Notes to the Financial Statements

1. Reporting entity

1.1 Corporate information

Commercial Bank of Ceylon PLC (the "Bank") is a public limited liability company listed on the Colombo Stock Exchange (CSE), incorporated on June 25, 1969 under the Companies Ordinance No. 51 of 1938, and domiciled in Sri Lanka. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The Bank was re-registered under the Companies Act No. 07 of 2007 on January 23, 2008, under the Company Registration No. PQ 116. The registered office of the Bank is situated at "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka.

The ordinary shares of the Bank (both Ordinary Voting and Non-Voting shares) have a primary listing on the CSE. The unsecured subordinated debentures of the Bank are also listed on the CSE.

The staff strength of the Group and the Bank was as follows:

As at December 31,	**2019**	2018
Group	**5,656**	5,457
Bank	**5,062**	5,027

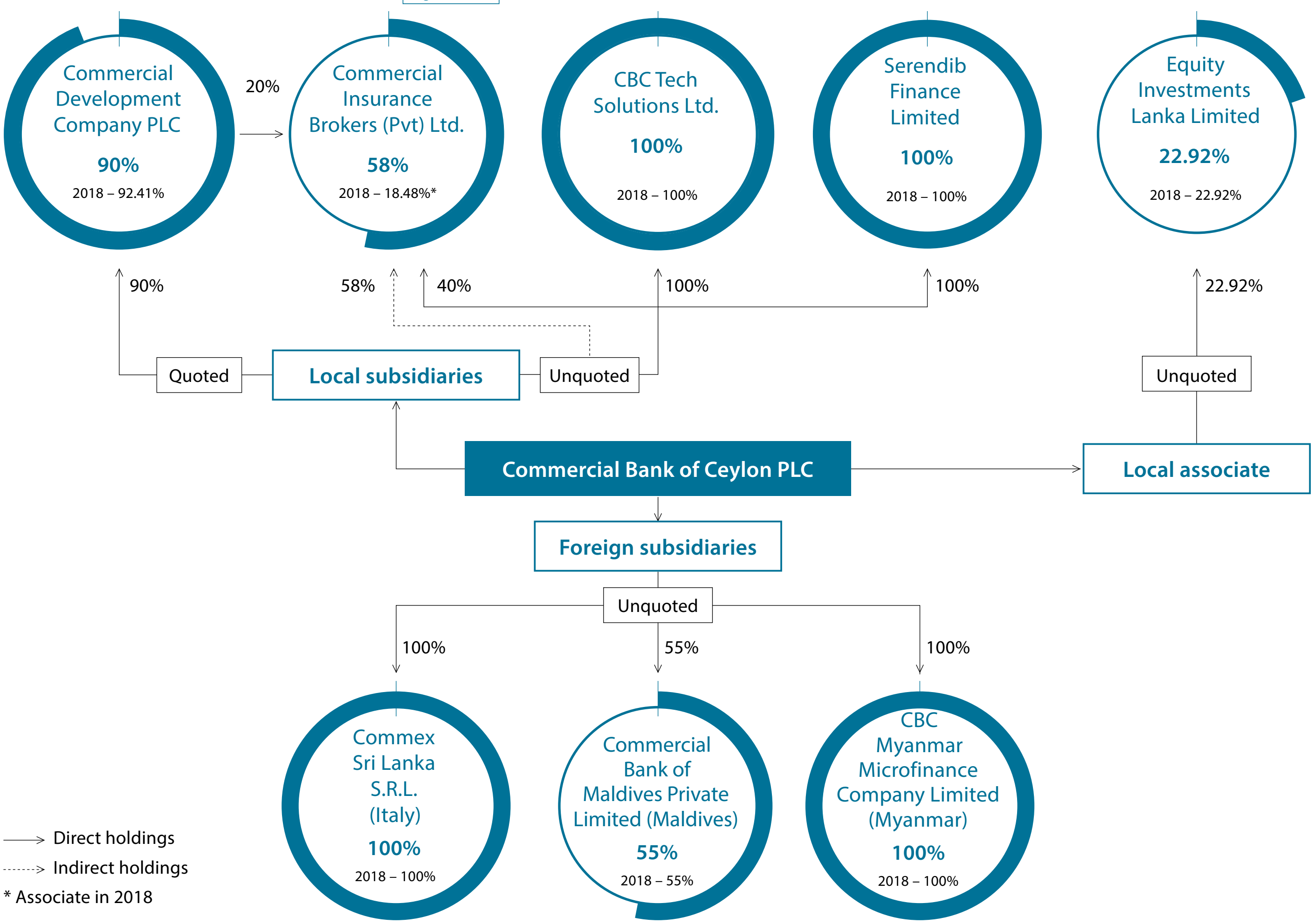
Corporate information is presented in the inner back cover of this Annual Report.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2019, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its Associate.

The Bank does not have an identifiable parent of its own. The Bank is the Ultimate Parent of the Group.

1.3 Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries and associate Figure – 23



During the year, the Bank acquired 40% stake in Commercial Insurance Brokers (Private) Limited, from Chemanex PLC, for a purchase consideration of Rupees Two Hundred and Fifty Million (Rs. 250,000,000/-). As the Bank's subsidiary, Commercial Development Company PLC too has a stake of 20% in Commercial Insurance Brokers (Private) Limited, it makes the Group's stake in Commercial Insurance Brokers (Private) Limited to be 58% as at December 31, 2019.

Principal business activities and nature of business operations of the Group Table – 26

Entity	Principal business activities
Commercial Bank of Ceylon PLC	Banking and related activities such as accepting deposits, personal banking, trade financing, offshore banking, RFC & NRFC operations, travel-related services, corporate and retail credit, syndicated financing, project financing, development banking, lease & hire purchase, rural credit, issuing of local and international debit and credit cards, internet banking, mobile banking, money remittance facilities, dealing in Government Securities and treasury-related products, salary remittance package, bullion trading, export and domestic factoring, pawning, margin trading, digital banking services, bancassurance and Islamic banking products and services etc.
Subsidiaries	
Commercial Development Company PLC (CDC)	Property development, related ancillary services and outsourcing of staff for non-critical functions of the Bank (parent).
CBC Tech Solutions Limited	Providing Information & Communication Technology (ICT) related products, services and solutions to corporate sector.
Serendib Finance Limited (SFL)	Providing financial services including leasing, hire purchase, loans etc.
Commercial Insurance Brokers (Pvt) Limited (CIB)	Providing professional service and handling all insurance portfolios of individuals as well as many leading and reputed organizations in Sri Lanka engaged in diverse business activities.
Commex Sri Lanka S.R.L. (Commex)	Operating as an agent to the Bank (parent) for opening accounts, providing money transfer services, issuance and encashment of foreign currencies and travelers cheques, collecting applications for credit facilities and handling of ATM cards etc.
Commercial Bank of Maldives Private Limited (CBM)	Offering of extensive range of banking and related financial services.
CBC Myanmar Microfinance Company Limited	Providing microfinance services to the people of Myanmar. The company also provides savings, business/livelihood development services for the clients adopting a credit plus approach.
Associate	
Equity Investments Lanka Limited	Providing investment services, risk capital and venture capital management

2. Basis of Accounting

2.1 Statement of compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act and the Banking Act and provide appropriate disclosures as required by the Listing Rules of the CSE. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

These SLFRSs and LKASs are available at the website of CA Sri Lanka – www.casrilanka.com

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the Financial Statements.

Details of the Group's Significant Accounting Policies followed during the year are given in Notes 6 to 10 on pages 158 to 171.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the Central Bank of Sri Lanka (CBSL) in the Circular No. 02 of 2019 dated January 18, 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks".

2.2 Responsibility for Financial Statements

The Board of Directors of the Bank is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the Companies Act No. 07 of 2007 and amendments thereto (Companies Act) and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Annual Report of the Board of Directors", "Statement of Directors' Responsibility" and the certification on the Statement of Financial Position on pages 03, 103 and 139, respectively.

These Financial Statements include the following components:

- an Income Statement and a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review. Refer pages 137 and 138;
- a Statement of Financial Position (SOFP) providing the information on the financial position of the Group and the Bank as at the year end. Refer page 139;
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank. Refer pages 140 to 147;
- a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows. Refer page 148;

- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information.
Refer pages 149 to 286.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Bank for the year ended December 31, 2019 (including comparatives for 2018), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 20, 2020 (The Financial Statements of the Group and the Bank for the year ended December 31, 2018, were approved and authorised for issue by the Board of Directors on February 22, 2019).

2.4 Basis of measurement

The Financial Statements of the Group have been prepared on the historical cost basis except for the following material items stated in the SOFP.

Basis of measurement Table – 27

Items	Basis of measurement	Note No./s	Page/s
Financial instruments measured at fair value through profit or loss including derivative financial instruments	Fair value	31, 32 & 46	192 & 225
Financial assets measured at fair value through other comprehensive income	Fair value	36	201
Land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	39	208
Investment property	Measured at cost at the time of acquisition and subsequently at Fair value.	40	219
Defined benefit obligation	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost, and unrecognised actuarial losses	50	228
Equity settled share-based payment arrangements	Fair value on grant date	54	237

2.5 Going concern basis of accounting

The Management 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 Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

2.6 Functional and presentation currency

Items included in these Financial Statements are measured using the currency of the primary economic environment in which the Bank operates (the functional currency).

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that functional currency. There was no change in the Group's presentation and functional currency during the year under review.

These Financial Statements are presented in Sri Lankan Rupees, the Group's functional and presentation currency.

The information presented in US Dollars in the Section on "Supplementary Information" on pages 354 and 355 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

2.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in the SOFP are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

An analysis on recovery or settlement within 12 months and more than 12 months from the Reporting date is presented in Note 62 on pages 247 and 249.

2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements" (LKAS 1).

2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the SOFP, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the IFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

2.10 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the LKAS 1 and amendments to the LKAS 1 on "Disclosure Initiative" which was effective from January 1, 2016.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Group and the Bank. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

2.11 Comparative information

- Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The Group/Bank has not restated the comparative information for contracts within the scope of Sri Lanka Accounting Standard – SLFRS 16 on "Leases" (SLFRS 16). Therefore, the comparative information is reported under Sri Lanka Accounting Standard – LKAS 17 on "Leases" (LKAS 17) and is not comparable with the information presented for 2019. Due to adoption of SLFRS 16, deferred tax asset created under LKAS 17 on the liability of straight lining of lease rentals has been transferred directly to equity as of January 1, 2019 and are disclosed in Statement of Changes in Equity on pages 140 to 147.

2.12 Use of significant accounting judgements and assumptions and estimates

In preparing the Financial Statements of the Group in conformity with SLFRSs and LKASs, the Management has made judgements, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Significant areas of critical judgements, assumptions and estimation uncertainty, in applying the Accounting Policies that have most significant effects on the amounts recognised in the Financial Statements of the Group are as follows:

A. Significant accounting judgements

Information about judgements made in applying the Accounting Policies that have most significant effects on the amounts recognised in these Financial Statements is included in Notes 2.12.1 and 2.12.3 below.

2.12.1 Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 37 on page 204 indicates that the Group controls the investees.

2.12.2 Classification of financial assets and liabilities

The Significant Accounting Policies of the Group provides scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria;

- The entity's business model for managing the financial assets as set out in Note 7.1.3.1 on page 159.
- The contractual cash flow characteristics of the financial assets as set out in Note 7.1.3.2 on page 160.

2.12.3 Classification of investment property

Management uses its judgment to determine whether a property qualifies as an investment property. A property that is held either to earn rental income or for capital appreciation or both and thus generates cash flows largely independently of the other assets held by the Group are classified as investment property. On the other hand, a property used in production or supply of goods and services or administrative purposes and thus generates cash flows that are attributable not only to property but also to other assets used in the production or supply process are classified as property, plant & equipment. The Group assesses on an annual basis, the accounting classification of its investment properties, taking into consideration the current use of such properties.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 2.12.4 to 2.12.13 below:

2.12.4 Fair Value of financial instruments

The fair values of financial assets and financial liabilities recognised on the SOFP, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 27 on pages 186 to 190.

2.12.5 Impairment losses on financial assets

The measurement of impairment losses across the categories of financial assets under Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

A collective impairment provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Group's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various statistical formulas and the choice of inputs.
- Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD).
- Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The accuracy of the provision depends on the model assumptions and parameters used in determining the ECL calculations.

Refer Note 18 on page 176 for details.

2.12.6 Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for an asset or a Cash Generating Unit (CGU) at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the "Value in use" of such individual assets or the CGUs. Estimating "Value in use" requires the Management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty.

Refer Note 7.6 on page 166 for details.

2.12.7 Revaluation of property, plant and equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Group engages independent professional valuers to assess fair value of land and buildings in terms of Sri Lanka Accounting Standard – SLFRS 13 on "Fair Value Measurement" (SLFRS 13). The key assumptions used to determine the fair value of the land and building and sensitivity analyses are provided in Notes 39.5 (b) and 39.5 (c) on pages 213 to 217.

2.12.8 Useful life-time of the property, plant and equipment

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

Refer Note 20 on page 179.

2.12.9 Fair valuation of investment property

Fair valuation of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyors, who have recent experience in valuing properties of similar location and category. They have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The key assumptions used to determine the fair value of investment property are provided in detail in Note 40 on page 219.

2.12.10 SLFRS 16 – Leases (Applicable from January 1, 2019)

2.12.10.1 Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

2.12.10.2 Estimating the incremental borrowing rate

As the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ("IBR") to measure the lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease).The Group estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

2.12.11 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Refer Note 43 on page 222 for details.

2.12.12 Defined benefit obligation

The costs of the defined benefit plans are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, future pension increase, etc. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Refer Note 50 on pages 228 to 234 for the assumptions used.

2.12.13 Provisions for liabilities, commitments and contingencies

The Group receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying Accounting Policies other than those stated above that have significant effects on the amounts recognised in the Consolidated Financial Statements are described in Notes 7.10 to 7.15 on page 168.

2.13 Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 70 on page 286, where necessary.

3. Financial Risk Management

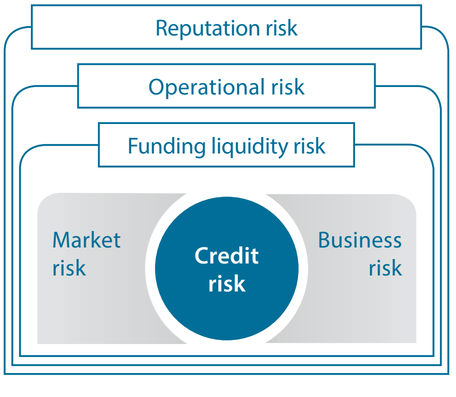
3.1 Introduction and overview

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Group has exposure mainly to the following risks from financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk; and
- Operational risk.

