which covers all necessary information to assess and conclude on the risks of the Bank. The information analyzed include the following:

- Portfolio quality analysis covering, product and business line wise concentration, group/single borrower concentrations, sector concentrations, NPL analysis, main impaired accounts, watch listed portfolio, details of facilities rescheduled/restructured.
- Reports on decisions taken by the respective management committees such as Executive Credit Committees, ALCO, Operational Risk Policy Committee, Credit and Market Risk Policy Committee.
- Market and liquidity risk analysis.

Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collateral and establishes maximum prudential limits.

50.1 Credit Risk

Credit Risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual/group counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of an internally designed Credit Risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit risk management verifies and manages the credit process from origination to collection. The Bank has a credit policy approved by the Board of Directors. It -

- defines the credit culture of the Bank
- specifies target markets for lending
- specifies prohibited lending which the Bank under no circumstances will entertain
- sets acceptable risk parameters
- sets remedial and recovery actions

Impairment Assessment

Impairment of Financial Assets

The Bank has in place a detailed impairment policy which was approved by the Board of Directors.

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. At each reporting date the Bank and the Group assess whether there is objective evidence of a specific loss event.

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loan or receivable on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively Assessed Allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant (including personal loans, leases and pawning) and for individually significant loans and receivables that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience and market factors. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations and other relevant consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as loan types, industry codes, and level of arrears).

Credit Related Commitment Risks

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the accessibility and valuation of each type of collateral.

The main types of collateral obtained are as follow:

- for commercial lending - mortgages over immovable and movable fixed assets, inventory, trade receivables, corporate and personal guarantees
- for retail lending - mortgage over residential property, gold stocks, personal guarantees

Credit Quality

Analysis of Gross Exposure on Credit Risk and Impairment

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's and the Group's classification of assets. The amounts presented are gross of impairment allowances.

The Bank and the Group consider that any amount uncollected one day or more beyond their contractual due date is 'past due'.

Maximum Exposure to Credit Risk**Bank**

Products	As at 31 December 2014 - LKR '000	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
Balances with Central Bank	6,740,590	6,740,590
Placements with banks	2,721,891	2,721,891
Derivative financial instruments	1,903,781	1,903,781
Financial assets – held-for-trading	2,785,277	2,785,277
Loans and receivables to banks	311,144	311,144
Loans and receivables to other customers		
Corporate lending	105,745,797	51,597,695
Branch lending	22,798,330	4,259,230
Consumer lending	36,695,622	26,961,574
Residential mortgages	6,351,011	–
Others	3,584,443	1,612,297
	175,175,203	84,430,796
Financial investments - loans and receivables	38,302,428	13,731,594
Financial investments – available-for-sale	17,060,302	17,060,302
Financial investments – held-to-maturity	8,970,963	8,970,963
Other financial assets	54,450	54,450

Products	As at 31 December 2013 - LKR '000	
	Maximum Exposure to Credit Risk	Exposure Net of Collateral
Balances with Central Bank	5,339,000	5,339,000
Placements with banks	130,751	130,751
Derivative financial instruments	1,149,541	1,149,541
Financial assets – held-for-trading	10,720,689	10,720,689
Loans and receivables to banks	641,628	641,628
Loans and receivables to other customers		
Corporate lending	88,178,349	39,992,851
Branch lending	17,630,781	2,909,105
Consumer lending	25,542,828	12,754,869
Residential mortgages	4,708,688	–
Others	760,886	177,144
	136,821,532	55,833,969
Financial investments - loans and receivables	15,837,455	10,917,630
Financial investments – available-for-sale	5,982,450	5,982,450
Financial investments – held-to-maturity	17,602,249	17,602,249

Group

As at 31 December 2014 - LKR '000		
Products	Maximum Exposure to Credit Risk	Exposure Net of Collateral
Balances with Central Bank	6,740,590	6,740,590
Placements with banks	2,721,891	2,721,891
Derivative financial instruments	1,903,781	1,903,781
Financial assets – held-for-trading	6,028,558	6,028,558
Loans and receivables to banks	311,144	311,144
Loans and receivables to other customers		
Corporate lending	105,745,797	51,597,695
Branch lending	22,798,330	4,259,230
Consumer lending	36,695,622	26,961,574
Residential mortgages	6,351,011	–
Others	3,645,146	1,612,297
	175,235,906	84,430,796
Financial investments - loans and receivables	38,683,476	14,112,642
Financial investments – available-for-sale	18,057,852	18,057,852
Financial investments – held-to-maturity	10,167,325	10,167,325
Other financial assets	54,450	54,450

As at 31 December 2013 - LKR '000		
Products	Maximum Exposure to Credit Risk	Exposure Net of Collateral
Balances with Central Bank	5,339,000	5,339,000
Placements with banks	130,751	130,751
Derivative financial instruments	1,149,541	1,149,541
Financial assets – held-for-trading	14,194,141	14,194,141
Loans and receivables to banks	641,628	641,628
Loans and receivables to other customers		
Corporate lending	88,178,349	39,992,851
Branch lending	17,630,781	2,909,105
Consumer lending	25,542,828	12,754,869
Residential mortgages	4,708,688	–
Others	821,067	161,397
	136,881,713	55,818,222
Financial investments - loans and receivables	16,791,701	11,864,272
Financial investments – available-for-sale	6,167,450	6,167,450
Financial investments – held-to-maturity	18,460,591	18,460,591

Concentrations of Credit Risk

Concentration by Sector

The Bank and the Group analysis of credit risk concentration by sector is shown in the table below:

Bank

As at 31 December 2014	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	3,104,391	-	-	-	3,104,391
Balances with Central Bank	-	-	-	-	-	-	-	6,740,590	-	6,740,590
Placements with banks	-	-	-	-	-	2,721,891	-	-	-	2,721,891
Derivative financial instruments	-	-	-	-	-	1,903,781	-	-	-	1,903,781
Financial assets - held-for-trading	-	-	-	-	-	-	-	526,888	2,258,389	2,785,277
Loans and receivables to banks	-	-	-	-	-	311,144	-	-	-	311,144
Loans and receivables to other customers	24,152,261	7,257,860	15,753,429	9,823,887	40,273,565	28,792,112	18,337,256	-	30,784,833	175,175,203
Financial investments - loans and receivables	-	-	-	-	-	-	-	38,233,007	69,421	38,302,428
Financial investments - available-for-sale	-	-	-	-	-	-	-	16,655,702	404,600	17,060,302
Financial investments - held-to-maturity	-	833,521	204,729	-	-	879,721	-	7,052,992	-	8,970,963
Other financial assets	-	-	-	-	-	-	-	-	54,450	54,450

*Government refers to the investments held with Central Bank of Sri Lanka and the current account balance with Central Bank of Sri Lanka.

As at 31 December 2013	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	2,611,075	-	-	-	2,611,075
Balances with Central Bank	-	-	-	-	-	-	-	5,339,000	-	5,339,000
Placements with banks	-	-	-	-	-	130,751	-	-	-	130,751
Derivative financial instruments	-	-	-	-	-	1,149,541	-	-	-	1,149,541
Financial assets - held-for-trading	-	-	-	-	-	1,605,075	-	9,115,614	-	10,720,689
Loans and receivables to banks	-	-	-	-	-	641,628	-	-	-	641,628
Loans and receivables to other customers	22,609,177	6,062,225	15,505,743	10,318,290	29,894,257	20,568,529	15,542,980	-	16,320,331	136,821,532
Financial investments - loans and receivables	-	-	-	-	74,235	-	-	15,763,220	-	15,837,455
Financial investments - available-for-sale	-	-	-	-	-	4,790	-	5,977,660	-	5,982,450
Financial investments - held-to-maturity	-	520,000	-	-	-	842,819	-	15,999,789	239,641	17,602,249

*Government refers to the investments held with Central Bank of Sri Lanka and the current account balance with Central Bank of Sri Lanka.

Group

As at 31 December 2014	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	3,274,036	-	-	-	3,274,036
Balances with Central Bank	-	-	-	-	-	-	-	6,740,590	-	6,740,590
Placements with banks	-	-	-	-	-	2,721,891	-	-	-	2,721,891
Derivative financial instruments	-	-	-	-	-	1,903,781	-	-	-	1,903,781
Financial assets – held-for-trading	-	-	-	-	-	-	-	526,888	5,501,670	6,028,558
Loans and receivables to banks	-	-	-	-	-	311,144	-	-	-	311,144
Loans and receivables to other customers	24,152,261	7,257,860	15,753,429	9,823,887	40,273,565	28,792,112	18,337,256	-	30,845,536	175,235,906
Financial investments - loans and receivables	-	-	-	-	-	-	-	38,233,007	450,469	38,683,476
Financial investments – available-for-sale	-	-	-	-	-	-	-	16,655,702	1,402,150	18,057,852
Financial investments – held-to-maturity	-	833,521	204,729	-	-	879,721	-	7,052,991	1,196,363	10,167,325
Other financial assets	-	-	-	-	-	-	-	-	54,450	54,450

*Government refers to the investments held with Central Bank of Sri Lanka and the current account balance with Central Bank of Sri Lanka.

As at 31 December 2013	Agriculture & Fishing	Food & Beverages	Trading	Metals, Chemicals & Engineering	Retail	Services	Textiles & Garments	Government*	Others	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	-	-	-	-	-	2,668,262	-	-	-	2,668,262
Balances with Central Bank	-	-	-	-	-	-	-	5,339,000	-	5,339,000
Placements with banks	-	-	-	-	-	130,751	-	-	-	130,751
Derivative financial instruments	-	-	-	-	-	1,149,541	-	-	-	1,149,541
Financial assets – held-for-trading	-	-	-	-	-	5,078,527	-	9,115,614	-	14,194,141
Loans and receivables to banks	-	-	-	-	-	641,628	-	-	-	641,628
Loans and receivables to other customers	22,609,177	6,062,225	15,505,743	10,318,290	29,894,257	20,568,529	15,542,980	-	16,380,512	136,881,713
Financial investments - loans and receivables	-	-	-	-	74,235	91,699	-	15,763,220	862,547	16,791,701
Financial investments – available-for-sale	-	-	-	-	-	4,790	-	5,977,660	185,000	6,167,450
Financial investments – held-to-maturity	-	520,000	-	-	-	842,819	-	15,999,789	1,097,983	18,460,591

*Government refers to the investments held with Central Bank of Sri Lanka and the current account balance with Central Bank of Sri Lanka.

Commitments and Contingencies

The table below shows the Bank's and the Group's maximum credit risk exposure for commitments and contingencies.

The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank and the Group would have to pay if the guarantee is called upon.

Bank

LKR '000	2014	2013
Guarantees and bonds	17,719,368	15,529,639
Shipping guarantees	3,503,056	2,162,432
Advance docs endorsed	865,787	1,961,540
Letters of credit	7,521,595	7,287,156
Acceptances	7,148,766	6,415,082
Undrawn overdrafts and credit cards	10,745,651	7,004,968
Commitments	83,191,376	56,994,606
Forward foreign exchange contracts	100,448,034	79,844,817
Total	231,143,633	177,200,240

Group

LKR '000	2014	2013
Guarantees and bonds	17,721,386	15,529,639
Shipping guarantees	3,503,056	2,162,432
Advance docs endorsed	865,787	1,961,540
Letters of credit	7,521,595	7,287,156
Acceptances	7,148,766	6,415,082
Undrawn overdrafts and credit cards	10,745,651	7,004,968
Commitments	83,194,587	56,994,606
Forward foreign exchange contracts	100,448,034	79,844,817
Total	231,148,862	177,200,240

50.2 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, equity and commodity prices. The Bank's market risk exposures are classified into trading and non-trading portfolios and are managed separately. Sensitivity analysis of portfolios is carried out together with mark to market valuations and duration analysis that reflects the portfolio sensitivity to the market volatility.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on trading and non-trading books of the Bank. The Bank's policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of fixed income securities (treasury bills and bonds), with all other variables held constant in the Bank's Statement of Profit or Loss.

Sensitivity of the Financial Assets – Held-for-Trading

2014

	Increase/ Decrease in Basis Points	Sensitivity of Profit or Loss Bank LKR. '000	Sensitivity of Profit or Loss Group LKR. '000
Trading Portfolio	+100/(100)	(846)/846	(846)/846

2013

	Increase/ Decrease in Basis Points	Sensitivity of Profit or Loss Bank LKR. '000	Sensitivity of Profit or Loss Group LKR. '000
Trading Portfolio	+100/(100)	(46,151)/46,151	(46,151)/46,151

The AFS portfolio fair value is recognized in the Statement of Comprehensive Income - until the asset is derecognized in which case the price sensitivity does not have a direct impact to the Bank's Statement of Profit or Loss.

Sensitivity of the Financial Investments – Available-for-Sale

2014

	Increase/ Decrease in Basis Points	Sensitivity on Bank LKR. '000	Sensitivity on Group LKR. '000
AFS Portfolio	+100/(100)	(226,776)/226,776	(226,776)/226,776

2013

	Increase/ Decrease in Basis Points	Sensitivity on Bank LKR. '000	Sensitivity on Group LKR. '000
AFS Portfolio	+100/(100)	(170,221)/170,221	(170,221)/170,221

The sensitivity of the Statement of Profit or Loss is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31 December 2014.

Interest Rates Sensitivity Analysis

Bank

As at 31 December 2014	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Carrying Amount LKR '000
Assets							
Cash and balances with Central Bank	9,550,989	–	–	–	293,992	–	9,844,981
Placements with banks	–	2,721,891	–	–	–	–	2,721,891
Loans and receivables to banks	6,601	61,023	152,275	91,245	–	–	311,144
Loans and receivables to other customers	33,811,194	56,653,959	21,861,701	48,127,074	14,721,275	–	175,175,203
Financial assets - loans and receivables	–	37,304,647	997,781	–	–	–	38,302,428
Financial assets – available-for-sale	–	17,060,302	–	–	–	–	17,060,302
Financial assets – held-to-maturity	–	2,502,329	3,472,619	2,996,015	–	–	8,970,963
Other financial assets	–	54,450	–	–	–	–	54,450
Total Financial Assets	43,368,784	116,358,601	26,484,376	51,214,334	15,015,267	–	252,441,362
Liabilities							
Due to banks	–	7,029,342	–	–	–	–	7,029,342
Due to other customers	26,815,563	43,909,914	62,228,206	6,621,823	–	12,248,209	151,823,715
Debt securities issued and other borrowed funds	6,033,773	24,169,613	10,810,104	9,535,818	11,406,152	–	61,955,460
Subordinated term debts	–	–	538,460	3,424,990	7,185,989	–	11,149,439
Other financial liabilities	2,423,677	–	–	–	–	–	2,423,677
Total Financial Liabilities	35,273,013	75,108,869	73,576,770	19,582,631	18,592,141	12,248,209	234,381,633
Total Interest Sensitivity Gap	8,095,771	41,249,732	(47,092,394)	31,631,703	(3,576,874)	(12,248,209)	18,059,729