Types of risk Figure – 24



3.2 Bank's risk management framework

The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework.

The Risk Management Policy of the Bank translates overall risk appetite on business activities in a holistic approach to provide the guidance required for convergence of strategic and risk perspectives of the Bank.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Risk Management Policy Framework constitutes the Credit Policy, Lending Guidelines, ALM Policy including Liquidity Risk Policy, Foreign Exchange Policy, Operational Risk Policy, IT Risk Policy, Market Risk Policy, Stress Testing Policy, etc., which have been firmly established to provide control and guidance for decision-making throughout the Bank in a uniform manner.

The Committee structure embedded to the system acts as a fact finding and decision making authority through meaningful discussions of multiple points of view. The Risk Management Committees effectively deliberate on matters at hand to provide guidance to the business lines with a view to managing risk in accordance with the strategic goals and risk appetite of the Bank.

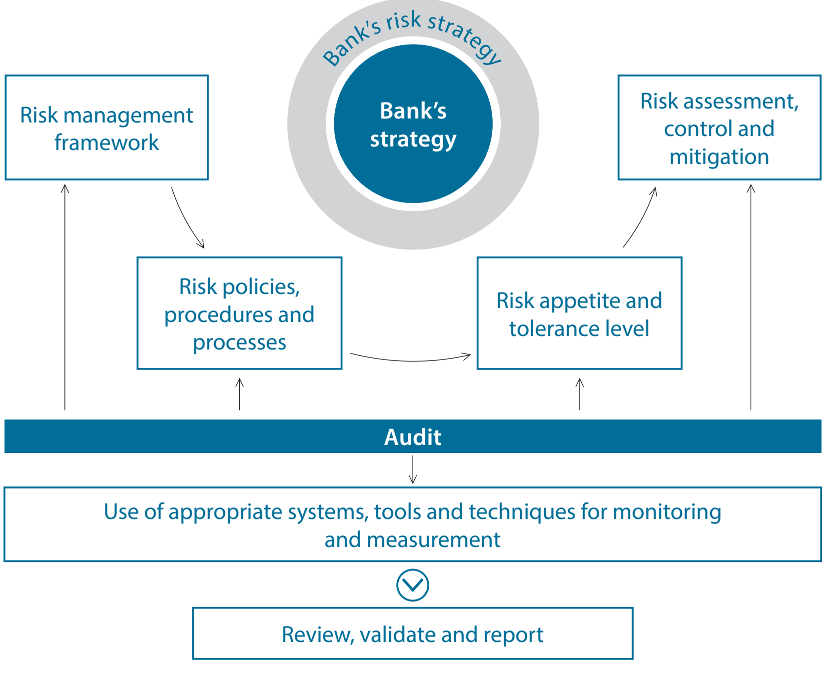
The Board of Directors of the Bank has formed a mandatory Board Committee namely, the Board Integrated Risk Management Committee (BIRMC) as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually.

The meetings of the Executive Integrated Risk Management Committee (EIRMC) are conducted on a monthly basis to discuss Credit, Operational and IT risk matters of the Bank while priority is given for liquidity and market risks at the Assets and Liabilities Committee (ALCO) meetings that convene at least once a fortnight.

Risk and Control Self-Assessment (RCSA) framework is adopted to identify risks involved in business activities of the Bank and to implement appropriate risk mitigatory measures after assessing criticality of such risks. The Integrated Risk Management Department carries out semi-annual Bank-wide RCSA function focusing on adherence to laws, regulations, and regulatory guidelines as well as internal controls and approved policies.

Further, the Internal Audit function of the Bank independently monitors and evaluates the risk management function of the Bank and provides their views on adequacy of the Risk Management Framework to the Board Audit Committee (BAC).

Bank's Financial Risk Management Framework Figure – 25



Credit risk

The risk that the Bank will incur a loss due to 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 counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

Management of credit risk

Lending Guidelines of the Bank formulated in consultation with lending units provide expected granularity of credit assessment, risk grading, their acceptability of collateral, etc., as well as limits on exposures and concentration levels to various sectors, counterparties, geographies, and segments.

A robust risk grading system incorporating Basel requirements of facility rating and counterparty rating are adopted by the Bank for evaluation of credit proposals. This risk grading framework consists 10 grades of varying degrees of risk as indicators for the Lending Officers to evaluate and arrive at suitable risk-reward trade-offs in their propositions. These risk grades are reviewed by the Integrated Risk Management Department regularly.

Portfolio level credit risk analyses are taken up at monthly EIRMC as well as quarterly BIRMC meetings. Individual credit proposals evaluated by the Lending Officers are approved by the Authorising Officers within the hierarchy in Delegated Authority Levels whilst ensuring a minimum of four eyes principle when approving any lending proposals. Escalation of approving levels occurs based on exposure levels as well as final risk ratings of borrowers.

The Executive Credit Committee (ECC) and the Board Credit Committee (BCC) are entrusted with approval of high value facilities while the Board will be the ultimate authority for approving facilities beyond predetermined threshold levels. Deliberations take place at BCC level on facilities taken up for approval within the specified threshold and recommendation for approval of the Board based on quantum of exposures proposed is exercised.

The Integrated Risk Management Department provides risk approval for individual proposals above predetermined threshold levels, consequent to a rigorous independent risk evaluation guided by Credit Policy, Lending Guidelines, and circular instructions within a limit framework stemming from risk appetite of the Bank.

Market risk

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 and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

The market risk for the trading portfolio is monitored and managed closely.

Management of market risk

Market Risk Policy, ALM Policy and Foreign Exchange Risk Policy are the three main policies that constitute the framework governing the Market Risk Management function of the Bank.

Due to the business model adopted by the Bank, exposure to equity and commodity risk was kept at bay throughout the year.

However, Interest Rate Risk arising from the Banking Book as well as Trading Book and Foreign Exchange Risk arising from dealing in currencies other than local currency, continued to expose the Bank to associated risk elements.

Volatile interest scenarios experienced by the country during the period impacted the financial market in Sri Lanka and challenged the Net Interest Margin. Interest Rates of the Banking Book was subjected to varying degrees of rate shocks to identify impact on earnings perspective in such rate scenarios. The results reflected predictions which assisted the Bank in formulating strategies to manage the financial position in an effective manner with the limited choices available.

Trading Book too was subjected to Value at Risk (VaR) framework internally carried out by the Bank on a regular basis. The Bank also carried out sensitivity analysis on a regular basis to ascertain the impact on portfolios maintained, mainly in Government Securities and marking to market such portfolios to reflect fair value for decision-making process.

Foreign exchange positions were maintained within the regulatory framework in a market where much volatility was not observed in the major currency, compared to previous year that the Bank deals in, i.e., US Dollars. The positions were subjected to sensitivity analysis to provide insight to possible losses/ gains arising from currency appreciation/ depreciation, as the reporting currency of the Bank being Sri Lankan Rupees.

Liquidity risk

The risk that the Bank 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 might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

To limit this risk, Management has arranged diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required.

Management of liquidity risk

Market Risk Management Policy and the ALM Policy of the Bank approved by the Board of Directors set the tone for managing liquidity risk of the Bank. Liquidity risk of the Bank is given utmost priority when managing a wide range of other risks due to the fact that it is considered as the most critical risk for any financial institution.

The Bank's Treasury Department is entrusted with managing liquidity of the Bank on real time basis to ensure smooth functioning of business activities of all other business units of the Bank.

Having access to a substantial stable Current Account and Savings Account (CASA) base due to its wide branch network and the top of the mind perception created in the depositors in general, for stability provides immense strength to the Bank in managing liquidity.

Having high quality liquid assets at the disposal of the Bank is another plus factor for the Bank. The strength of such was amply reflected in the Basel III computation the Bank carries out for arriving at Liquidity Coverage Ratio and Net Stable Funding Ratio as per the CBSL Directions that recorded very healthy results as compared to regulatory minimum threshold levels.

The Bank has experienced accumulation of liquidity above the minimum regulatory requirements as a result of slowness of economic performance of the country in 2019. However, the Bank has adopted many strategies to invest excess liquidity at optimum yields and thereby to minimise the negative impact on the bottom line.

Contingency funding plans in force, constant monitoring of salient liquidity ratios and scenario based stress testing being carried out regularly, provide the sense of Bank with required indicators enabling the Bank to take proactive measures that could provide time to overcome any adverse liquidity position on a future date.

Operational risk

The risk that the Bank will incur a loss due to systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

Management of operational risk

Sound Operational Risk Management practices are embedded into the work process through the Bank's culture, internal policy framework and as per regulatory requirements.

Circular instructions and Operational Risk Management Policy play a major part in bringing together business practices with accepted benchmarks to ensure minimum disruption to processes, personnel, technology and infrastructure.

Internal control framework and audit function with firmly established "three lines of defences" serve the Bank to manage operational risk at current acceptable levels.

IT Risk of the Bank is managed through strict monitoring of Key IT Risk Indicators while Vulnerability Assessment and Penetration Tests are being carried out by both internal and external parties at regular intervals to identify the relevant risks.

Refer Note 69 on pages 257 to 286 for "Financial Risk Review".

A detailed write-up on how the risk management is carried out within the Bank's Risk Management Framework with due consideration given to factors such as governance, identification, assessment, monitoring, reporting and mitigation are discussed in the Section on "Risk Governance and Management" on pages 110 to 128. The said write-up does not form part of the Financial Statements.

4. Fair value measurement

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use the fair value hierarchy when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 27 on pages 186 to 190.

5. Changes in Accounting Policies

The Group has consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 158 to 171 to all periods presented in these Financial Statements, except for changes arising out of transition to SLFRS 16 as set out below:

5.1 New and amended standards and interpretations

In these Financial Statements, the Group has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after January 1, 2019 for the first time. The Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

5.1.1 SLFRS 16 – Leases

SLFRS 16 issued in 2016, supersedes LKAS 17, IFRIC 4 on "Determining whether an arrangement contains a Lease", SIC-15 on "Operating Leases – Incentives" and SIC-27 on "Evaluating the substance of transactions involving the legal form of a lease". SLFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognise most leases on the SOFP.

One of the most notable aspects of SLFRS 16 is that the lessee and lessor accounting models are asymmetrical. SLFRS 16 has retained LKAS 17's finance lease/operating lease distinction for lessors but this distinction is no longer relevant for lessees. Hence, the changes introduced in SLFRS 16 are not significant in respect of contracts in which the Group is the lessor. However, SLFRS 16 has introduced fundamental changes to accounting principles when the Group becomes the lessee of the contract.

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application being January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard being recognised at the date of initial application. Due to the adoption of SLFRS 16, deferred tax asset created under LKAS 17 on the liability of straight lining of lease rentals has been transferred directly to equity as of January 1, 2019.

The Group recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's IBR at the date of initial application.

The Group recognises as right-of-use asset at the date of initial application for leases previously classified as operating leases applying LKAS 17. The Group opted to measure the right-of-use asset at an amount equal to the lease liability, on a lease-by-lease basis, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the SOFP immediately before the date of initial application.

The key changes of SLFRS 16 are as set out below:

5.1.1.1 Changes to identification of leases

SLFRS 16 has changed the recognition of leases by replacing the 'risk and reward' model in LKAS 17 with a 'right-of-use' model for lessees. The Group determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

SLFRS 16 introduces a single on-balance sheet model for lessees similar to the accounting for finance lease under LKAS 17. Accordingly, leases within the scope of SLFRS 16 are brought on to the balance sheet recognising a 'right-of-use' asset and related lease liability. As a result, the portion of off-balance sheet finance kept in the form of operating lease is recognised on balance sheet, except for short-term leases (lease term 12 months or less) and leases of low value.

5.1.1.2 Separating components of a contract

The Group determines, the right to use an underlying asset is a separate lease component if both of the following criteria are met.

- The lessee can benefit from use of the asset either on its own or together with other resources that are available to the lessee.
- The underlying asset is neither dependent on, nor highly interrelated with, the other underlying assets in the contract.

For contracts in which the Group becomes the lessee, the consideration in the contract is allocated to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components. On the other hand, when the Group is the lessor, the guidance given in Sri Lanka Accounting Standard – SLFRS 15 on "Revenue from Contracts with Customers" (SLFRS 15) is applied to allocate transaction price to separate components.

5.1.1.3 Determination of lease term

All lease liabilities are to be measured with reference to the estimate of lease term. Accordingly, the Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. In this assessment, the Group considers all relevant facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

The Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, only upon the occurrence of a significant event or significant change in circumstances that are within the control of the Group as a lessee. In addition, as per SLFRS 16, the Group revises lease term only if there is a change in the non-cancellable period of lease.

Significant accounting policies

The Significant Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Group except as specified in Note 2.11 on page 152.

These Accounting Policies have been applied consistently by Group entities.

Set out below is an index of Significant Accounting Policies, the details of which are available on the pages that follow:

Index of significant accounting policies Table – 28

6. Significant Accounting Policies – General

6.1 Basis of consolidation

The Group's Financial Statements comprise, Consolidated Financial Statements of the Bank and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" (SLFRS 10) and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures" (LKAS 28). The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Offshore Banking Centre and the international operations of the Bank.

6.1.1 Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group as per Sri Lanka Accounting Standard – SLFRS 3 on "Business Combinations" (SLFRS 3). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment (Refer Note 7.6 on page 166). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

6.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 58 on page 243.

6.1.3 Subsidiaries

Details of the Bank's subsidiaries, how they are accounted in the Financial Statements of the Bank and their contingencies are set out in Notes 37 and 59.4 (a) on pages 204 and 246.

6.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

6.1.5 Associates

Details of associates, how they are accounted in the Financial Statements of the investee, together with their fair values and the Group's share of contingent liabilities of such associates are set out in Notes 38 and 59.4 (b) on pages 207 and 246.

6.1.6 Transactions eliminated on consolidation

Intra-group balances, transactions and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

6.1.7 Material gains or losses, provisional values or error corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

6.2 Foreign currency

6.2.1 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Bank's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency at the middle exchange rate of the functional currency ruling as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency as at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate as at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- Equity instruments measured at fair value through other comprehensive income
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedge is effective.

6.2.2 Foreign currency translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Bank's Functional Currency. The Financial Statements of the Offshore Banking Centre of the Bank and the Financial Statements of the foreign operations of the Bank have been translated into the Group's Presentation Currency as explained under Notes 6.2.3 and 6.2.4 below.

6.2.3 Transactions of the offshore banking centre

These are recorded in accordance with Note 6.2.1 above, except the application of the annual weighted average exchange rate for translation of the Income Statement and the Statement of Profit or Loss and Other Comprehensive Income. Net gains and losses are dealt through the profit or loss.