Bank

As at 31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Carrying Amount LKR '000
Assets						
Cash and balances with Central Bank	7,830,399	–	–	–	119,676	7,950,075
Placements with banks	–	130,751	–	–	–	130,751
Loans and receivables to banks	13,617	111,837	263,486	252,643	45	641,628
Loans and receivables to other customers	30,610,642	47,022,378	17,091,779	34,870,695	7,226,038	136,821,532
Financial assets - loans and receivables	–	5,502,693	130,750	10,067,750	136,262	15,837,455
Financial assets – available-for-sale	–	641,634	1,305,810	485,103	3,549,903	5,982,450
Financial assets – held-to-maturity	–	4,992,124	4,251,453	8,358,671	–	17,602,248
Total Financial Assets	38,454,658	58,401,417	23,043,278	54,034,862	11,031,924	184,966,139
Liabilities						
Due to banks	–	8,491,836	1,961,250	–	–	10,453,086
Due to other customers	42,950,979	39,212,301	44,975,018	2,691,731	–	129,830,029
Debt securities issued and other borrowed funds	5,202,125	4,524,708	3,981,776	9,180,630	1,531,579	24,420,818
Subordinated term debts	–	–	–	4,487,165	7,195,509	11,682,674
Other financial liabilities	701,912	–	–	–	–	701,912
Total Financial Liabilities	48,855,016	52,228,845	50,918,044	16,359,526	8,727,088	177,088,519
Total Interest Sensitivity Gap	(10,400,358)	6,172,572	(27,874,766)	37,675,336	2,304,836	7,877,620

Group

As at 31 December 2014	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Non-Interest Bearing LKR '000	Carrying Amount LKR '000
Assets							
Cash and balances with Central Bank	9,720,726	–	–	–	293,900	–	10,014,626
Placements with banks	–	2,721,891	–	–	–	–	2,721,891
Loans and receivables to banks	6,601	61,023	152,275	91,245	–	–	311,144
Loans and receivables to other customers	33,811,194	56,670,911	21,866,104	48,130,280	14,757,417	–	175,235,906
Financial assets - loans and receivables	–	37,304,647	997,781	381,048	–	–	38,683,476
Financial assets – available-for-sale	997,550	17,060,302	–	–	–	–	18,057,852
Financial assets – held-to-maturity	–	2,502,328	3,576,430	4,088,567	–	–	10,167,325
Other financial assets	–	54,450	–	–	–	–	54,450
Total Financial Assets	44,536,071	116,375,552	26,592,590	52,691,140	15,051,317	–	255,246,670
Liabilities							
Due to banks	–	7,029,342	–	–	–	–	7,029,342
Due to other customers	31,771,208	38,371,906	62,228,206	6,621,823	–	12,492,058	151,485,201
Debt securities issued and other borrowed funds	6,034,114	24,169,614	10,810,104	9,505,818	11,406,152	–	61,925,802
Subordinated term debts	–	–	538,460	3,424,990	7,185,989	–	11,149,439
Other financial liabilities	2,423,677	–	–	–	–	–	2,423,677
Total Financial Liabilities	40,228,999	69,570,862	73,576,770	19,552,631	18,592,141	12,492,058	234,013,461
Total Interest Sensitivity Gap	4,307,072	46,804,690	(46,984,180)	33,138,509	(3,540,824)	(12,492,058)	21,233,209

Group

As at 31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Assets						
Cash and balances with Central Bank	7,887,586	–	–	–	119,676	8,007,262
Placements with banks	–	130,750	–	–	–	130,750
Loans and receivables to banks	13,617	111,837	263,486	252,643	45	641,628
Loans and receivables to other customers	34,798,115	42,834,905	17,151,959	34,870,695	7,226,039	136,881,713
Financial assets - loans and receivables	141,300	5,502,693	130,750	10,655,695	361,263	16,791,701
Financial assets – available-for-sale	185,000	641,634	1,305,810	485,103	3,549,903	6,167,450
Financial assets – held-to-maturity	17,493	4,992,124	4,251,454	9,199,520	–	18,460,591
Total Financial Assets	43,043,111	54,213,943	23,103,459	55,463,656	11,256,926	187,081,095
Financial Liabilities						
Due to banks	–	8,491,836	1,961,250	–	–	10,453,086
Due to other customers	42,898,458	38,946,017	44,975,018	2,602,320	–	129,421,813
Debt securities issued and other borrowed funds	5,202,125	4,524,708	3,981,776	9,150,630	1,531,579	24,390,818
Subordinated term debts	–	–	–	4,487,165	7,195,509	11,682,674
Other financial liabilities	701,912	–	–	–	–	701,912
Total Financial Liabilities	48,802,495	51,962,561	50,918,044	16,240,115	8,727,088	176,650,303
Total Interest Sensitivity Gap	(5,759,384)	2,251,382	(27,814,585)	39,223,541	2,529,838	10,430,792

Mark to Market Valuation

Trading portfolios of fixed income securities (treasury bills and treasury bonds) and foreign currency options are subject to mark to market exercise on a daily basis to derive the economic value of portfolios and are monitored against the set stop loss limits. Prompt management action is taken where necessary to ensure minimum loss situations to the portfolios.

Mark to Market results are being monitored against the Board approved stop-loss limits on a daily basis and is reviewed at the monthly Assets Liability Committee Meeting and the Integrated Risk Management Committee on a quarterly basis to assess the portfolio performance and investment decisions.

Currency Risk

Currency risk is the risk that the value of a financial instrument denominated in foreign currency will fluctuate due to changes in exchange rates other than the functional currency in which they are measured. Board approved limits are in place on currency positions and are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 2014 and 2013 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in the exchange rate against the LKR (functional currency) with all other variables held constant on the Statement of Profit or Loss and Statement of Changes in Equity. A negative amount in the table reflects a potential net reduction in Statement of Profit or Loss, Statement of Changes in Equity, while a positive amount reflects a net potential increase depending on the side of the currency position.

With regard to the Group companies, there are no direct open exposures in foreign currency other than in the functional currency. An equivalent decrease in the currencies shown below against the LKR would have resulted in an equivalent but an opposite impact.

Change in Currency Rates in %

Currency	Spot Rate Shock %	Effect on Profit 2014 LKR '000	Effect on Equity 2014 LKR '000	Effect on Profit 2013 LKR '000	Effect on Equity 2013 LKR '000
USD	2.50	3,050	3,050	6,493.96	6,493.96
GBP	2.50	144	144	(825.41)	(825.41)
EUR	2.50	275	275	(544.64)	(544.64)
JPY	2.50	(3,297)	(3,297)	127.23	127.23
AUD	2.50	11	11	(1,700.01)	(1,700.01)

Price Risk

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale.

The following table demonstrates the sensitivity to a reasonably possible change in quoted equity indices, with all other variables held constant of the Bank's and the Group's Statement of Profit or Loss:

2014

Magnitude of Shock and the Fall in Value of Equities - LKR '000				
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	1,526,419	72,346	144,692	283,253

2013

Magnitude of Shock and the Fall in Value of Equities - LKR '000				
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	-	-	-	-
Group	336,293	16,815	33,629	50,444

Sensitivity of the Unit Trust Investments

The Bank's and the Group's investment in unit trusts could have the following impact due to an adverse impact in the unit trust prices. The impact is monitored under three scenarios mid moderate and adverse conditions.

2014

Magnitude of Shock and the Fall in Value of Equities - LKR '000				
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	2,253,417	112,671	225,342	338,013
Group	4,782,830	239,141	478,283	717,424

2013

Magnitude of Shock and the Fall in Value of Equities - LKR '000				
Entity	Portfolio Value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
Bank	1,606,969	80,348	160,697	241,045
Group	4,744,128	237,206	474,413	711,619

Commodity Price Risk

The Bank's investment on the gold buffer stock could have the following impact due to an adverse impact in the gold prices in the market. The mark to market impact on the Statement of Profit or Loss is monitored and the sensitivity of the portfolio is monitored under three scenarios mid moderate and adverse conditions:

2014

Change in Value due to Decrease in Market Price - LKR '000					
ITEM	No. of Units	Present Value at Market Price	Scenario 1 2%	Scenario 2 5%	Scenario 3 8%
Coin	411	16,019	15,699	15,219	14,738
Biscuit	106	53,173	52,110	50,515	48,919

2013

Change in Value due to Decrease in Market Price - LKR '000					
ITEM	No. of Units	Present Value at Market Price	Scenario 1 2%	Scenario 2 5%	Scenario 3 8%
Coin	386	15,199	14,895	14,439	13,983
Biscuit	102	51,689	50,656	49,105	47,555

Country Risk

Country Risk is the risk that an occurrence within a country could have an adverse effect on the Bank and the Group directly by impairing the value of the Bank and the Group or indirectly through an obligor's ability to meet its obligations to the Bank and the Group. Generally, these occurrences relate but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

Concentration by Country

Geographical Analysis - Bank

31 December 2014	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	Australia- New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,927,075	314,878	386,484	395,711	6,686	73,557	3,104,391
Balances with Central Bank	6,740,590	-	-	-	-	-	6,740,590
Placements with banks	2,721,891	-	-	-	-	-	2,721,891
Derivative financial instruments	1,903,781	-	-	-	-	-	1,903,781
Financial assets – held-for-trading	2,785,277	-	-	-	-	-	2,785,277
Loans and receivables to banks	311,144	-	-	-	-	-	311,144
Loans and receivables to other customers	175,175,203	-	-	-	-	-	175,175,203
Financial Investments - loans and receivables	38,302,428	-	-	-	-	-	38,302,428
Financial Investments – available-for-sale	17,060,302	-	-	-	-	-	17,060,302
Financial Investments – held-to-maturity	8,970,963	-	-	-	-	-	8,970,963
Other Financial Assets	54,450	-	-	-	-	-	54,450
Total Financial Assets	255,953,104	314,878	386,484	395,711	6,686	73,557	257,130,420

Geographical Analysis - Bank

31 December 2013	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	Australia- New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,904,820	178,290	241,868	278,833	583	6,681	2,611,075
Balances with Central Bank	5,339,000	-	-	-	-	-	5,339,000
Placements with banks	130,751	-	-	-	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	-	1,149,541
Financial assets held-for-trading	10,720,689	-	-	-	-	-	10,720,689
Loans and receivables to banks	641,628	-	-	-	-	-	641,628
Loans and receivables to other customers	136,821,532	-	-	-	-	-	136,821,532
Financial Investments - loans and receivables	15,837,455	-	-	-	-	-	15,837,455
Financial Investments – available-for-sale	5,982,450	-	-	-	-	-	5,982,450
Financial Investments – held-to-maturity	17,602,249	-	-	-	-	-	17,602,249
Total Financial Assets	196,130,115	178,290	241,868	278,833	583	6,681	196,836,370

Geographical Analysis - Group

31 December 2014	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	Australia- New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	2,096,720	314,878	386,484	395,711	6,686	73,557	3,274,036
Balances with Central Bank	6,740,590	-	-	-	-	-	6,740,590
Placements with banks	2,721,891	-	-	-	-	-	2,721,891
Derivative financial instruments	1,903,781	-	-	-	-	-	1,903,781
Financial assets held-for-trading	6,028,558	-	-	-	-	-	6,028,558
Loans and receivables to banks	311,144	-	-	-	-	-	311,144
Loans and receivables to other customers	175,235,906	-	-	-	-	-	175,235,906
Financial Investments - loans and receivables	38,683,476	-	-	-	-	-	38,683,476
Financial Investments – available-for-sale	18,057,852	-	-	-	-	-	18,057,852
Financial Investments – held-to-maturity	10,167,325	-	-	-	-	-	10,167,325
Other financial assets	54,450	-	-	-	-	-	54,450
Total Financial Assets	262,001,693	314,878	386,484	395,711	6,686	73,557	263,179,009

Geographical Analysis - Group

31 December 2013	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	Australia- New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,962,007	178,290	241,868	278,833	583	6,681	2,668,262
Balances with Central Bank	5,339,000	-	-	-	-	-	5,339,000
Placements with banks	130,751	-	-	-	-	-	130,751
Derivative financial instruments	1,149,541	-	-	-	-	-	1,149,541
Financial assets held-for-trading	14,194,141	-	-	-	-	-	14,194,141
Loans and receivables to banks	641,628	-	-	-	-	-	641,628
Loans and receivables to other customers	136,881,713	-	-	-	-	-	136,881,713
Financial Investments - loans and receivables	16,791,701	-	-	-	-	-	16,791,701
Financial Investments – available-for-sale	6,167,450	-	-	-	-	-	6,167,450
Financial Investments – held-to-maturity	18,460,591	-	-	-	-	-	18,460,591
Total Financial Assets	201,718,523	178,290	241,868	278,833	583	6,681	202,424,778

Liquidity Risk

Liquidity risk is defined as the risk that the Bank and the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank and the Group might be unable to meet their payment obligations when they fall due under both normal and stress circumstances. Liquidity mismatch limits are set based on the structure and the Statement of Financial Position size to manage the funding requirements.

In accordance with the risk management policy, the liquidity position is assessed/stressed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market and specific to the Bank and the Group. This ensures the maintenance of the liquid asset ratio at required levels. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale.

Liquidity Risk

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's and the Group's financial assets and liabilities as at 31 December 2014 and 2013.

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities - Bank

As at 31 December 2014	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Assets							
Cash and bank balances with Central Bank	9,844,981	-	-	-	-	-	9,844,981
Less: Restricted balance	(6,894,073)	-	-	-	-	-	(6,894,073)
Placements with banks	1,514	-	2,722,129	-	-	-	2,723,643
Financial assets held-for-trading	-	-	2,478,362	300,471	23,682	-	2,802,515
Derivative financial instruments	-	1,903,781	-	-	-	-	1,903,781
Loans and receivables to banks	6,601	-	65,999	160,919	98,842	-	332,361
Loans and receivables to other customers	33,287,108	-	60,564,939	29,523,471	63,603,525	29,298,052	216,277,095
Other financial assets classified as loans and receivables	-	-	37,520,022	1,013,643	-	-	38,533,665
Financial assets – held-to-maturity	-	-	2,812,753	3,746,953	3,541,716	2,303	10,103,725
Financial assets – available-for-sale	-	-	2,244,399	11,672,535	4,097,513	17,824	18,032,271
Other financial assets	-	-	54,450	-	-	-	54,450
Total Undiscounted Financial Assets	36,246,131	1,903,781	108,463,053	46,417,992	71,365,278	29,318,179	293,714,414
Financial Liabilities							
Due to banks	135,123	-	6,885,049	11,757	-	-	7,031,929
Derivative financial instruments	-	663,186	-	-	-	-	663,186
Due to other customers	38,954,053	-	43,293,873	63,132,602	7,688,653	-	153,069,181
Debt securities issued and other borrowed funds	-	-	30,349,058	12,064,680	13,976,722	12,475,550	68,866,010
Subordinated term debts	-	-	687,381	1,305,658	8,822,023	12,268,598	23,083,660
Other financial liabilities	2,423,677	-	-	-	-	-	2,423,677
Total Undiscounted Financial Liabilities	41,512,853	663,186	81,215,361	76,514,697	30,487,398	24,744,148	255,137,643
Net Undiscounted Financial Assets and Liabilities	(5,266,722)	1,240,595	27,247,692	(30,096,705)	40,877,880	4,574,031	38,576,771