6.2.4 Foreign operations

The results and financial position of foreign operations that have a functional currency different from the Bank's presentation currency are translated into the Bank's presentation currency as follows:

- Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange ruling as at the reporting date.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.
- All resulting exchange differences are recognised in the OCI and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of Equity, except to the extent that the translation difference is allocated to the NCI.

When a foreign operation is disposed of such that the control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount of the translation reserve is re-attributed to NCI.

7. Significant accounting policies – recognition of assets and liabilities

7.1 Financial instruments – initial recognition, classification and subsequent measurement

7.1.1 Date of recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

7.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. Refer Notes 7.1.3 and 7.1.4 for further details on classification of financial instruments.

A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

Trade receivables that do not have significant financing component are measured at their transaction price at initial recognition as defined in SLFRS 15.

When the fair value of financial instruments (except trade receivables that do not have significant financing component) at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

7.1.2.1 "Day 1" profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised. The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest income" and "Personnel expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter.

Refer Notes 13 and 19 on pages 172 and 179.

7.1.3 Classification and subsequent measurement of financial assets

As per SLFRS 9, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

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

The subsequent measurement of financial assets depends on their classification.

7.1.3.1 Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by-instrument basis because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

7.1.3.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

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

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Refer Notes 7.1.3.3 to 7.1.3.5 below for details on different types of financial assets recognised on the SOFP.

7.1.3.3 Financial assets measured at amortised cost

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

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

Financial assets measured at amortised cost are given in Notes 7.1.3.3.1 to 7.1.3.3.6 below:

7.1.3.3.1 Loans and advances to banks and other customers

Loans and advances to banks and other customers include amounts due from banks, loans and advances and lease receivables of the Group.

Details of "Loans and advances to banks and other customers" are given in Notes 33 and Note 34 on pages 195 to 199.

7.1.3.3.2 Securities purchased under resale agreements (reverse repos)

When the Group purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a financial asset in the SOFP reflecting the transaction's economic substance as a loan granted by the Group. Subsequent to initial recognition, these securities issued are measured at amortised cost using the EIR with the corresponding interest income/receivable being recognised as interest income in profit or loss.

Details of "Securities purchased under resale agreements" are given in the SOFP on page 139.

7.1.3.3.3 Debt and other financial instruments measured at amortised cost

Details of "Debt and other financial instruments measured at amortised cost" are given in Note 35 on page 199.

7.1.3.3.4 Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 28 on page 190.

7.1.3.3.5 Balances with central banks

Details of "Balances with central banks" are given in Note 29 on page 191.

7.1.3.3.6 Placements with banks

Details of "Placements with banks" are given in Note 30 on page 191.

7.1.3.4 Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

For financial assets measured at FVOCI refer Notes 7.1.3.4.1 and 7.1.3.4.2.

7.1.3.4.1 Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and selling financial assets, where the asset's contractual cash flows represent payments that are solely payments of principal and interest on principal outstanding. Details of "Debt instruments at FVOCI" are given in Note 36 on page 201.

7.1.3.4.2 Equity instruments designated at FVOCI

Upon initial recognition, the Group elects to classify irrevocably some of its equity instruments held for strategic and regulatory purposes as equity instruments at FVOCI. Details of "Equity instruments at FVOCI" are given in Note 36 on page 201.

7.1.3.5 Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets measured at FVTPL include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Financial assets measured at FVTPL are discussed in Notes 7.1.3.5.1 and 7.1.3.5.2 below.

7.1.3.5.1 Financial assets held for trading

Details of "Financial Assets held for trading" are given in Note 32 on page 192.

7.1.3.5.1.1 Derivatives recorded at FVTPL

Details of "Derivative financial assets" recorded at fair value through profit or loss are given in Note 31 on page 192.

7.1.3.5.2 Financial assets designated FVTPL

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL when such designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

Financial assets designated at FVTPL are recorded in the SOFP at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at FVTPL". Interest earned is accrued in "Interest Income", using the EIR, while dividend income is recorded in "Other operating income" when the right to receive the payment has been established.

The Group has not designated any financial assets upon initial recognition as at FVTPL as at the end of the reporting period.

7.1.4 Classification and subsequent measurement of financial liabilities

The Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at FVTPL, and within this category as –
  – Held-for-trading; or
  – Designated at FVTPL;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

Refer Notes 7.1.4.1 and 7.1.4.2 as detailed below:

7.1.4.1 Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Refer Notes 7.1.4.1.1 and 7.1.4.1.2 below.

7.1.4.1.1 Financial liabilities held for trading

Details of "Derivative financial liabilities" classified under financial liabilities held for trading are given in Note 46 on page 225.

7.1.4.1.2 Financial liabilities designated at FVTPL

Financial liabilities designated at FVTPL are recorded in the SOFP at fair value when

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to entity's key management personnel, or
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Changes in fair value are recorded in "Net fair value gains/ (losses) from financial instruments at FVTPL" with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to profit or loss. Interest paid/payable is accrued in "Interest expense", using the EIR.

The Group has not designated any financial liabilities as at FVTPL as at the end of the reporting period.

7.1.4.2 Financial liabilities at amortised cost

Financial liabilities issued by the Group that are not designated at FVTPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to depositors", "Securities sold under repurchase agreements", "Other borrowings" or "Subordinated liabilities" as appropriate, where the substance of the contractual arrangement results in 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. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

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

7.1.4.2.1 Due to banks

Details of "Due to banks" are given in Note 45 on page 225.

7.1.4.2.2 Due to depositors

Details of "Due to depositors" are given in Note 47 on page 226.

7.1.4.2.3 Securities sold under repurchase agreements (repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repos), the arrangement is accounted for as a financial liability in the SOFP reflecting the transaction's economic substance as a deposit. Subsequent to initial recognition, these securities are measured at amortised cost using the EIR with the corresponding interest payable being recognised as interest expense in profit or loss.

Details of "Securities sold under repurchase agreements (repos)" are given in the SOFP on page 139.

7.1.4.2.4 Other Borrowings

Details of "Other Borrowings" are given in Note 48 on page 227.

7.1.4.2.5 Subordinated liabilities

Details of "Subordinated liabilities" are given in Note 52 on page 235.

7.1.5 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivatives held for risk management purposes are measured at fair value in the SOFP.

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

The Group currently uses cash flow hedging relationships for risk management purposes as discussed in Notes 7.1.5.1 to 7.1.5.5 below:

7.1.5.1 Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss in the same line item as the hedged item that is attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

7.1.5.2 Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect the profit or loss, the effective portion of changes in the fair value of the derivative are recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Statement of Profit or Loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Details of "Cash flow hedges" are given in Note 31.1 and Note 46.1 on pages 192 and 225.

7.1.5.3 Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

7.1.5.4 Other non-trading derivatives

If the derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments FVTPL.

7.1.5.5 Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives may be embedded in another contractual arrangement (a host contract). The Group treats derivatives embedded in financial liabilities and non-financial host contracts as separate derivatives, if:

- The host contract is not itself carried at FVTPL;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the SOFP together with the host contract. Derivatives embedded in financial assets are classified based on the business model and their contractual terms and are not separated as explained in Notes 7.1.3.1 and 7.1.3.2 on pages 159 and 160.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they formed part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the SOFP together with the host contract.

7.1.6 Reclassification of financial assets and liabilities

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

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

7.1.6.1 Timing of reclassification of financial assets

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

7.1.6.2 Measurement of reclassification of financial assets

7.1.6.2.1 Reclassification of Financial Instruments at 'FVTPL'

- To Fair value through other comprehensive income

  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.

- To Amortised Cost

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

7.1.6.2.2 Reclassification of Financial Instruments at 'FVOCI'

- To Fair value through profit or loss

  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- To Amortised Cost

  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

  EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

7.1.6.2.3 Reclassification of Financial Instruments at 'Amortised Cost'

- To FVOCI

  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

- To FVTPL

  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

7.1.7 Derecognition of financial assets and financial liabilities

7.1.7.1 Financial assets

The Group derecognises a financial asset (or where applicable a part of thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its SOFP, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Group retains all or substantially all risks and rewards of ownership of such assets.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the

Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Group has retained.

7.1.7.2 Financial liabilities

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

7.1.8 Modification of financial assets and financial liabilities

7.1.8.1 Modification of Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses measured using pre modification interest rate. In other cases, it is presented as interest income.

7.1.8.2 Modification of Financial Liabilities

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. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

7.1.9 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

7.1.10 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

7.1.11 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Notes 4 and 27 on pages 156 and 186.

7.1.12 Identification and measurement of impairment of financial assets

7.1.12.1 Overview of the ECL principles

The Group records an allowance for expected credit losses (ECL) for loans & advances from banks and other customers, debt and other financial instruments measured at amortised cost, debt instruments measured at FVOCI, loan commitments and financial guarantee contracts.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).
- Stage 2: If a significant increase in credit risk (SICR) since origination is identified financial asset is moved to Stage 2 and the Group records an allowance for LTECL. Refer Note 7.1.12.2 for a description on how the Group determines when a SICR has occurred.
- Stage 3: If a financial asset is credit-impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%. Refer Note 7.1.12.3 for a description on how the Group defines default and credit impaired assets

Purchased or originated credit impaired (POCI) financial assets: Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the LTECL. The Group does not have POCI loans as at the reporting date.

The key judgements and assumptions adopted by the Group in addressing the requirements of SLFRS 9 are discussed below:

7.1.12.2 Significant increase in credit risk (SICR)

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

The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in SLFRS 9.

The Group individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, *inter-alia:*

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or instruments.
- When the value of collateral is significantly reduced and/or realisibility of collateral is doubtful.

- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants
- When the customer is deceased/insolvent.
- When the Bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year
- Erosion in net-worth by more than 25% when compared to the previous year.

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with SICR and assessed accordingly in ECL computations. The Group regularly monitors the effectiveness of the criteria used to identify SICR to confirm that the criteria is capable of identifying SICR before an exposure is in default.

For debt instruments having an external credit rating, which are measured at amortised cost or at FVOCI, the Group determines SICR based on the generally accepted investment/non-investment grade definitions published by international rating agencies. Debt instruments are moved to Stage 2 if their credit risk increases to the extent that they are no longer considered investment grade.

7.1.12.3 Definition of default and credit impaired assets

The Group considers loans and advances to other customers be defaulted when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default".

In assessing whether a borrower is in default, Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group considers non performing credit facilities/customers with one or more of indicators set out in Note 7.1.12.2 above as credit impaired. Further, as per "CBSL Guidelines to Licensed Banks on the Adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments", all the credit facilities/customers classified as non-performing as per CBSL Directions are assessed as Stage 3 exposure.

7.1.12.4 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described in Note 7.1.12.2. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above.

7.1.12.5 Grouping financial assets measured on collective basis

The Group calculates ECL either on a collective or an individual basis. Asset classes where the Group calculates ECL on individual basis include;

- Credit impaired facilities of individually significant customers
- The treasury, trading and interbank relationships (such as due from Banks, money at call and short notice, placements with Banks, government securities, investments in debentures etc.)

Those financial assets for which, the Group determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped in to homogeneous portfolios, based on a combination of product and customer characteristics.

Details of the ECL calculation are given in Note 18 on pages 176 to 179.

7.2 Non-current assets held for sale and disposal groups

The Group intends to recover the value of Non-Current Assets and disposal groups classified as held for sale as at the Reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available-for-sale in its present condition, Management has committed to the sale and the sale is expected to have been completed within one year from the date of classification.

As per the Sri Lanka Accounting Standard – SLFRS 5 on "Non-current Assets Held for Sale and Discontinued Operations", (SLFRS 5) these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Group assesses at each Reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Group recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. Impairment loss is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the Group's other accounting policies. As a result, once classified, the Group neither amortises nor depreciates the assets classified as held-for-sale.

In the Income Statement of the reporting period and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a NCI in a subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Income Statement.

7.3 Property, plant and equipment

Details of "Property, plant and equipment" are given in Note 39 on pages 208 to 218.

7.3.1 Depreciation

Details of "Depreciation" are given in Note 20 on pages 179 and 180.

7.3.2 Borrowing costs

As per the Sri Lanka Accounting Standard – LKAS 23 on "Borrowing Costs" (LKAS 23), the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

7.4 Investment Property

Investment properties are initially measured at cost, including transaction costs. The Group subsequently measures investment properties under fair value model. Any gain or loss arising from a change in fair value and the rental income from the investment property is recognised under Net other operating income.

Details of "Investment Property" are given in Note 40 on pages 219 and 220.

7.5 Intangible assets

Details of "Intangible assets" are given in Note 41 on pages 220 and 221.

Amortisation recognised during the year in respect of intangible assets is included under the item of "Amortisation of intangible assets" under "Depreciation and amortisation" in profit or loss.

Refer Note 20 on pages 179 and 180.

7.6 Impairment of non-financial assets

At each Reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The "recoverable amount" of an asset or CGU is the greater of its value in use and its fair value less costs to sell. "Value in use" is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

7.7 Dividends payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year, that are approved after the Reporting date and not provided for, are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standard – LKAS 10 on "Events after the reporting period" (LKAS 10) in Note 70 on page 286.

7.8 Employee benefits

7.8.1 Defined Benefit Plans (DBPs)

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

7.8.1.1 Defined benefit pension plans

7.8.1.1.1 Description of the plans and employee groups covered

The Bank operates three types of Defined Benefit Pension Plans for its employees as described below:

(a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 1, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank;

    During 2006, the Bank offered a restructured pension scheme to convert the DBP to a DCP for the pensionable employees of the Bank and over 99% of them accepted it. As a result, the above Pension Fund now covers only those employees who did not opt for the restructured pension scheme and those employees who were covered by the Pension Fund previously but retired before the restructured pension scheme came into effect;

(b) Provision for pensions has been made for those employees who retired on or before December 31, 2001, and on whose behalf the Bank could not make contributions to the Retirement Pension Fund for more than 10 years. This liability although not funded has been provided for in full in the Financial Statements;

(c) Provision has been made in the Financial Statements for Retirement Gratuity from the first year of service for all employees who joined the Bank on or after January 1, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resign before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The subsidiaries of the Bank do not operate Pension Funds.

The Bank's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets, as per LKAS 19 as detailed in Note 50 on pages 228 to 234.

The past service cost is recognised as an expense on a straight-line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

7.8.1.1.2 Recognition of actuarial gains or losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

7.8.1.1.3 Recognition of retirement benefit obligation

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net-defined benefit liability/(asset), taking into account any changes in the net-defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to DBPs are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a DBP when the settlement occurs.