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities - Bank

31 December 2013	On Demand LKR '000	Trading Derivative LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Assets							
Cash and bank balances with Central Bank	7,950,075	-	-	-	-	-	7,950,075
Less: restricted balance	(5,554,021)	-	-	-	-	-	(5,554,021)
Placements with banks	-	-	130,751	-	-	-	130,751
Financial assets held-for-trading	-	-	3,627,615	7,492,096	-	-	11,119,711
Derivative financial instruments	-	1,149,541	-	-	-	-	1,149,541
Loans and receivables to banks	-	-	135,990	284,635	272,450	45	693,120
Loans and receivables to other customers	33,889,211	-	46,016,531	20,745,936	47,905,028	11,736,540	160,293,246
Other financial assets classified as loans and receivables	-	-	5,326,689	133,103	10,248,955	136,263	15,845,010
Financial assets – held-to-maturity	-	-	5,147,025	4,782,287	9,032,200	-	18,961,512
Financial assets – available-for-sale	-	-	774,888	1,459,526	1,699,655	4,685,905	8,619,974
Total Undiscounted Financial Assets	36,285,265	1,149,541	61,159,489	34,897,583	69,158,288	16,558,753	219,208,919
Financial Liabilities							
Due to banks	2,891,711	-	8,492,120	1,987,691	-	-	13,371,522
Derivative financial instruments	-	817,310	-	-	-	-	817,310
Due to other customers	39,879,905	-	41,028,338	49,014,929	3,772,088	-	133,695,260
Debt securities issued and other borrowed funds	-	-	9,837,505	4,083,836	9,180,630	1,531,579	24,633,550
Subordinated term debts	-	-	123,029	1,901,570	10,191,683	13,215,124	25,431,406
Other financial liabilities	701,912	-	-	-	-	-	701,912
Total Undiscounted Financial Liabilities	43,473,528	817,310	59,480,992	56,988,026	23,144,401	14,746,703	198,650,960
Net Undiscounted Financial Assets and Liabilities	(7,188,263)	332,231	1,678,497	(22,090,443)	46,013,887	1,812,050	20,557,959

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities - Group

As at 31 December 2014	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Assets							
Cash and bank balances with Central Bank	10,014,626	-	-	-	-	-	10,014,626
Less: Restricted balance	(6,894,073)	-	-	-	-	-	(6,894,073)
Placements with banks	1,514	-	2,722,129	-	-	-	2,723,643
Financial assets held-for-trading	-	-	5,721,643	300,471	23,682	-	6,045,796
Derivative financial instruments	-	1,903,781	-	-	-	-	1,903,781
Loans and receivables to banks	6,601	-	65,999	160,919	98,842	-	332,361
Loans and receivables to other customers	33,287,108	-	60,582,233	29,525,642	63,605,667	29,301,063	216,301,713
Other financial assets classified as loans and receivables	-	-	37,520,022	1,013,643	-	222,838	38,756,503
Financial assets – held-to-maturity	-	-	2,812,753	3,746,953	3,645,527	664,816	10,870,049
Financial assets – available-for-sale	14,775	-	2,244,399	11,672,535	4,097,513	17,824	18,047,046
Other financial assets	-	-	54,450	-	-	-	54,450
Total Undiscounted Financial Assets	36,430,551	1,903,781	111,723,628	46,420,163	71,471,231	30,206,541	298,155,895

As at 31 December 2014	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Liabilities							
Due to banks	135,123	–	6,885,049	11,757	–	–	7,031,929
Derivative financial instruments	–	663,186	–	–	–	–	663,186
Due to other customers	38,615,539	–	43,293,873	63,132,602	7,688,653	–	152,730,667
Debt securities issued and other borrowed funds	341	–	30,349,058	12,064,680	13,976,722	12,445,550	68,836,351
Subordinated term debts	–	–	687,381	1,305,658	8,822,023	12,268,598	23,083,660
Other financial liabilities	2,423,677	–	–	–	–	–	2,423,677
Total Undiscounted Financial Liabilities	41,174,680	663,186	81,215,361	76,514,697	30,487,398	24,714,148	254,769,470
Net Undiscounted Financial Assets and Liabilities	(4,744,129)	1,240,595	30,508,267	(30,094,534)	40,983,833	5,492,393	43,386,425

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities - Group

31 December 2013	On Demand LKR '000	Trading Derivative LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Financial Assets							
Cash and bank balances with Central Bank	8,007,262	–	–	–	–	–	8,007,262
Less: restricted balance	(5,554,021)	–	–	–	–	–	(5,554,021)
Placements with banks	–	–	130,751	–	–	–	130,751
Financial assets held-for-trading	–	–	7,101,067	7,492,096	–	–	14,593,163
Derivative financial instruments	–	1,149,541	–	–	–	–	1,149,541
Loans and receivables to banks	–	–	135,990	284,635	272,450	45	693,120
Loans and receivables to other customers	33,889,211	–	46,016,531	20,806,116	47,905,028	11,736,540	160,353,426
Other financial assets classified as loans and receivables	–	–	5,467,989	133,103	10,836,900	361,263	16,799,255
Financial assets – held-to-maturity	–	–	5,164,518	4,782,287	9,873,049	–	19,819,854
Financial assets – available-for-sale	–	–	959,888	1,459,526	1,699,655	4,685,905	8,804,974
Total Undiscounted Financial Assets	36,342,452	1,149,541	64,976,734	34,957,763	70,587,082	16,783,753	224,797,325
Financial Liabilities							
Due to banks	2,891,711	–	8,492,120	1,987,691	–	–	13,371,522
Derivative financial instruments	–	817,310	–	–	–	–	817,310
Due to other customers	39,827,624	–	40,761,814	49,014,929	3,682,677	–	133,287,044
Debt securities issued and other borrowed funds	–	–	9,837,505	4,083,836	9,150,630	1,531,579	24,603,550
Subordinated term debts	–	–	123,029	1,901,570	10,191,683	13,215,124	25,431,406
Other financial liabilities	701,912	–	–	–	–	–	701,912
Total Undiscounted Financial Liabilities	43,421,247	817,310	59,214,468	56,988,026	23,024,990	14,746,703	198,212,744
Net Undiscounted Financial Assets and Liabilities	(7,078,795)	332,231	5,762,266	(22,030,263)	47,562,092	2,037,050	26,584,581

Contractual Maturities for Commitments and Contingencies

The table below summaries the maturity portfolio of the commitments and contingencies of the Bank and the Group as at 31 December 2014 and 2013.