Amounts recognised in profit or loss as expenses on DBPs and provisions made on DBPs together with the details of valuation methods are given in Notes 19 and 50 on pages 179 and 228 to 234, respectively.

7.8.2 Defined Contribution Plans (DCPs)

A DCP is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay a further amount. Obligations to DCPs are recognised in the profit or loss as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Group has three such plans as explained in Notes 7.8.2.1, 7.8.2.2 and 7.8.2.3.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 19 on page 179.

7.8.2.1 Defined contribution pension plan

As explained in Note 7.8.1.1.1(a), during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and a future service package. The shortfall on account of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, which are estimated to increase for this purpose at 10% p.a. based on the salary levels that prevailed as at the date of implementation of this scheme. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who opted for the restructured scheme.

The assets of this Fund are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

7.8.2.2 Employees' Provident Fund

The Bank and employees contribute to an approved Private Provident Fund at 12% and 8% respectively, on the salaries of each employee. Other local entities of the Group and their employees contribute at the same percentages as above to the Employees' Provident Fund managed by the CBSL.

7.8.2.3 Employees' Trust Fund

The Bank and other local entities of the Group contribute at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the CBSL.

7.8.3 Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate used as the yield as at the Reporting date is the current market rate that has been extrapolated to reflect long-term rate of discount based on market rates of interest on short-term Corporate/Government Bonds and anticipated long-term rate of inflation. The calculation is performed using the Projected Unit Credit Method. Remeasurements are recognised in profit or loss in the period in which they arise.

The Group does not have any other long-term employee benefit plans.

7.8.4 Terminal benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the Reporting date, then they are discounted.

7.8.5 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

7.8.6 Share-based payment arrangements

Share-based payment arrangements in which the Group receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group. Executive Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group does not operate any cash-settled share-based payment transactions.

The Group applies the requirements of the Sri Lanka Accounting Standard – SLFRS 2 on "Share-based Payment" (SLFRS 2) in accounting for equity-settled share-based payment transactions, if any, that were granted after January 1, 2012 and had not vested at the same date. As per SLFRS 2, on the grant date, fair value of equity-settled share-based payment awards (i.e., share options) granted to employees is recognised as personnel expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, so that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The Employee Share Option Plan – 2015, which was granted is subjected to the above accounting treatment.

However, the Employee Share Option Plan – 2008 which was granted prior to January 1, 2012, the effective date of the SLFRS 2 was not subjected to the above accounting treatment and the proceeds received during the year by the Group in consideration for shares issued were accounted for as Stated Capital within Equity.

The details of Employee Share Option Plans are given in Note 53.2 and Note 54 on page 237.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted Earnings per Share as disclosed in Note 24.1 and Note 24.2 on page 183.

7.9 Other liabilities

Details of "Other liabilities" are given in Note 50 on pages 228 to 234.

7.10 Restructuring

Provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses arising on such restructuring are not provided for.

The Group does not have any provision for restructuring as at the Reporting date.

7.11 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

The Group does not have any onerous contracts as at the reporting date.

7.12 Bank levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

7.13 Financial guarantees, letters of credit and undrawn loan commitments

"Financial guarantees" are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

Financial guarantees are initially recognised in the Financial Statements (within other liabilities) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and ECL provision if appropriate.

The premium received is recognised in profit or loss in Note 14.1 on "Fee and commission income" on a straight line basis over the life of the guarantee.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the SOFP. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 59 on page 244.

Loan commitments at below market interest rates drawdown are initially measured at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

7.14 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 7.9 above.

Details of the Commitments are given in Note 59 on page 244.

7.15 Contingent liabilities and commitments

A detailed list of "Contingent liabilities and commitments" and "Litigation against the Bank" are given in Notes 59 and 61 on pages 244 and 246.

7.16 Stated capital and reserves

Details of the "Stated capital and reserves" are given in Notes 53, 55, 56 and 57 to the Financial Statements on pages 236 to 237 and 239 to 243.

7.17 Earnings per Share (EPS)

Details of "Basic and Diluted EPS" are given in Note 24 on page 183.

7.18 Operating segments

Details of "Operating segments" are given in Note 63 on pages 249 to 251.

7.19 Fiduciary assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

8. Significant accounting policies – Recognition of income and expense

Details of "Income and expense" are given in Notes 12 to 21 on pages 172 to 181.

8.1 Interest income and expense

Details of "Interest income and expense" are given in Note 13 on page 191.

8.2 Fee and commission income and expense

Details of "Fee and commission income and expense" are given in Note 14 on pages 174 and 175.

8.3 Net gains/(losses) from trading

Details of "Net gains/(losses) from trading" are given in Note 15 on page 175.

8.4 Net gains/ (losses) from derecognition of financial assets

Details of "Net gains/ (losses) from derecognition of financial assets" are given in Note 16 on page 175.

8.5 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities.

Dividends are presented in net gains/ (losses) from trading, net gains/(losses) from financial investments or other income (net) based on the underlying classification of the equity investment.

Details of "Dividend income" are given in Notes 15 and 17 on pages 175 and 176.

8.6 Leases

8.6.1 Application as per SLFRS 16 (Applicable from January 1, 2019)

With effect from January 1, 2019, the Group applies this standard to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4, without reassessing whether a contract contains a lease at the date of initial application as a practical expedient. For the contracts entered on or after the effective date of transition, the Group assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

After the assessment of whether a contract is, or contains, a lease, the Group determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

8.6.1.1 Group as a lessee

As per SLFRS 16, when the Group has determined that a contract contains a lease component and one or more additional lease components or non-lease components, the consideration in the contract is allocated to each lease component on the basis of relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the commencement date, the Group recognises right-of-use of an asset and a lease liability which is measured at the present value of the lease payments that are payable on that date. Lease payments are discounted using the IBR.

After initial recognition, the Group applies cost model for the right-of-use of an asset and depreciate the asset from commencement date to the end of the useful life of the underlying asset. Where the right does not transfer the ownership of the asset, the Group depreciates it from commencement date to the earlier of the end of the useful life of the right-of-use asset or end of the lease term. In addition, interest expense on the lease liability is recognised in the profit or loss.

Details of "Right-of-use asset" and "Lease liability" are given in Notes 39 and 50 respectively on pages 208 to 218 and 228 to 234.

8.6.1.2 Group as a lessor

Similar to above, at the commencement of the contract, the Group determines whether the contract contains a lease component and one or more additional lease components or non-lease components. When there is one or more additional lease or non-lease component, the Group allocates consideration based on the guidelines given in SLFRS 15.

However, SLFRS 16 largely retains the lessor accounting requirements in LKAS 17 and classification of leases is based on the extent to which risks and rewards incidental to ownership of leased asset lie with the lessor or lessee.

8.6.1.2.1 Finance leases – Group as a lessor

As per SLFRS 16, a lease which transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. At the commencement date, the Group recognises assets held under finance lease in the SOFP and present them as a lease receivable at an amount equal to the net investment in the lease. Net investment in the lease is arrived by discounting lease payments receivable at the interest rate implicit in the lease, i.e. the rate which causes present value of lease payments to equal to the fair value of the underlying asset and initial direct costs. The Group's net investment in lease is included in Note 33 on "Loans and advances to banks" or Note 34 "Loans and advances to other customers", as appropriate. The finance income receivable is recognised in "interest income" over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

8.6.1.2.2 Operating leases – Group as a lessor

As per SLFRS 16, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The Group recognises lease payments from operating leases as income on straight-line basis. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Details of "Operating leases" are given in Note 68 on page 257.

8.6.2 Application as per LKAS 17 (Applicable up to December 31, 2018)

8.6.2.1 Group as a lessee

The classification of leases under LKAS 17, is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with lessor or lessee.

8.6.2.1.1 Finance leases – Group as a lessee

As per LKAS 17, leases that transfer substantially all risks and rewards incidental to ownership of the leased item to the Group are classified as finance leases and capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

8.6.2.1.2 Operating leases – Group as a lessee

As per LKAS 17, assets held under leases other than finance leases are classified as operating leases and are not recognised in the Group's SOFP. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rental payable is recognised as an expense in the period in which they are incurred.

Details of "Operating leases" are given in Note 68 on page 257.

8.6.2.2 Group as a lessor

The classification of leases adopted under LKAS 17, is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with lessor or lessee.

8.6.2.2.1 Finance leases – Group as a lessor

When the Group is the lessor under a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, the net investment in lease (i.e., after deduction of unearned charges) are included in Note 33 on "Loans and advances to banks" or Note 34 "Loans and advances to other customers", as appropriate. The finance income receivable is recognised in "interest income" over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

8.6.2.2.2 Operating leases – Group as a lessor

Assets leased under leases other than finance leases are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

Details of "Operating leases" are given in Note 68 on page 257.

8.7 Rental income and expenses

Rental income and expense are recognised in profit or loss on an accrual basis.

9. Significant Accounting Policies –Tax Expense

9.1 Income tax expense

9.1.1 Current tax

Details of "Income tax expense" are given in Note 23 on pages 181 and 182.

9.1.2 Deferred tax

Details of "Deferred tax assets and liabilities" are given in Note 43 on pages 222 to 224.

9.1.3 Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and penalties are due. Finalisation of the tax liability with authorities may change the position already recorded in the Financial Statements and such changes to tax liabilities could impact the tax expense in the period in which such a determination is made either as an over or under provision.

9.1.4 Changes proposed to Income Tax from Government Tax Proposals

As per the Notice to tax payers and withholding agents on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017" dated February 12, 2020 issued by the Department of Inland Revenue, Income Tax rates of Corporates has been revised to 24% from 28% effective from January 1, 2020, pending formal amendments to be made to the Inland Revenue Act .

9.2 Crop Insurance Levy (CIL)

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

9.3 Withholding Tax (WHT) on dividends distributed by the Bank, subsidiaries and associates

9.3.1 WHT on dividends distributed by the Bank

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised. As per Notice dated February 18, 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective January 1, 2020.

9.3.2 WHT on dividends distributed by the subsidiaries and associates

Dividends received by the Bank from its subsidiaries and associates, have attracted a 14% deduction at source upto December 31,2019. Effective from January 1, 2020, requirement to deduct WHT had been removed (as mentioned under Note 9.3.1 above).

9.4 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 1, 2004. ESC was payable at 0.5% of the total turnover and is deductible from the income tax payments. Unclaimed ESC, if any, could be carried forward and set-off against the income tax payable in the three subsequent years including the current year of assessment.

As per Notice published dated January 1, 2020 by the Department of Inland Revenue, ESC was abolished with effect from January 01, 2020.

9.5 Value Added Tax on Financial Services (VAT FS)

The value addition attributable to the supply of financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before income tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

The amount of VAT charged in determining the profit or loss for the period is given in Note 22 on page 181.

9.6 Nation Building Tax on Financial Services (NBT FS)

With effect from January 1, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. Upto November 30, 2019, NBT was chargeable on the same base used for calculation of VAT on financial services as explained in Note 9.5 above. As per Notice published by the Department of Inland Revenue dated November 29, 2019, NBT was abolished with effect from December 01, 2019.

The amount of NBT charged in determining the profit or loss for the period is given in Note 22 on page 181.

9.7 Debt Repayment Levy on Financial Services (DRL FS)

As per the Finance Act No. 35 of 2018, with effect from October 1, 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services as explained in Note 9.5 above. As per notice published by the Department of Inland Revenue dated January 20, 2020, DRL was abolished with effect from January 01, 2020.

The amount of DRL charged in determining the profit or loss for the period is given in Note 22 on page 181.

10. Significant Accounting Policies – Statement of Cash Flows

10.1 Statement of Cash Flows

The Statement of Cash Flows is prepared using the "Indirect Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on "Statement of Cash Flows (LKAS 7)". Gross cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 28 on page 190.

The Statement of Cash Flows is given on page 148.

11. Amendments to Accounting Standards issued but not yet effective

Several amendments to Accounting Standards are effective for annual financial periods beginning on or after January 1, 2020, and earlier application is permitted. However, the Group has not early adopted the following amendments to Accounting Standards in preparing these Consolidated Financial Statements as they are not expected to have a significant impact on the Group's Consolidated Financial Statements.

11.1 Amendments to SLFRS 3: Definition of a Business

In November 2018, the CA Sri Lanka issued amendments to the definition of a business in SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

The Group shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after January 1, 2020, if the asset acquisitions occurs on or after the beginning of that period.

11.2 Amendments to LKAS 1 and LKAS 8: Definition of Material

In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Group shall apply those amendments prospectively for annual financial periods beginning on or after January 1, 2020.

11.3 Amendments to the conceptual framework for financial reporting

CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current Accounting Standards. However, if the Group rely on the framework in determining certain accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. The Group will need to consider whether those accounting policies are still appropriate under the revised Framework.

12. Gross income

Accounting policy

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

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	13.1	172	**129,287,743**	118,551,239	**127,779,540**	117,465,670
Fee and commission income	14.1	174	**12,874,966**	12,494,090	**12,406,584**	11,988,070
Net gains/(losses) from trading	15	175	**1,360,833**	(3,033,236)	**1,360,858**	(3,033,236)
Net gains/(losses) from derecognition of financial assets	16	175	**1,135,711**	272,004	**1,135,711**	272,004
Net other operating income	17	176	**6,081,876**	11,373,098	**6,023,591**	11,356,799
Total			**150,741,129**	139,657,195	**148,706,284**	138,049,307

13. Net interest income

Accounting policy

Interest income and expense are recognised in the Income Statement using the effective interest rate (EIR) method.

Interest income and expense presented in the Income Statement include:

- Interest on financial assets measured at amortised cost calculated using EIR method;
- Interest on financial assets measured at fair value through other comprehensive income (FVOCI) calculated using EIR method;
- Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

Effective interest rate (EIR)

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the EIR for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs.