Bank

31 December 2014	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	93,937,028	–	–	–	–	93,937,028
Guarantees	452,895	7,638,665	9,138,647	4,853,652	4,351	22,088,210
Commitments on account of letters of credit	329,071	6,551,102	641,422	–	–	7,521,595
Forward foreign exchange contracts	–	51,856,305	48,432,484	159,245	–	100,448,034
Acceptances	–	4,956,445	2,164,754	27,567	–	7,148,766
	94,718,994	71,002,517	60,377,307	5,040,464	4,351	231,143,633

Bank

31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	63,999,574	–	–	–	–	63,999,574
Guarantees	944,260	3,845,894	6,814,099	3,921,125	4,128,233	19,653,611
Commitments on account of letters of credit	736,312	5,589,470	961,374	–	–	7,287,156
Forward foreign exchange contracts	9,331,460	38,813,787	31,699,570	–	–	79,844,817
Acceptances	230,023	4,096,632	2,088,427	–	–	6,415,082
	75,241,629	52,345,783	41,563,470	3,921,125	4,128,233	177,200,240

Group

31 December 2014	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	93,940,238	–	–	–	–	93,940,238
Guarantees	454,914	7,638,665	9,138,647	4,853,652	4,351	22,090,229
Commitments on account of letters of credit	329,070	6,551,102	641,423	–	–	7,521,595
Forward foreign exchange contracts	–	51,856,304	48,432,484	159,246	–	100,448,034
Acceptances	–	4,956,445	2,164,754	27,567	–	7,148,766
	94,724,222	71,002,516	60,377,308	5,040,465	4,351	231,148,862

Group

31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	63,999,574	–	–	–	–	63,999,574
Guarantees	944,260	3,845,894	6,814,099	3,921,125	4,128,233	19,653,611
Commitments on account of letters of credit	736,312	5,589,470	961,374	–	–	7,287,156
Forward foreign exchange contracts	9,331,460	38,813,787	31,699,570	–	–	79,844,817
Acceptances	230,023	4,096,632	2,088,427	–	–	6,415,082
	75,241,629	52,345,783	41,563,470	3,921,125	4,128,233	177,200,240

50.1 Capital Management

The Bank realises the importance of managing capital as it restricts the business growth unlike any other commercial organization. All large credit proposals are evaluated with the capital charge and lending decisions are taken on the basis of sufficient return on capital. Even the expansion projects in terms of new buildings and software purchases are evaluated against sufficient return on capital. The Bank always maintains a relatively higher level of free capital which will be utilised for lending activities thereby improving the net interest income of the Bank. Further, the Bank also maintains an effective balance between dividend payment and retention of profits ensuring sufficient plough back of profits.

51. Maturity Analysis

Maturity Gap Analysis as at 31 December 2014 - Bank

An analysis of the assets and liabilities based on the remaining period as at the date of the Statement of Financial Position to the respective contractual maturity dates, is as follows:

	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	3,104,391	–	3,104,391
Balance with Central Bank	6,474,384	266,206	6,740,590
Placements with banks	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	1,903,781
Financial assets held-for-trading	2,785,277	–	2,785,277
Loans and receivables to banks	219,900	91,244	311,144
Loans and receivables to other customers	112,326,853	62,848,350	175,175,203
Financial investments - loans and receivables	38,302,428	–	38,302,428
Financial investments – available-for-sale	17,060,302	–	17,060,302
Financial investments – held-to-maturity	5,974,947	2,996,016	8,970,963
Investments – held-for-sale	18,525	–	18,525
Investments in subsidiary companies	–	2,000,290	2,000,290
Intangible assets	–	253,132	253,132
Property, plant & equipment	–	1,927,496	1,927,496
Other assets	661,902	791,831	1,453,733
Total Assets	191,554,581	71,174,565	262,729,146
Liabilities			
Due to banks	7,029,342	–	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	145,201,892	6,621,823	151,823,715
Debt securities issued and other borrowed funds	41,013,490	20,941,970	61,955,460
Tax liabilities	826,687	–	826,687
Deferred tax liabilities	–	619,467	619,467
Employee benefit liabilities	–	247,011	247,011
Other liabilities	4,397,536	1,779,111	6,176,647
Subordinated term debts	538,460	10,610,979	11,149,439
Total Liabilities	199,670,593	40,820,361	240,490,954
Net	(8,116,012)	30,354,204	22,238,192

Maturity Gap Analysis as at 31 December 2013 - Bank

	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	2,611,075	–	2,611,075
Balance with Central Bank	5,226,954	112,046	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Financial assets held-for-trading	10,720,689	–	10,720,689
Loans and receivables to banks	388,941	252,687	641,628
Loans and receivables to other customers	95,959,296	40,862,236	136,821,532
Financial investments - loans and receivables	5,633,443	10,204,012	15,837,455
Financial investments – available-for-sale	5,982,450	–	5,982,450
Financial investments – held-to-maturity	9,243,577	8,358,672	17,602,249
Investments in subsidiary companies	–	2,037,585	2,037,585
Investments in associate companies	–	61,967	61,967
Intangible assets	–	260,425	260,425
Property, plant & equipment	–	872,890	872,890
Other assets	328,864	860,527	1,189,391
Total Assets	137,375,581	63,883,047	201,258,628
Liabilities			
Due to banks	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	126,919,836	2,910,193	129,830,029
Debt securities issued and other borrowed funds	13,762,024	10,658,794	24,420,818
Tax liabilities	266,127	–	266,127
Deferred tax liabilities	288,532	23,900	312,432
Employee benefit liabilities	–	170,008	170,008
Other liabilities	1,981,974	1,703,691	3,685,665
Subordinated term debts	563,082	11,119,593	11,682,675
Total Liabilities	155,051,971	26,586,179	181,638,150
Net	(17,676,390)	37,296,868	19,620,478

Maturity Gap Analysis as at 31 December 2014 - Group

	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	3,274,036	–	3,274,036
Balance with Central Bank	6,474,384	266,206	6,740,590
Placements with banks	2,721,891	–	2,721,891
Derivative financial instruments	1,903,781	–	1,903,781
Financial assets held-for-trading	6,028,558	–	6,028,558
Loans and receivables to banks	219,900	91,244	311,144
Loans and receivables to other customers	112,348,461	62,887,445	175,235,906
Financial investments - loans and receivables	38,302,428	381,048	38,683,476
Financial investments – available-for-sale	18,057,852	–	18,057,852
Financial investments – held-to-maturity	6,078,758	4,088,567	10,167,325
Investments – held-for-sale	33,301	–	33,301
Investment property	–	1,545,693	1,545,693
Intangible assets	–	297,070	297,070
Property, plant & equipment	–	2,252,647	2,252,647
Other assets	1,084,508	791,827	1,876,335
Total Assets	196,527,858	72,601,747	269,129,605
Liabilities			
Due to banks	7,029,342	–	7,029,342
Derivative financial instruments	663,186	–	663,186
Due to other customers	144,863,378	6,621,823	151,485,201
Debt securities issued and other borrowed funds	41,013,831	20,911,971	61,925,802
Tax liabilities	806,220	–	806,220
Deferred tax liabilities	–	609,935	609,935
Employee benefit liabilities	–	301,219	301,219
Other liabilities	4,581,732	1,779,110	6,360,842
Subordinated term debts	538,460	10,610,979	11,149,439
Total Liabilities	199,496,149	40,835,037	240,331,186
Net	(2,968,291)	31,766,710	28,798,419