The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	13.1	172	**129,287,743**	118,551,239	**127,779,540**	117,465,670
Less: Interest expense	13.2	173	**80,931,352**	72,933,030	**80,571,268**	72,523,912
Net interest income			**48,356,391**	45,618,209	**47,208,272**	44,941,758

13.1 Interest income

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cash and cash equivalents			**1,290,697**	411,412	**1,281,772**	392,932
Balances with central banks			**62,572**	26,734	**34,632**	23,613
Placements with banks			**931,571**	529,738	**918,690**	529,738
Securities purchased under resale agreements			**1,906,902**	508,616	**1,906,667**	508,616
Financial assets recognised through profit or loss			**474,478**	323,335	**474,478**	323,335
Derivative financial instruments			**67,453**	56,173	**67,453**	56,173
Other financial instruments			**407,025**	267,162	**407,025**	267,162
Financial assets at amortised cost – Loans and advances to other customers			**100,444,369**	95,081,154	**99,263,719**	94,238,090

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Financial assets at amortised cost – Debt and other financial instruments			**7,819,563**	6,828,671	**7,572,183**	6,626,740
Financial assets measured at fair value through other comprehensive income			**15,091,368**	14,478,042	**15,067,335**	14,457,491
Interest accrued on impaired loans and advances to other customers	34.2 (a) & 34.2 (b)	197 & 198	**1,258,339**	360,876	**1,258,339**	360,876
Other interest income			**7,884**	2,661	**1,725**	4,239
Total			**129,287,743**	118,551,239	**127,779,540**	117,465,670

13.2 Interest expense

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Due to banks			**2,484,166**	2,313,673	**2,201,489**	1,953,745
Derivative financial liabilities			**63,161**	57,860	**63,161**	57,860
Securities sold under repurchase agreements			**3,256,622**	3,815,335	**3,267,124**	3,828,078
Financial liabilities at amortised cost – due to depositors			**69,503,417**	62,397,741	**69,387,322**	62,335,808
Refinance borrowings			**472,813**	427,958	**472,813**	427,958
Foreign currency borrowings			**872,931**	814,910	**872,931**	814,910
Subordinated liabilities			**3,848,979**	3,105,553	**3,848,979**	3,105,553
Interest expense on lease liabilities	50.1	228	**429,263**	–	**457,449**	–
Total			**80,931,352**	72,933,030	**80,571,268**	72,523,912

13.3 Net interest income from Government Securities

Interest income and interest expenses on Government Securities given in the Notes 13.3 (a), 13.3 (b) and 13.3 (c) below have been extracted from interest income and interest expenses given in Notes 13.1 and 13.2 respectively and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

13.3 (a) Net interest income from Sri Lanka Government Securities

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	**23,158,214**	20,458,655	**23,133,946**	20,438,104
Securities purchased under resale agreements	**1,629,021**	423,571	**1,628,786**	423,571
Financial assets recognised through profit or loss	**277,760**	219,287	**277,760**	219,287
Financial assets at amortised cost – Debt and other financial instruments	**6,160,065**	5,337,755	**6,160,065**	5,337,755
Financial assets measured at fair value through other comprehensive income	**15,091,368**	14,478,042	**15,067,335**	14,457,491
Less: Interest expense	**3,252,089**	3,815,115	**3,262,591**	3,827,858
Securities sold under repurchase agreements	**3,252,089**	3,815,115	**3,262,591**	3,827,858
Net interest income	**19,906,125**	16,643,540	**19,871,355**	16,610,246

Notional tax credit on secondary market transactions

Interest income from Sri Lankan Rupee denominated Government Securities were subjected to withholding tax at source (Notional Tax) as per the Inland Revenue Act No. 10 of 2006, effective up to March 31, 2018. Accordingly, interest income accrued or received on outright or reverse repurchase transactions on Government Securities, less interest expense accrued or paid on repurchase transactions with such Government Securities was grossed up by the amount of notional tax.

However, as per the provision of the Inland Revenue Act No. 24 of 2017, which became effective from April 1, 2018, interest income from Government Securities was excluded from the requirement to withhold tax. Hence, notional tax credit hitherto claimed by the Bank was discontinued since April 1, 2018 with implementation of Inland Revenue Act No. 24 of 2017.

Accordingly, interest income from Government Securities for the period from January 1, 2018 to March 31, 2018 has been grossed up by notional tax amounting to Rs. 348.978 Mn. and Rs. 348.311 Mn. by the Group and the Bank respectively.

13.3 (b) Net interest income from Bangladesh Government Securities

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	**1,318,173**	727,417	**1,318,173**	727,417
Securities purchased under resale agreements	**277,881**	85,045	**277,881**	85,045
Financial assets recognised through profit or loss	**129,265**	47,875	**129,265**	47,875
Financial assets at amortised cost – Debt and other financial instruments	**911,027**	594,497	**911,027**	594,497
Less: Interest expense	**4,533**	220	**4,533**	220
Securities sold under repurchase agreements	**4,533**	220	**4,533**	220
Net interest income	**1,313,640**	727,197	**1,313,640**	727,197

13.3 (c) Net interest income from Maldives Government Securities

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest income	**247,379**	201,931	**–**	–
Financial assets at amortised cost – Debt and other financial instruments	**247,379**	201,931	**–**	–
Net interest income	**247,379**	201,931	**–**	–

14. Net fee and commission income

Accounting policy

Fee and commission income and expenses that are integral to the EIR of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instrument.

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

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

As per SLFRS 15, the Bank adopts principles based five step model for revenue recognition. Accordingly, revenue is recognised only when all of the following criteria are met:

- The parties to the contract have approved the contract/s;
- The entity can identify each party's rights regarding the goods or services to be transferred;
- The entity can identify the payment terms for the goods or services to be transferred;
- The contract has commercial substance;
- It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

The scope of SLFRS 15 is limited to fees and commission revenue of the Bank.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Fee and commission income	14.1	174	**12,874,966**	12,494,090	**12,406,584**	11,988,070
Less: Fee and commission expense	14.2	175	**2,123,128**	1,859,698	**2,117,072**	1,837,900
Net fee and commission income			**10,751,838**	10,634,392	**10,289,512**	10,150,170

14.1 Fee and commission income

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Loans and advances related services	**881,213**	944,858	**813,785**	873,137
Credit and debit cards related services	**4,566,923**	4,191,679	**4,566,923**	4,191,679
Trade and remittances related services	**3,998,926**	3,812,516	**3,783,596**	3,683,242
Deposits related services	**1,852,565**	1,952,323	**1,788,810**	1,733,475
Guarantees related services	**942,615**	1,063,585	**936,720**	1,062,969
Other financial services	**632,724**	529,129	**516,750**	443,568
Total	**12,874,966**	12,494,090	**12,406,584**	11,988,070

14.2 Fee and commission expense

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Loans and advances related services	54,028	66,131	51,637	49,769
Credit and debit cards related services	1,877,797	1,631,600	1,877,797	1,631,600
Trade and remittances related services	62,299	47,204	58,634	43,990
Other financial services	129,004	114,763	129,004	112,541
Total	2,123,128	1,859,698	2,117,072	1,837,900

15. Net gains/(losses) from trading

Accounting policy

"Net gains/(losses) from trading" comprise gains less losses related to trading assets, and trading liabilities, and include all realised and unrealised fair value changes, related capital gains and losses, dividend income from trading assets, and foreign exchange differences.

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Derivative financial instruments	1,078,749	(3,121,949)	1,078,749	(3,121,949)
Foreign exchange gains/(losses) from banks and other customers	1,078,749	(3,121,949)	1,078,749	(3,121,949)
Financial assets recognised through profit or loss – measured at fair value				
Government Securities	67,548	(4,839)	67,548	(4,839)
Net mark-to-market gains/(losses)	26,386	(24,572)	26,386	(24,572)
Net capital gains	41,162	19,733	41,162	19,733
Equities	214,536	93,552	214,561	93,552
Net mark-to-market gains/(losses)	200,299	80,151	200,327	80,151
Net capital gains	916	1,026	919	1,026
Dividend income	13,321	12,375	13,315	12,375
Total	1,360,833	(3,033,236)	1,360,858	(3,033,236)

16. Net gains/(losses) from derecognition of financial assets

Accounting policy

As per SLFRS 9, "Net gains/(losses) from derecognition of financial assets" comprises all realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost.

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Financial assets measured at fair value through other comprehensive income				
Government Securities	1,135,711	272,004	1,135,711	272,004
Net capital gains	1,135,711	272,004	1,135,711	272,004
Total	1,135,711	272,004	1,135,711	272,004

17. Net other operating income

Accounting policy

Net other operating income includes foreign exchange gains and losses, dividend income from ordinary shares classified as fair value through other comprehensive income financial assets, dividend income from group entities, gains/losses on disposal of property, plant and equipment, and rental income.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Gains/(losses) on sale of property, plant and equipment	17.1	176	**19,731**	9,311	**7,958**	(3,633)
Gains on revaluation of foreign exchange			**5,783,595**	11,185,438	**5,647,577**	11,022,107
Recoveries o/a loans written off			**20,360**	21,288	**20,360**	21,288
Dividend income from subsidiaries			**–**	–	**85,397**	80,575
Dividend income from other equity securities			**40,076**	34,119	**39,796**	33,879
Profit due to change in ownership			**14,498**	3,344	**14,498**	3,344
Rental and other income	17.2	176	**218,114**	122,942	**208,005**	199,239
Less: Profit due to change in ownership			**(14,498)**	(3,344)	**–**	–
Total			**6,081,876**	11,373,098	**6,023,591**	11,356,799

17.1 Gains/(losses) on sale of property, plant and equipment

Accounting policy

The gains or losses on disposal of property, plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item in "other income" in the year in which the Bank transfers control of the asset to the buyer.

17.2 Rental income

Accounting policy

Rental income is recognised in the Income Statement on an accrual basis.

18. Impairment charges and other losses

Accounting policy

Impairment charges as per SLFRS 9

The Group recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Placements with banks;
- Loans and advances to banks;
- Loans and advances to other customers;
- Financial assets at amortised cost – Debt and other financial instruments;
- Debt instruments at fair value through other comprehensive income;
- Loan commitments and financial guarantee contracts.

No impairment loss is recognised on equity investments.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Impairment charges on loans and advances to customers

For loans and advances above a predefined threshold, the Group individually assesses for significant increase in credit risk. If a particular loan is credit-impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

The Group computes ECL using three main components; a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data and then adjusted to reflect forward-looking information.

- PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation (as per Note 7.1.12.3) either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due is the primary input into the determination of the term structure of PD for exposures. Days past due are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.
- EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected

drawdowns of committed facilities.
To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. For all other loans, the EAD is considered for default events over the lifetime of the financial instrument.

Impairment charges on financial investments

Impairment charges on financial investments include ECL on debt instruments at FVOCI and financial assets at amortised cost.

The Group does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. Thus the Group considers PDs published by the external sources. (i.e. Bloomberg)

LGD for debt securities issued by the Government of Sri Lanka in rupees is considered as 0%, LGD for foreign currency denominated securities issued by the Government [Sri Lanka Development Bonds (SLDBSs) and Sri Lanka Sovereign Bonds (SLSBs)] is considered as 20% and for all other instruments LGD is considered as 45% in accordance with the guideline issued by the Central Bank of Sri Lanka.

EAD of a debt instrument is its gross carrying amount.

Credit cards and revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities. The Group reviews the sanction limits at least annually and therefore has the right to cancel and/or reduce the limits. Therefore, the Group calculates only the 12-month ECL (12mECL) allowance on these facilities. The EAD is arrived by taking the maximum of either sanction limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilised amount). EAD of Stage 3 contracts are limited to the gross carrying amount which is the utilised amount since it is assumed that the Group freeze the limits of those contracts up to the utilised amount. The expected 12-month default probabilities are applied to EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Undrawn loan commitments

When estimating life-time ECL (LTECL) for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For loan commitments and letters of credit, the ECL is recognised within "other liabilities".

Financial guarantee contracts

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The ECLs related to financial guarantee contracts are recognised within "other liabilities".

Forward-looking information

The Group incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group also obtained experienced credit judgement from economic experts and Credit and Risk Management Departments to formulate a base case, a best case and a worst case scenario. The base case represents a most-likely outcome and is aligned with information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk both quantitative and qualitative for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and other reliable sources.

Quantitative drivers of credit risk	Qualitative drivers of credit risk
GDP growth	Status of industry business
Unemployment rate	Regulatory impact
Interest rate (AWPLR)	Government policies
Rate of inflation	
Exchange rate	

The calculation of ECLs

The Group measures loss allowance at an amount equal to LTECL, except for following, which are measured as 12mECL.

- Loans and advances on which credit risk has not increased significantly since the initial recognition.
- Debt instruments that are determined to have low credit risk at the reporting date.

The Group considers a debt instrument to have a low credit risk when they have an "investment grade" credit risk rating.

ECLs are measured as follows:

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

Financial assets that are not credit-impaired at the reporting date

As described above, the Group calculates 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD and multiplied by the economic factor adjustment, expected LGD and discounted by an approximation to the original EIR. When loan has shown a significant increase in credit risk since origination, the Group records an allowance for LTECLs based on PDs estimated over the lifetime of the instrument.

Financial assets that are credit-impaired at the reporting date

Impairment allowance on credit-impaired financial assets assessed on individual basis is computed as the difference between the asset's gross carrying amount and the present value of estimated future cash flows. The expected future cash flows are based on the estimates made by the credit risk officers' as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. The Group regularly reviews the assumptions for projecting future cash flows.

Further, for loans and advances identified as credit impaired in Note 7.1.12.3 will be assessed for impairment with 100% PD.

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, Government Securities, Letters of Credit/Guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc.

Collateral repossessed

The Bank's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity. These assets are recorded under assets held for sale as per the Sri Lanka Accounting Standard – SLFRS 5 on "Non-Current Assets Held for Sale and Discontinued Operations".

Write-off of financial assets

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Loans and advances to other customers	34.2 (a) & 34.2 (b)	197 & 198	**10,309,857**	8,379,540	**10,043,643**	8,123,248
Individual impairment			**1,938,437**	(1,002,000)	**1,931,678**	(1,002,000)
Collective impairment			**8,371,420**	9,381,540	**8,111,965**	9,125,248
Other financial assets and off balance sheet credit exposures			**1,020,414**	452,856	**1,016,571**	450,985
Total impairment charges	18.1 & 18.2	178 179	**11,330,271**	8,832,396	**11,060,214**	8,574,233
Direct write-offs			**1,252**	966	**1,252**	966
Total			**11,331,523**	8,833,362	**11,061,466**	8,575,199

18.1 Impairment charge to the Income Statement – Group

For the year ended December 31,	Note	Page No.	2019 Stage 1 Rs. '000	2019 Stage 2 Rs. '000	2019 Stage 3 Rs. '000	2019 Total Rs. '000	2018 Stage 1 Rs. '000	2018 Stage 2 Rs. '000	2018 Stage 3 Rs. '000	2018 Total Rs. '000
Cash and cash equivalents	28.1	190	**1,350**	–	–	**1,350**	(1,450)	–	–	(1,450)
Placements with banks	30.1	191	**(2,120)**	–	–	**(2,120)**	(21,553)	–	–	(21,553)
Financial assets at amortised cost – Loans and advances to banks	33.1	195	**75**	–	–	**75**	(103)	–	–	(103)
Financial assets at amortised cost – Loans and advances to other customers	34.2 (a)	197	**(108,915)**	**2,511,088**	**7,907,684**	**10,309,857**	(324,074)	1,632,467	7,071,147	8,379,540
Individual impairment			–	–	**1,938,437**	**1,938,437**	–	–	(1,002,000)	(1,002,000)
Collective impairment			**(108,915)**	**2,511,088**	**5,969,247**	**8,371,420**	(324,074)	1,632,467	8,073,147	9,381,540
Financial assets at amortised cost – Debt and other financial instruments	35.1 (a)	200	**8,569**	–	**152,870**	**161,439**	198,443	–	–	198,443
Financial assets measured at fair value through other comprehensive income	36.2	202	**265,999**	–	–	**265,999**	401,438	–	–	401,438
Contingent liabilities and commitments	59.3 (a)	245	**239,399**	**98,060**	**256,212**	**593,671**	(130,732)	(22,769)	29,582	(123,919)
Total			**404,357**	**2,609,148**	**8,316,766**	**11,330,271**	121,969	1,609,698	7,100,729	8,832,396

18.2 Impairment charge to the Income Statement – Bank

For the year ended December 31,	Note	Page No.	2019 Stage 1 Rs. '000	2019 Stage 2 Rs. '000	2019 Stage 3 Rs. '000	2019 Total Rs. '000	2018 Stage 1 Rs. '000	2018 Stage 2 Rs. '000	2018 Stage 3 Rs. '000	2018 Total Rs. '000
Cash and cash equivalents	28.1	190	**1,350**	**–**	**–**	**1,350**	(1,450)	–	–	(1,450)
Placements with banks	30.1	191	**(2,144)**	**–**	**–**	**(2,144)**	(21,553)	–	–	(21,553)
Financial assets at amortised cost – Loans and advances to banks	33.1	195	**75**	**–**	**–**	**75**	(103)	–	–	(103)
Financial assets at amortised cost – Loans and advances to other customers	34.2 (b)	197	**(41,669)**	**2,447,313**	**7,637,999**	**10,043,643**	(393,953)	1,704,548	6,812,653	8,123,248
Individual impairment			**–**	**–**	**1,931,678**	**1,931,678**	–	–	(1,002,000)	(1,002,000)
Collective impairment			**(41,669)**	**2,447,313**	**5,706,321**	**8,111,965**	(393,953)	1,704,548	7,814,653	9,125,248
Financial assets at amortised cost – Debt and other financial instruments	35.1 (b)	200	**7,940**	**–**	**152,870**	**160,810**	196,572	–	–	196,572
Financial assets measured at fair value through other comprehensive income	36.2	202	**265,999**	**–**	**–**	**265,999**	401,438	–	–	401,438
Contingent liabilities and commitments	59.3 (b)	245	**236,209**	**98,060**	**256,212**	**590,481**	(130,732)	(22,769)	29,582	(123,919)
Total			**467,760**	**2,545,373**	**8,047,081**	**11,060,214**	50,219	1,681,779	6,842,235	8,574,233

19. Personnel expenses

Accounting policy

See Note 7.8 on pages 166 to 168.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Salary and bonus	19.1	179	**11,141,489**	10,154,809	**10,865,886**	9,963,292
Pension costs	19.1	179	**1,882,058**	1,800,395	**1,843,048**	1,778,443
Contributions to defined contribution/benefit plans – Funded schemes			**1,396,492**	1,439,123	**1,373,102**	1,428,776
Contributions to defined benefit plans – Unfunded schemes	50.2 (c) & 50.3 (c)	229 230	**485,566**	361,272	**469,946**	349,667
Equity-settled share-based payment expense	19.2 & 57.6	179 243	**–**	68,581	**–**	68,581
Other expenses	19.3	179	**1,385,367**	1,265,883	**1,373,725**	1,260,623
Total			**14,408,914**	13,289,668	**14,082,659**	13,070,939

19.1 Salary, bonus, and pension costs

Salary, bonus, and contributions to defined contribution/benefit plans, reported above also include amounts paid to and contributions made on behalf of Executive Directors.

19.2 Share-based payment

The Bank has an equity-settled share-based compensation plan, the details of which are given in Note 54 on page 237.

19.3 Other expenses

This includes expenses such as overtime payments, medical and hospitalisation charges, expenses incurred on staff training/recruitment and staff welfare activities, etc.

20. Depreciation and amortisation

Accounting policy

Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment and right-of-use assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Income Statement. Freehold land is not depreciated. As per LKAS 17, upto December 31, 2018, leased assets under finance leases were depreciated over the shorter of lease term and their useful lives. As per SLFRS 16, effective from January 1, 2019, right-of-use assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Group will obtain the ownership by end of the lease term, the assets are depreciated over the shorter of the estimated useful lives and the lease terms.

The estimated useful lives of the property, plant and equipment of the Bank as at December 31, 2019 are as follows:

Class of asset	Depreciation percentage per annum	Period (years)
Freehold and leasehold buildings	2.5	40
Motor vehicles	20	5
Computer equipment	20	5
Office equipment, furniture, and fixtures		
Office equipment	20	5
Office interior work	20	5
Furniture and fittings	10	10
Machinery and equipment	10	10

The above rates are compatible with the rates used by all Group entities, and these rates have not been changed during the year.

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and depreciation commences when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year together with other relevant information are given in Note 39 on pages 208 to 218.

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

Amortisation of intangible assets

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives from the date on which it is available for use, at the rates specified below:

Class of asset	Amortisation percentage per annum	Period (years)
Computer software	20	5
Trademarks	20	5

The above rates are compatible with the rates used by all Group entities, and these rates have not changed during the year.

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in the Income Statement to the extent that they are no longer probable of being recovered from the expected future benefits.

Amortisation method, useful lives, and residual values are reviewed at each reporting date and adjusted, if required.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Depreciation of property, plant and equipment	39.1 & 39.3	209 & 211	**1,541,788**	1,383,581	**1,415,096**	1,279,378
Depreciation of right-of-use assets	39.1 & 39.3	209 & 211	**1,045,623**	–	**1,125,243**	–
Amortisation of computer software	41.1	221	**252,392**	218,076	**213,240**	188,789
Amortisation of trademarks			**9**	9	**–**	–
Amortisation of leasehold property	42	222	**1,452**	1,452	**942**	942
Total			**2,841,264**	1,603,118	**2,754,521**	1,469,109

21. Other operating expenses

Accounting policy

These expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenses incurred in running the business and in maintaining the property, plant and equipment in a state of efficiency are charged to the Income Statement.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Directors' emoluments	21.1	181	**80,247**	79,801	**52,448**	52,316
Auditors' remuneration			**32,574**	33,855	**22,530**	22,536
Audit fees and expenses			**21,188**	21,719	**11,500**	10,780
Audit-related fees and expenses			**7,655**	7,040	**7,600**	6,920
Non-audit fees and expenses			**3,731**	5,096	**3,430**	4,836
Professional and legal expenses			**1,073,590**	550,885	**1,403,364**	823,904
Deposit insurance premium paid to the Central Banks			**839,685**	774,100	**839,313**	773,891
Donations including contribution made to the CSR Trust Fund			**94,010**	82,985	**93,991**	82,975
Establishment expenses			**1,878,292**	2,900,280	**1,748,143**	2,918,044
Maintenance of property, plant, and equipment			**1,649,310**	1,297,628	**1,638,747**	1,295,365
Office administration expenses			**3,227,608**	3,274,424	**2,789,920**	2,960,148
Total			**8,875,316**	8,993,958	**8,588,456**	8,929,179

21.1 Directors' emoluments

Directors' emoluments represent the salaries paid to both Executive and Non-Executive Directors of the Group and the Bank.

22. Taxes on financial services

Accounting policy

Refer Notes 9.5 to 9.7 on pages 170 and 171.

For the year ended December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Value Added Tax	9.5	170	**4,233,302**	4,759,005	**4,191,758**	4,759,005
Nation Building Tax (Abolished w.e.f. December 1, 2019)	9.6	171	**553,802**	642,858	**548,708**	642,858
Debt Repayment Levy (Introduced w.e.f. October 1, 2018)	9.7	171	**2,468,624**	649,998	**2,451,271**	649,998
Total			**7,255,728**	6,051,861	**7,191,737**	6,051,861

23. Income tax expense

Accounting policy

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Equity or in OCI.

Current tax

"Current tax" comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted, as at the reporting date. Current tax also includes any tax arising from dividends.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments (up to March 31, 2018) thereto, and the Inland Revenue Act No. 24 of 2017, effective from April 1, 2018. This also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes".

Provision for taxation on the overseas operations is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the relevant statutes in those countries, using the tax rates enacted or substantively enacted as at the reporting date.

Additional taxes that arise from the distribution of dividends by the Group, are recognised at the same time as the liability to pay the related dividend is recognised. These amounts are generally recognised in profit or loss as they generally relate to income arising from transactions that were originally recognised in profit or loss.

Deferred tax

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

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

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

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

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

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

Entity-wise breakup of income tax expense in the Income Statement is as follows:

For the year ended December 31,	Note	Page No.	Applicable Income Tax Rate %	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Current year tax expense				**8,600,748**	9,648,955	**8,308,597**	9,453,100
Income tax expense of Domestic Banking Unit			28	**4,877,077**	6,434,902	**4,877,077**	6,434,902
Income tax expense of Offshore Banking Centre			28	**882,204**	916,565	**882,204**	916,565
Income tax expense of Bangladesh operation			40	**2,209,134**	2,024,177	**2,209,134**	2,024,177
Profit remittance tax of Bangladesh operation			20	**325,672**	64,972	**325,672**	64,972
Withholding tax on dividends received			14	**14,930**	12,684	**14,510**	12,484
Income tax expense of Commercial Development Company PLC			28	**44,289**	37,843	**–**	–
Income tax expense of CBC Tech Solutions Limited			28	**32,113**	25,333	**–**	–
Income tax expense of Serendib Finance Limited			28	**59,057**	2,697	**–**	–
Income tax expense of Commercial Bank of Maldives Private Limited			25	**147,259**	129,782	**–**	–
Income tax expense of Commex Sri Lanka S.R.L. – Italy			24	**–**	–	**–**	–
Income tax expense of CBC Myanmar Micro Finance Company Limited			25	**417**	–	**–**	–
Income tax expense of Commercial Insurance Brokers Private Limited			28	**8,596**	–	**–**	–
Prior years							
Under/(Over) provision of taxes in respect of prior years	49	227		**(989,148)**	(537,943)	**(991,884)**	(564,363)
Deferred tax expense	43.1	222		**(2,048,100)**	(875,295)	**(2,002,575)**	(841,357)
Effect of change in tax rates				**–**	(10,455)	**–**	(10,455)
Origination and reversal of temporary differences				**(2,048,100)**	(864,840)	**(2,002,575)**	(830,902)
Total				**5,563,500**	8,235,717	**5,314,138**	8,047,380
Effective tax rate (including deferred tax) (%)						**23.79**	31.45
Effective tax rate (excluding deferred tax) (%)						**32.75**	34.73

Interest income from Sri Lanka Development Bonds (SLDB) as an exempt income for income tax calculation

As per the Notice published by the Department of Inland Revenue on February 18, 2020, interest income earned from SLDB has been exempted from income tax with effect from April 1, 2018. Accordingly, the over provision made o/a of income tax liability in 2018 was reversed to the income statement of the current year, while, income tax liability for the year ended December 31, 2019 too was calculated by considering the interest income from SLDB as an exempt source of income.

23.1 Reconciliation of the accounting profit to income tax expense

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rates is given below:

For the year ended December 31,	Note	Page No.	Applicable Income Tax Rate %	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Accounting profit before tax from operations				**22,983,896**	26,098,548	**22,339,105**	25,591,208
Tax effect at the statutory income tax rate				**7,299,517**	7,827,455	**6,914,931**	7,664,509
Domestic banking operation of the Bank			28	**3,567,991**	4,884,657	**3,567,991**	4,884,657
Offshore banking operation of the Bank			28	**1,007,313**	852,915	**1,007,313**	852,915
Bangladesh operation of the Bank			40	**2,339,627**	1,926,937	**2,339,627**	1,926,937
Subsidiaries			24, 25 & 28	**384,586**	162,946	**–**	–
Tax effect of exempt income				**(1,844,454)**	(959,495)	**(1,844,454)**	(959,495)
Tax effect of non-deductible expenses				**10,410,356**	10,414,248	**10,237,579**	10,321,800
Tax effect of deductible expenses				**(7,605,273)**	(7,710,255)	**(7,339,641)**	(7,650,516)
Qualifying payments				**–**	(654)	**–**	(654)
Profit remittance tax of Bangladesh operation				**325,672**	64,972	**325,672**	64,972
Under/(over) provision of taxes in respect of prior years	49	227		**(989,148)**	(537,943)	**(991,884)**	(564,363)
Withholding tax on dividends received				**14,930**	12,684	**14,510**	12,484
Deferred tax expense	43.1	222		**(2,048,100)**	(875,295)	**(2,002,575)**	(841,357)
Income tax expense reported in the Income Statement at the effective income tax rate				**5,563,500**	8,235,717	**5,314,138**	8,047,380

24. Earnings Per Share (EPS)

Accounting policy

The Group computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding, adjusted for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees under Employee Share Option Plans (ESOP).

Details of Basic and Diluted EPS are given below:

24.1 Basic and diluted earnings per ordinary share

	Note	Page No.	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Amount used as the numerator:						
Profit for the year attributable to equity holders of the Bank (Rs. '000)			**17,263,259**	17,734,706	**17,024,967**	17,543,828
Number of ordinary shares used as the denominator:						
Weighted average number of ordinary shares for Basic EPS	24.2	183	**1,027,479,888**	1,026,919,750	**1,027,479,888**	1,026,919,750
Weighted average number of ordinary shares for diluted EPS	24.2	183	**1,027,479,888**	1,027,041,533	**1,027,479,888**	1,027,041,533
Basic earnings per ordinary share (Rs.)			**16.80**	17.27	**16.57**	17.08
Diluted earnings per ordinary share (Rs.)			**16.80**	17.27	**16.57**	17.08

24.2 Weighted average number of ordinary shares for basic and diluted earnings per share

	Note	Page No.	Outstanding number of shares 2019	Outstanding number of shares 2018	Weighted average number of shares 2019	Weighted average number of shares 2018
Number of shares in issue as at January 1,			**1,010,722,577**	995,899,302	**1,010,722,577**	995,899,302
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2017	53.1	237	**–**	13,083,951	**–**	13,083,951
Add: Number of shares satisfied in the form of issue and allotment of new shares from final dividend for 2018	53.1	237	**16,490,624**	–	**16,490,624**	16,490,624
			1,027,213,201	1,008,983,253	**1,027,213,201**	1,025,473,877
Add: Number of shares issued under ESOP 2008	53.1	237	**293,385**	1,568,665	**266,687**	1,315,042
Add: Number of shares issued under ESOP 2015	53.1	237	**–**	170,659	**–**	130,831
Weighted average number of ordinary shares for basic earnings per ordinary share calculation			**1,027,506,586**	1,010,722,577	**1,027,479,888**	1,026,919,750
Add: Bonus element on number of outstanding options under ESOP 2008 as at the year end			**–**	–	**–**	121,783
Add: Bonus element on number of outstanding options under ESOP 2015 as at the year end			**–**	–	**–**	–
Weighted average number of ordinary shares for diluted earnings per ordinary share calculation (*)			**1,027,506,586**	1,010,722,577	**1,027,479,888**	1,027,041,533

(*) The market value of the Bank's shares for the purpose of calculating the dilutive effect of share options has been based on the excess of quoted market price as of December 31, 2019 and December 31, 2018 over the offer price.