Maturity Gap Analysis as at 31 December 2013 - Group

	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	2,668,262	–	2,668,262
Balance with Central Bank	5,226,954	112,046	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Financial assets held-for-trading	14,194,141	–	14,194,141
Loans and receivables to banks	388,941	252,687	641,628
Loans and receivables to other customers	96,019,476	40,862,236	136,881,712
Financial investments - loans and receivables	6,496,565	10,295,136	16,791,701
Financial investments – available-for-sale	6,167,450	–	6,167,450
Financial investments – held-to-maturity	9,261,070	9,199,521	18,460,591
Investments in associate companies	–	76,744	76,744
Investment property	–	1,383,693	1,383,693
Intangible assets	–	296,678	296,678
Property, plant & equipment	–	1,176,491	1,176,491
Other assets	598,210	860,527	1,458,737
Total Assets	142,301,361	64,515,759	206,817,120
Liabilities			
Due to banks	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	126,601,031	2,820,782	129,421,813
Debt securities issued and other borrowed funds	13,762,025	10,628,793	24,390,818
Tax liabilities	300,196	–	300,196
Deferred tax liabilities	298,033	26,418	324,451
Employee benefit liabilities	–	214,830	214,830
Other liabilities	2,146,599	1,703,690	3,850,289
Subordinated term debts	563,082	11,119,592	11,682,674
Total Liabilities	154,941,362	26,514,105	181,455,467
Net	(12,640,001)	38,001,654	25,361,653

52. Segmental Analysis - Group

Accounting Policy

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 Senior Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group has identified four operating segments based on products and services, as follows:

- Banking
- Capital Markets
- Property Investment
- Others

Income taxes are managed on a group basis and are not allocated to operating segments. Interest income is reported net, as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2014 or 2013.

For the year ended 31 December	Banking		Capital Markets		Property Investment		Others		Consolidated	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Revenue										
External income	25,176,348	24,608,797	678,249	469,772	252,080	145,468	–	–	26,106,677	25,224,037
Inter-segment income	–	–	56,130	23,319	41,818	55,949	–	–	97,948	79,268
Total income	25,176,348	24,608,797	734,379	493,091	293,898	201,417	–	–	26,204,625	25,303,305
Segment expenses	(19,076,472)	(20,008,519)	(560,674)	(496,230)	(40,748)	(74,154)	–	–	(19,677,894)	(20,578,903)
Segment results	6,099,876	4,600,278	173,705	(3,139)	253,150	127,263	–	–	6,526,731	4,724,402
Share of associate companies profit before taxation	–	–	–	–	–	–	97,274	49,220	97,274	49,220
Taxation									(1,348,784)	(1,150,893)
VAT on financial services									(1,029,250)	(910,500)
Profit after taxation									4,245,970	2,712,229
Other information										
Segment assets	262,689,239	201,189,884	4,796,767	4,091,993	1,610,299	1,458,500	–	–	269,096,305	206,740,377
Investment in associates	–	–	–	–	–	–	33,301	76,744	33,301	76,744
Consolidated total assets									269,129,606	206,817,121
Segment liabilities	24,011,008	181,192,251	155,925	207,262	64,257	55,956	–	–	240,331,190	181,455,469
Consolidated total liabilities									240,331,190	181,455,469
Segmental cash flows										
Cash flows from operating activities	(9,321,209)	4,512,521	15,158	(226,615)	123,558	96,879	–	–	(9,182,493)	4,382,785
Cash flows from investing activities	(17,240,344)	(17,739,829)	6,939	189,301	(7,830)	(60,097)	–	–	(17,241,235)	(17,610,622)
Cash flows from financing activities	30,915,369	8,323,143	62,211	(60,088)	(87,578)	(36,779)	–	–	30,890,002	8,226,276

53. Events Occurring after the Date of the Statement of Financial Position

- (a) The Boards of Directors of DFCC Bank (DFCC), DFCC Vardhana Bank PLC and National Development Bank (NDB) in pursuance of the policies announced by the Government encouraging the consolidation of certain banking businesses, have commenced preliminary discussion with a view to achieving such consolidation. The consolidation of these three entities however, will be dependent on regulatory and stakeholder approvals and possibly, passage of facilitative legislation.
- (b) On 13 February 2015, the Bank declared a final dividend of LKR 4.00 per share for the financial year 2014. (2013- final dividend of LKR 5.00 per share) This will be paid out of the operational profits of the Bank and it will be liable to a dividend tax at 10%.
- (c) NDB Capital Holdings PLC entered into a shareholders agreement with NDB Zephyr Partners Ltd on 15 December 2014 to invest LKR 49.61 million in 60% ordinary shares and 60% redeemable preference shares in NDB Zephyr Partners Ltd, the Management Company based in Mauritius, which manages Sri Lanka's largest country dedicated private equity fund. Accordingly, the equity investment took place on 2 January 2015.
- (d) As per the Interim Budget 2015, which was passed in the Parliament of Sri Lanka on 7 February 2015, an additional one-off tax of 25% has been imposed on the profits of the groups which have earned in excess of LKR 2,000 million for the year of assessment 2013/2014. The estimated tax liability, based on the current understanding for the Group on their Group taxable income would amount to LKR 846 million.

54. Comparative Information

The classification of the following items in the Statement of Profit or Loss and the Statement of Financial Position were amended to ensure proper presentation in the Financial Statements:

		BANK		GROUP	
As reported Previously	Current Presentation	2014 LKR '000	2014 LKR '000	2013 LKR '000	2013 LKR '000
Profit or Loss					
Net gains/(losses) from Trading	Net gains/(losses) from financial investments (Note 8)	716,507	1,330,407	318,303	914,968
Assets					
Securities purchased under resale agreements	Financial Investments - loans and receivables (Note 26)	-	-	4,919,825	4,927,429
Lease rentals receivables	Loans and Receivables to other customers (Note 25)	-	-	8,428,409	8,428,409
Investments in associates	Investments held-for-sale (Note 29)	18,525	33,301	-	-
Liabilities					
Securities sold under repurchase agreements	Debt Securities issued and other borrowed funds (Note 38)	-	-	11,771,598	11,771,598

55. Related Party Disclosures

55.1 Parent and Ultimate Control Party

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

55.2 Terms and Conditions

The Bank carries out transactions with Key Management and their related concerns and other related entities in the ordinary course of its business on an arms length basis at commercial rates except the loans that the key management have availed under the loan schemes uniformly applicable to all the staff.

55.3 Key Management Personnel of the Bank

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries. Key Management Personnel include the members of the Board of Directors of the Bank, including the Chief Executive Officer.

	2014 LKR '000	2013 LKR '000
55.3.1 Compensation to Key Management Personnel of the Bank		
Short-term employee benefits	69,860	62,496
Post-employment benefits (defined benefit plan)	4,968	3,399
	74,828	65,895

The amounts disclosed above are the amounts recognized as expenses during the reporting period relating to Key Management Personnel. In addition to the remuneration, the Bank has also provided non-cash benefits for Key Management Personnel in line with the approved benefit plan of the Bank.

55.3.2 Key Management of the Bank and their close family members had the following transactions with the Bank:

	Limit		Outstanding Balance		Average Balance	
	31.12.2014 LKR '000	31.12.2013 LKR '000	31.12.2014 LKR '000	31.12.2013 LKR '000	31.12.2014 LKR '000	31.12.2013 LKR '000
Items in the Statement of Financial Position						
Assets						
Loans and receivables	–	–	–	–	3	1,408
Credit cards	1,000	1,000	–	–	65	20
	1,000	1,000	–	–	68	1,428
Liabilities						
Deposits			222,346	155,987	187,543	99,126
Investment in debentures and Repo investments			82,936	1,000	58,190	1,000
			305,282	156,987	245,733	100,126
Items in the Statement of Profit or Loss						
Interest income			–	64		
Interest expenses			30,142	15,614		
Fee and commission income			16	–		
Dividends paid			47,939	81,363		

Key Management of the Bank and their close family members have invested in 3,994,906 ordinary shares as at 31 December 2014 (3,994,906 ordinary shares as at 31 December 2013) which includes shares held in a slash account.