25. Dividends on ordinary shares

Accounting policy

Refer Note 7.7 on page 166.

	2019 Second interim Rs. 3.00 per share for 2018 (paid on February 15, 2019) Rs. '000	2018 Second interim Rs. 3.00 per share for 2017 (paid on February 20, 2018) Rs. '000	2019 First interim Rs. 1.50 per share for 2019 (paid on November 18, 2019) Rs. '000	2018 First interim Rs. 1.50 per share for 2018 (paid on November 21, 2018) Rs. '000	GROUP & BANK 2019 Total Dividend Paid Rs. '000	2018 Total Dividend Paid Rs. '000
Net dividend paid to the ordinary shareholders out of normal profits	2,638,304	2,714,372	1,334,442	1,312,647	3,972,746	4,027,019
Withholding tax deducted at source	394,565	275,624	206,818	203,437	601,383	479,061
Gross ordinary dividend paid	3,032,869	2,989,996	1,541,260	1,516,084	4,574,129	4,506,080

The Board of Directors of the Bank approved the payment of a second interim dividend of Rs. 3.00 per share for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2019 and this dividend will be paid on February 24, 2020.

Further, the Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2.00 per share which is to be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank for the year ended December 31, 2019 (Bank declared a final dividend of Rs. 2.00 per share for 2018 in 2019 and this was satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank). The total dividend recommended by the Board is to be approved at the forthcoming Annual General Meeting to be held on March 30, 2020. In accordance with provisions of the Sri Lanka Accounting Standard – LKAS 10 on "Events after the Reporting Period", the second interim dividend referred to above and the proposed final dividend for the year ended December 31, 2019 have not been recognised as liabilities as at the year end. Final dividend payable for the year 2019 has been estimated at Rs. 2,055.013 Mn. (Actual final dividend for 2018 amounted to Rs. 2,022.032 Mn.).

Accordingly, the dividend per ordinary share (for both voting and non-voting) for the year 2019 would be Rs. 6.50 (2018 – Rs. 6.50).

26. Classification of financial assets and financial liabilities

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Group and the Bank:

26.1 Classification of financial assets and financial liabilities – Group

			As at December 31, 2019				As at December 31, 2018			
	Note	Page No.	Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000	Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000
Financial assets										
Cash and cash equivalents	28	190	–	53,681,118	–	53,681,118	–	44,355,962	–	44,355,962
Balances with Central Banks	29	191	–	46,101,232	–	46,101,232	–	55,406,535	–	55,406,535
Placements with banks	30	191	–	24,903,809	–	24,903,809	–	19,898,515	–	19,898,515
Securities purchased under resale agreements			–	13,147,534	–	13,147,534	–	9,513,512	–	9,513,512
Derivative financial assets	31	192	1,830,927	–	–	1,830,927	7,909,962	–	–	7,909,962
Financial assets recognised through profit or loss – Measured at fair value	32	192	21,468,033	–	–	21,468,033	5,520,167	–	–	5,520,167
Financial assets at amortised cost – Loans and advances to banks	33	195	–	757,787	–	757,787	–	763,074	–	763,074

	Note	Page No.	As at December 31, 2019 Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000	As at December 31, 2018 Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	893,919,311	–	893,919,311	–	867,611,976	–	867,611,976
Financial assets at amortised cost – Debt and other financial instruments	35	199	–	107,059,021	–	107,059,021	–	89,274,413	–	89,274,413
Financial assets measured at fair value through other comprehensive income	36	201	–	–	197,825,017	197,825,017	–	–	176,760,611	176,760,611
Total financial assets			23,298,960	1,139,569,812	197,825,017	1,360,693,789	13,430,129	1,086,823,987	176,760,611	1,277,014,727
Financial liabilities										
Due to banks	45	225	–	53,807,425	–	53,807,425	–	52,362,052	–	52,362,052
Derivative financial liabilities	46	225	1,495,317	–	–	1,495,317	8,021,783	–	–	8,021,783
Securities sold under repurchase agreements			–	51,117,342	–	51,117,342	–	48,951,394	–	48,951,394
Financial liabilities at amortised cost – Due to depositors	47	226	–	1,068,982,587	–	1,068,982,587	–	994,370,875	–	994,370,875
Financial liabilities at amortised cost – Other borrowings	48	227	–	23,248,893	–	23,248,893	–	25,361,912	–	25,361,912
Subordinated liabilities	52	235	–	37,886,789	–	37,886,789	–	37,992,457	–	37,992,457
Total financial liabilities			1,495,317	1,235,043,036	–	1,236,538,353	8,021,783	1,159,038,690	–	1,167,060,473

26.2 Classification of financial assets and financial liabilities – Bank

	Note	Page No.	As at December 31, 2019 Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000	As at December 31, 2018 Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000
Financial assets										
Cash and cash equivalents	28	190	–	52,534,730	–	52,534,730	–	39,534,476	–	39,534,476
Balances with Central Banks	29	191	–	39,461,127	–	39,461,127	–	54,384,590	–	54,384,590
Placements with banks	30	191	–	24,527,241	–	24,527,241	–	19,898,515	–	19,898,515
Securities purchased under resale agreements			–	13,147,534	–	13,147,534	–	9,513,512	–	9,513,512
Derivative financial assets	31	192	1,830,927	–	–	1,830,927	7,909,962	–	–	7,909,962
Financial assets recognised through profit or loss – Measured at fair value	32	192	21,468,033	–	–	21,468,033	5,520,167	–	–	5,520,167
Financial assets at amortised cost – Loans and advances to banks	33	195	–	757,787	–	757,787	–	763,074	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	884,645,744	–	884,645,744	–	861,100,315	–	861,100,315

	Note	Page No.	As at December 31, 2019 Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000	As at December 31, 2018 Financial instruments recognised through profit or loss (FVTPL) Rs. '000	Financial instruments at amortised cost (AC) Rs. '000	Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000	Total Rs. '000
Financial assets at amortised cost – Debt and other financial instruments	35	199	–	101,144,819	–	101,144,819	–	83,855,436	–	83,855,436
Financial assets measured at fair value through other comprehensive income	36	201	–	–	197,568,330	197,568,330	–	–	176,506,729	176,506,729
Total financial assets			23,298,960	1,116,218,982	197,568,330	1,337,086,272	13,430,129	1,069,049,918	176,506,729	1,258,986,776
Financial liabilities										
Due to banks	45	225	–	51,505,694	–	51,505,694	–	50,101,081	–	50,101,081
Derivative financial liabilities	46	225	1,495,317	–	–	1,495,317	8,021,783	–	–	8,021,783
Securities sold under repurchase agreements			–	51,220,023	–	51,220,023	–	49,104,462	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	47	226	–	1,053,307,660	–	1,053,307,660	–	983,037,314	–	983,037,314
Financial liabilities at amortised cost – Other borrowings	48	227	–	23,248,893	–	23,248,893	–	25,361,912	–	25,361,912
Subordinated liabilities	52	235	–	37,886,789	–	37,886,789	–	37,992,457	–	37,992,457
Total financial liabilities			1,495,317	1,217,169,059	–	1,218,664,376	8,021,783	1,145,597,226	–	1,153,619,009

27. Fair value measurement

Accounting policy

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement. An analysis of fair value measurement of financial and non-financial assets and liabilities is provided below:

Level 1

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using;

(a) quoted prices in active markets for similar instruments,

(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury Bills and Treasury Bonds. Availability of observable prices and model inputs reduces the need for Management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ("Day 1" profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

27.1 Assets and liabilities measured at fair value and fair value hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position:

As at December 31, 2019			GROUP				BANK			
	Note	Page No.	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-financial assets										
Property, plant and equipment										
Land and buildings	39	208	–	–	11,810,606	11,810,606	–	–	11,078,500	11,078,500
Investment properties	40	219	–	–	46,350	46,350	–	–	–	–
Total non-financial assets at fair value			–	–	11,856,956	11,856,956	–	–	11,078,500	11,078,500
Financial assets										
Derivative financial assets	31	192								
Currency swaps			–	1,410,476	–	1,410,476	–	1,410,476	–	1,410,476
Interest rate swaps			–	–	–	–	–	–	–	–
Forward contracts			–	411,958	–	411,958	–	411,958	–	411,958
Spot contracts			–	8,493	–	8,493	–	8,493	–	8,493
Financial assets recognised through profit or loss – measured at fair value	32	192								
Government Securities			20,484,895	–	–	20,484,895	20,484,895	–	–	20,484,895
Equity shares			983,138	–	–	983,138	983,138	–	–	983,138
Financial assets measured at fair value through other comprehensive income	36	201								
Government Securities			141,456,023	57,009,964	–	198,465,987	141,199,460	57,009,964	–	198,209,424
Equity securities			169,013	–	51,710	220,723	169,013	–	51,586	220,599
Total financial assets at fair value			163,093,069	58,840,891	51,710	221,985,670	162,836,506	58,840,891	51,586	221,728,983
Total assets at fair value			163,093,069	58,840,891	11,908,666	233,842,626	162,836,506	58,840,891	11,130,086	232,807,483
Financial liabilities										
Derivative financial liabilities	46	225								
Currency swaps			–	1,140,261	–	1,140,261	–	1,140,261	–	1,140,261
Interest rate swaps			–	53,295	–	53,295	–	53,295	–	53,295
Forward contracts			–	295,838	–	295,838	–	295,838	–	295,838
Spot contracts			–	5,923	–	5,923	–	5,923	–	5,923
Total liabilities at fair value			–	1,495,317	–	1,495,317	–	1,495,317	–	1,495,317

As at December 31, 2018			GROUP				BANK			
	Note	Page No.	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-financial assets										
Property, plant and equipment										
Land and buildings	39	208	–	–	11,566,268	11,566,268	–	–	11,224,488	11,224,488
Total non-financial assets at fair value			–	–	11,566,268	11,566,268	–	–	11,224,488	11,224,488
Financial assets										
Derivative financial assets	31	192								
Currency swaps			–	4,534,509	–	4,534,509	–	4,534,509	–	4,534,509
Interest rate swaps			–	33,359	–	33,359	–	33,359	–	33,359
Forward contracts			–	3,340,657	–	3,340,657	–	3,340,657	–	3,340,657
Spot contracts			–	1,437	–	1,437	–	1,437	–	1,437
Financial assets recognised through profit or loss – Measured at fair value	32	192								
Government Securities			4,751,360	–	–	4,751,360	4,751,360	–	–	4,751,360
Equity shares			768,807	–	–	768,807	768,807	–	–	768,807
Financial assets measured at fair value through other comprehensive income	36	201								
Government Securities			117,577,351	59,534,461	–	177,111,812	117,323,593	59,534,461	–	176,858,054
Equity securities			195,149	–	49,344	244,493	195,149	–	49,220	244,369
Total financial assets at fair value			123,292,667	67,444,423	49,344	190,786,434	123,038,909	67,444,423	49,220	190,532,552
Total assets at fair value			123,292,667	67,444,423	11,615,612	202,352,702	123,038,909	67,444,423	11,273,708	201,757,040
Financial liabilities										
Derivative financial liabilities	46	225								
Currency swaps			–	5,946,484	–	5,946,484	–	5,946,484	–	5,946,484
Interest rate swaps			–	–	–	–	–	–	–	–
Forward contracts			–	2,069,807	–	2,069,807	–	2,069,807	–	2,069,807
Spot contracts			–	5,492	–	5,492	–	5,492	–	5,492
Total liabilities at fair value			–	8,021,783	–	8,021,783	–	8,021,783	–	8,021,783

27.2 Level 3 fair value measurement

Property, plant and equipment (PPE)

Reconciliation from the beginning balance to the ending balance for the land and buildings in the Level 3 of the fair value hierarchy is given in Notes 39.1 to 39.4 on pages 209 to 211.

Reconciliation of Revaluation Reserve pertaining to land and buildings categorised as Level 3 in the fair value hierarchy is given in the Statement of Changes in Equity on pages 140 to 147.

Note 39.5 (b) on page 213 provides information on significant unobservable inputs used as at December 31, 2017 in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Note 39.5 (c) on page 217 provides details of valuation techniques used and sensitivity of fair value measurement to changes in significant unobservable inputs.

Investment properties

Reconciliation from the beginning balance to the ending balance for the investment properties in the Level 3 of the fair value hierarchy is available in Note 40 on page 219.

Note 40.1 (b) on page 219 provides information on significant unobservable inputs used as at August 5, 2019 in measuring fair value of investment properties categorised as level 3 in the fair value hierarchy.

Note 40.1 (c) on page 220 provides details of valuation techniques used and the sensitivity of fair value measurement to changes in significant unobservable inputs.