55.3.3 Transactions involving entities which are controlled/jointly controlled by the Key Management Personnel and their close family members.

	Outstanding Balance		Average Balance	
	31.12.2014 LKR '000	31.12.2013 LKR '000	31.12.2014 LKR '000	31.12.2013 LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables	35	1,967,742	26,732	1,460,456
	35	1,967,742	26,732	1,460,456
Liabilities				
Deposits	343,123	685,903	264,476	465,872
Repo investments	232,500	–	68,292	47,442
	575,623	685,903	332,768	513,314
Off-Balance Sheet Items				
Commitments and contingencies	–	549,317	19,954	678,652
Forward foreign exchange contracts	–	1,307,500	–	1,521,119
	–	1,856,817	19,954	2,199,771
Limits approved on facilities	–	3,609,085		
Items in the Statement of Profit or Loss				
Interest income	7,804	234,578		
Interest expenses	34,431	60,989		
Fee and commission income	607	19,134		
Capital expenditure and services rendered	75,846	79,104		

55.4 Transactions with the Government of Sri Lanka and its Related Entities

A number of entities in which the Government of Sri Lanka has an interest have a significant interest in the Bank.

55.4.1 The Bank enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The financial dealings on a collective basis for the year and as at the date of the Statement of Financial Position are as follows:

	Outstanding Balance		Average Balance	
	31.12.2014 LKR '000	31.12.2013 LKR '000	31.12.2014 LKR '000	31.12.2013 LKR '000
Items in the Statement of Financial Position				
Assets				
Loans and receivables	7,973,433	2,546,153	5,975,747	1,713,866
	7,973,433	2,546,153	5,975,747	1,713,866
Liabilities				
Deposits	3,621,031	57,534	2,441,659	56,720
Repo investments	2,658,000	2,294,000	1,269,894	5,524,252
Borrowings	2,569,000	1,546,000	355,317	546,663
Debentures	2,623,950	2,455,890	2,623,950	2,455,890
Concessionary credit lines	5,621,028	6,389,534	6,946,460	7,602,061
	17,093,009	12,742,958	13,637,280	16,185,586
Off-Balance sheet items				
Guarantees and letters of credit	286,422	67,066	134,022	90,700
Forward foreign exchange contracts	902,029	4,214,929	2,457,811	6,498,736
	1,188,451	4,281,995	2,591,833	6,589,436
Items in the Statement of Profit or Loss				
Interest income	2,122,017	1,164,400		
Interest expenses	989,889	1,014,397		
Fee and commission income	41,067	5,466		

55.4.2 Further transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

- Investment in Treasury Bills, Treasury Bonds, Development Bonds and money market placements
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - ETF

55.4.3. Individually Significant Transactions

The Bank uses internal assessments methodology in order to identify significant transactions with the Government of Sri Lanka and Government related entities. Accordingly individually significant transactions are reported below:

55.4.3.1 The Bank raised USD 125 million on 16 April 2014 through foreign borrowings for a period of one year and seven years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 75% of the borrowing value with the same maturity on 15 January 2021. The Bank has also raised USD 75 million on 21 July 2014 through foreign borrowings for a period of seven years, against which a SWAP arrangement has been entered into with the Central Bank of Sri Lanka for 50% of the borrowing value with the same maturity on 15 July 2021.

55.4.3.2 The Bank utilized the approval given by the Central Bank of Sri Lanka for licensed commercial banks to borrow up to USD 50 million and the specific approval given to National Development Bank PLC to Borrow up to USD 250 million in excess of the 15% of the Bank's capital by direction dated 17 April 2013, circular Ref 2/19/150/0104/001. Accordingly the Bank raised USD 224 million as at 31 December 2014.

55.5 Transactions with Related Entities

55.5.1 The Bank had the undermentioned financial dealings during the year and as of the date of the Statement of Financial Position with the subsidiaries and associates of the Bank are as follows:

	Subsidiaries of the Group*				Associates of the Group*			
	Outstanding Balance		Average Balance		Outstanding Balance		Average Balance	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Items in the Statement of Financial Position								
Assets								
Loans and receivables	1	1	4	1	-	-	-	-
Group company receivables	1,804	1,646	24,435	63,242	-	-	-	-
Investment in ordinary shares net of provisions for impairment	2,000,291	2,037,585	2,030,019	2,136,408	18,525	61,968	53,873	22,146
Disposal of investments	-	582,714	-	582,714	165,462	-	165,462	-
Liabilities								
Deposits	457,689	289,937	366,116	216,264	-	-	-	-
Other payables	-	204	-	17	-	-	1,802	-

	During the Year		During the Year	
	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
	Items in the Statement of Profit or Loss			
Interest received/(paid) - Net	(61,406)	(44,476)	-	-
Rent and utilities received	20,525	20,136	-	-
Rent and utilities paid	18,627	18,305	-	-
Management fees received/ (paid) - Net	4,812	(23,120)	-	-
Bankassurance income	22	-	-	-
Share Brokerages paid	-	7,436	-	-
Dividends received	321,967	700,203	-	-
Capital gains	-	5,372,060	96,125	-

The Board of Directors of the Bank, at its meeting held on 20 March 2014, approved the divestiture of its investment in 224,875 shares amounting to 35% of the shares in Maldives Finance Leasing Company (Private) Ltd. to Tree Top Investments (Private) Ltd., a company incorporated in the Republic of Maldives. Accordingly, the divestment took place during April 2014, and the net realized gain to the Bank amounted to LKR 96 million.

* Refer Note 30 and Note 31 for details of subsidiary and associate companies.

55.5.2 The Bank had the undermentioned financial dealings during the year with the NDB Provident Fund.

	2014 LKR '000	2013 LKR '000
Deposits	40,264	51,661
Interest paid on deposits during the year	2,938	2,585
Contribution made by the Bank	187,974	163,732

55.5.3 NDB Wealth Management Ltd., a subsidiary of the Bank had the undermentioned financial dealings with the NDB Provident Fund.

	2014 LKR '000	2013 LKR '000
Portfolio under management	1,574,818	1,340,823

55.5.4 The Bank had the undermentioned financial dealings with the NDB Pension Fund during the year.

	2014 LKR '000	2013 LKR '000
Deposits	113,500	112,893
Interest paid on deposits during the year	11,977	16,348
Contribution made by the Bank	51,644	28,850

55.5.5 The Bank had the undermentioned financial dealings with the NDB Employee Share Ownership Plan during the year.

	2014	2013
No. of ordinary shares held	4,133,726	4,133,726
Distribution of ESOP shares to the eligible employees of the Bank	4,131,850	–
No. of ordinary shares pending transfer to an eligible employee	1,876	4,133,726
Dividends paid by the Bank (LKR '000)	20,718	82,675

The Colombo Stock Exchange (CSE), by listing Rule 5.6 has amended the rules relating to Employee Share Option Schemes (ESOS) and Employee Share Purchase Schemes (ESPS), by mandating that such schemes should result in the shares being offered to eligible employees for 'purchase' or 'subscription' in the case of ESOS and 'acquisition' in the case of ESPS, specifically prohibiting open ended schemes. In compliance with this ruling and the Transitional Provisions thereto, the Board of Directors of National Development Bank PLC (NDB) approved the dissolution of the NDB Employee Share Option Plan (ESOP) and the distribution of the ESOP shares amounting to 4,133,726 to the eligible employees of the Bank.