27.3 Financial instruments not measured at fair value and fair value hierarchy

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (e.g. fixed rate loans and advances, due to depositors, subordinated liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

Assets for which fair value approximates carrying value

For financial assets and liabilities with short-term maturities or with short-term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy used:

As at December 31, 2019	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total fair values Rs. '000	GROUP Total carrying amount Rs. '000	BANK Level 1 Rs. '000	BANK Level 2 Rs. '000	BANK Level 3 Rs. '000	BANK Total fair values Rs. '000	BANK Total carrying amount Rs. '000
Financial assets												
Cash and cash equivalents	28	190	–	53,681,118	–	53,681,118	53,681,118	–	52,534,730	–	52,534,730	52,534,730
Balances with central banks	29	191	–	46,101,232	–	46,101,232	46,101,232	–	39,461,127	–	39,461,127	39,461,127
Placements with banks	30	191	–	24,903,809	–	24,903,809	24,903,809	–	24,527,241	–	24,527,241	24,527,241
Securities purchased under resale agreements			–	13,147,534	–	13,147,534	13,147,534	–	13,147,534	–	13,147,534	13,147,534
Financial assets at amortised cost – Loans and advances to banks	33	195	–	757,787	–	757,787	757,787	–	757,787	–	757,787	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	–	896,280,708	896,280,708	893,919,311	–	–	887,007,141	887,007,141	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	35	199	105,056,577	–	–	105,056,577	107,059,021	99,142,375	–	–	99,142,375	101,144,819
Total financial assets not at fair value			105,056,577	138,591,480	896,280,708	1,139,928,765	1,139,569,812	99,142,375	130,428,419	887,007,141	1,116,577,935	1,116,218,982
Financial liabilities												
Due to banks	45	225	–	–	53,807,425	53,807,425	53,807,425	–	–	51,505,694	51,505,694	51,505,694
Securities sold under repurchase agreements			–	51,117,342	–	51,117,342	51,117,342	–	51,220,023	–	51,220,023	51,220,023
Financial liabilities at amortised cost – Due to depositors	47	226	–	–	1,067,138,675	1,067,138,675	1,068,982,587	–	–	1,051,463,748	1,051,463,748	1,053,307,660
Financial liabilities at amortised cost – Other borrowings	48	227	–	–	23,248,893	23,248,893	23,248,893	–	–	23,248,893	23,248,893	23,248,893
Subordinated liabilities	52	235	–	–	39,479,119	39,479,119	37,886,789	–	–	39,479,119	39,479,119	37,886,789
Total financial liabilities not at fair value			–	51,117,342	1,183,674,112	1,234,791,454	1,235,043,036	–	51,220,023	1,165,697,454	1,216,917,477	1,217,169,059

As at December 31, 2018	Note	Page No.	GROUP Level 1 Rs. '000	GROUP Level 2 Rs. '000	GROUP Level 3 Rs. '000	GROUP Total fair values Rs. '000	GROUP Total carrying amount Rs. '000	BANK Level 1 Rs. '000	BANK Level 2 Rs. '000	BANK Level 3 Rs. '000	BANK Total fair values Rs. '000	BANK Total carrying amount Rs. '000
Financial assets												
Cash and cash equivalents	28	190	–	44,355,962	–	44,355,962	44,355,962	–	39,534,476	–	39,534,476	39,534,476
Balances with central banks	29	191	–	55,406,535	–	55,406,535	55,406,535	–	54,384,590	–	54,384,590	54,384,590
Placements with banks	30	191	–	19,898,515	–	19,898,515	19,898,515	–	19,898,515	–	19,898,515	19,898,515
Securities purchased under resale agreements			–	9,513,512	–	9,513,512	9,513,512	–	9,513,512	–	9,513,512	9,513,512
Financial assets at amortised cost – Loans and advances to banks	33	195	–	763,074	–	763,074	763,074	–	763,074	–	763,074	763,074
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	–	867,999,907	867,999,907	867,611,976	–	–	861,488,246	861,488,246	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	35	199	84,744,366	–	–	84,744,366	89,274,413	79,325,389	–	–	79,325,389	83,855,436
Total financial assets not at fair value			84,744,366	129,937,598	867,999,907	1,082,681,871	1,086,823,987	79,325,389	124,094,167	861,488,246	1,064,907,802	1,069,049,918
Financial liabilities												
Due to banks	45	225	–	–	52,362,052	52,362,052	52,362,052	–	–	50,101,081	50,101,081	50,101,081
Securities sold under repurchase agreements			–	48,951,394	–	48,951,394	48,951,394	–	49,104,462	–	49,104,462	49,104,462
Financial liabilities at amortised cost – due to depositors	47	226	–	–	994,649,810	994,649,810	994,370,875	–	–	983,316,249	983,316,249	983,037,314
Financial liabilities at amortised cost – other borrowings	48	227	–	–	25,361,912	25,361,912	25,361,912	–	–	25,361,912	25,361,912	25,361,912
Subordinated liabilities	52	235	–	–	38,170,028	38,170,028	37,992,457	–	–	38,170,028	38,170,028	37,992,457
Total financial liabilities not at fair value			–	48,951,394	1,110,543,802	1,159,495,196	1,159,038,690	–	49,104,462	1,096,949,270	1,146,053,732	1,145,597,226

27.4 Valuation techniques and inputs in measuring fair values

The table below provides information on the valuation techniques and inputs used in measuring the fair values of derivative financial assets and liabilities in the Level 2 of the fair value hierarchy, as given in Note 27.1 on page 187.

Type of financial instruments	Fair value as at December 31, 2019 (Rs. '000)	Valuation technique	Significant valuation inputs
Derivative financial assets	1,830,927	**Adjusted forward rate approach** This approach considers the present value of projected forward exchange rate as at the reporting date as the fair value. The said forward rate is projected, based on the spot exchange rate and the forward premium/discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate.	• Spot exchange rate
Derivative financial liabilities	1,495,317		• Interest rate differentials between currencies under consideration

28. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash in hand, demand placements with banks and loans at call/short notice and highly liquid financial assets with original maturities within three months or less from the date of acquisition. These are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to Financial Statements at face values or the gross values, where appropriate. There were no cash and cash equivalents held by the Group companies that were not available for use by the Group.

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

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cash in hand			26,592,518	24,585,211	26,094,112	24,272,784
Coins and notes held in local currency			22,633,898	19,489,030	22,636,242	19,488,100
Coins and notes held in foreign currency			3,958,620	5,096,181	3,457,870	4,784,684
Balances with banks			9,420,183	10,892,192	8,857,498	10,392,621
Local banks			172,295	–	–	–
Foreign banks			9,247,888	10,892,192	8,857,498	10,392,621
Money at call and at short notice			17,674,124	8,882,972	17,588,827	4,873,484
Gross cash and cash equivalents (*)			53,686,825	44,360,375	52,540,437	39,538,889
Less: Provision for impairment	28.1	190	5,707	4,413	5,707	4,413
Net cash and cash equivalents			53,681,118	44,355,962	52,534,730	39,534,476

(*) Gross cash and cash equivalents are reported in the Statement of Cash Flows.

28.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			4,413	5,286	4,413	5,286
Charge/(write back) to the Income Statement	18.1 & 18.2	178 & 179	1,350	(1,450)	1,350	(1,450)
Exchange rate variance on foreign currency provisions			(56)	577	(56)	577
Balance as at December 31,			5,707	4,413	5,707	4,413

The maturity analysis of cash and cash equivalents is given in Note 62 on pages 247 to 249.

29. Balances with Central Banks

Accounting policy

Balances with Central Banks consist of statutory balances with central banks and are carried at amortised cost in the Statement of Financial Position.

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balances with Central Bank of Sri Lanka	**31,213,972**	39,866,912	**31,213,972**	39,866,912
Balances with Bangladesh Bank	**8,247,155**	14,517,678	**8,247,155**	14,517,678
Balances with Maldives Monetary Authority – Statutory	**1,481,327**	1,021,945	**–**	–
Balances with Maldives Monetary Authority – Non Statutory	**5,158,778**	–	**–**	–
Total	**46,101,232**	55,406,535	**39,461,127**	54,384,590

The maturity analysis of balances with Central Banks is given in Note 62 on pages 247 to 249.

Balances with Central Bank of Sri Lanka

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve on all deposit liabilities denominated in Sri Lankan Rupees. As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at December 31, 2019, the minimum cash reserve requirement was 5.00% of the rupee deposit liabilities and this rate was applicable from March 1, 2019 (6.00% in 2018 and this rate was applicable up to February 28, 2019). There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Offshore Banking Centre (OBC) in Sri Lanka.

Balances with Bangladesh Bank

The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement on time and demand liabilities (both local and foreign currencies), partly in the form of a Cash Reserve Requirement and the balance by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank. As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement as at December 31, 2019 was 18.50% (18.50% in 2018) on time and demand liabilities (both local and foreign currencies), which includes a 5.50% (5.50% in 2018) cash reserve requirement and the balance 13.00% (13.00% in 2018) is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

Balances with Maldives Monetary Authority

The Maldives Banking Act No. 24 of 2010 Section 25 requires the Bank to maintain a statutory reserve on all deposits liabilities denominated in both foreign currency and local currency deposits excluding interbank deposits of other banks in Maldives and Letter of Credit margin deposits. According to the Bank regulations of Maldives Monetary Authority, the Minimum Reserve Requirement (MRR) as at December 31, 2019 was 10.00% (10.00% in 2018). The reserve requirement for local currency is to be met in the form of Rufiyaa deposits, while reserve requirement for foreign currency is to be met in the form of US dollar deposits.

30. Placements with banks

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Placements – Within Sri Lanka			**14,395,454**	10,727,288	**14,018,861**	10,727,288
Placements – Outside Sri Lanka			**10,516,976**	9,182,011	**10,516,976**	9,182,011
Gross placements with banks			**24,912,430**	19,909,299	**24,535,837**	19,909,299
Less: Provision for impairment	30.1	191	**8,621**	10,784	**8,596**	10,784
Net placements with banks			**24,903,809**	19,898,515	**24,527,241**	19,898,515

30.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,			**10,784**	31,533	**10,784**	31,533
Charge/(write back) to the Income Statement	18.1 & 18.2	178 & 179	**(2,120)**	(21,553)	**(2,144)**	(21,553)
Exchange rate variance on foreign currency provisions			**(43)**	804	**(44)**	804
Balance as at December 31,			**8,621**	10,784	**8,596**	10,784

The maturity analysis of placements with banks is given in Note 62 on pages 247 to 249.

31. Derivative financial assets

Accounting policy

The Bank uses derivatives such as interest rate swaps, foreign currency swaps and forward foreign exchange contracts, etc. Derivative financial assets are recorded at fair value. Changes in the fair value of derivatives are included in "Net Gains/(Losses) from Trading" in the Income Statement.

Under SLFRS 9, embedded derivatives are not separated from a host financial asset and are classified entirely based on the business model and their contractual terms.

Derivatives embedded in non-financial host contracts are treated separately and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as embedded derivative would meet the definition of derivative and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the Income Statement.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Derivative financial assets – Held for trading						
Foreign currency derivatives			**1,830,927**	7,876,603	**1,830,927**	7,876,603
Currency swaps			**1,410,476**	4,534,509	**1,410,476**	4,534,509
Forward contracts			**411,958**	3,340,657	**411,958**	3,340,657
Spot contracts			**8,493**	1,437	**8,493**	1,437
Derivative financial assets – Cash flow hedges held for risk management						
Interest rate swaps	31.1	192	**–**	33,359	**–**	33,359
Total			**1,830,927**	7,909,962	**1,830,927**	7,909,962

The maturity analysis of derivative financial assets is given in Note 62 on pages 247 to 249.

31.1 Derivative financial assets – Cash flow hedges held for risk management

The Group uses interest rate swaps to hedge the interest rate risk arising from a floating rate borrowing denominated in foreign currencies.

During the year, loss (net of tax) of Rs. 62.391 Mn., [2018 – gain (net of tax) of Rs. 27.231 Mn.] relating to the effective portion of cash flow hedges was recognised in OCI.

32. Financial assets recognised through profit or loss – Measured at fair value

Accounting policy

This includes financial assets that are held for trading purposes. The financial assets are classified as held for trading if:

- They are acquired principally for the purpose of selling or repurchasing in the near term; or
- They are held as part of portfolio that is managed together for short-term profit or position taking; or
- They form part of derivative financial instruments entered into by the Group that are not financial guaranteed contracts or designated as hedging instruments in effective hedging relationships.

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

Financial assets held for trading include instruments such as Government and other debt securities and equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term.

Further as per SLFRS 9, financial assets recognised through profit or loss includes all financial assets other than those classified under FVOCI and amortised cost.

			GROUP		BANK	
As at December 31,	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Government Securities	32.1	193	**20,484,895**	4,751,360	**20,484,895**	4,751,360
Equity securities	32.2	193	**983,138**	768,807	**983,138**	768,807
Total			**21,468,033**	5,520,167	**21,468,033**	5,520,167

32.1 Government Securities

As at December 31,	GROUP 2019 Rs. 000	GROUP 2018 Rs.'000	BANK 2019 Rs.'000	BANK 2018 Rs.'000
Treasury Bills	**15,715,187**	3,669,706	**15,715,187**	3,669,706
Treasury Bonds	**4,769,708**	1,081,654	**4,769,708**	1,081,654
Total	**20,484,895**	4,751,360	**20,484,895**	4,751,360

The maturity analysis of financial assets recognised through profit or loss is given in Note 62 on pages 247 to 249.

32.2 Equity securities – Group and Bank

Sector/Name of the Company	As at December 31, 2019 Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	As at December 31, 2018 Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Bank, Finance and Insurance								
Central Finance Company PLC	**199,734**	**104.00**	**20,772**	**18,937**	197,911	88.70	17,555	18,937
Citizens Development Business Finance PLC (Non-voting)	**105,390**	**67.50**	**7,114**	**3,398**	101,965	70.00	7,138	3,398
Hatton National Bank PLC	**85**	**172.20**	**15**	**12**	84	214.00	18	12
Lanka Ventures PLC	**100,000**	**40.00**	**4,000**	**3,033**	100,000	42.10	4,210	3,033
National Development Bank PLC	**226,595**	**100.00**	**22,660**	**34,381**	214,865	106.80	22,948	34,381
People's Insurance PLC	**126,500**	**21.70**	**2,745**	**1,898**	126,500	19.10	2,416	1,898
Sampath Bank PLC	**59,973**	**162.40**	**9,740**	**9,756**	44,165	235.00	10,379	7,853
VISA Inc.	**19,424**	**USD 187.90**	**663,346**	**–**	19,424	USD 131.94	468,993	–
Subtotal			**730,392**	**71,415**			533,657	69,512
Beverage, Food and Tobacco								
Lanka Milk Foods (CWE) PLC	**250,000**	**100.10**	**25,025**	**27,866**	250,000	130.00	32,500	27,866
Renuka Foods (Non-voting)	**1,000**	**12.30**	**12**	**15**	1,000	10.50	11	15
Subtotal			**25,037**	**27,881**			32,511	27,881
Chemicals and Pharmaceuticals								
Chemical Industries Colombo Holding PLC (Non-voting)	**161,400**	**47.60**	**7,683**	**11,692**	161,400	30.00	4,842	11,692
Haycarb PLC	**107,100**	**190.00**	**20,349**	**15,914**	107,100	130.00	13,923	15,914
Subtotal			**28,032**	**27,606**			18,765	27,606
Construction and Engineering								
Colombo Dockyard PLC	**75,000**	**62.00**	**4,650**	**16,685**	75,000	55.60	4,170	16,685
Subtotal			**4,650**	**16,685**			4,170	16,685
Diversified Holdings								
Aitken Spence PLC	**350,000**	**46.50**	**16,275**	**14,157**	–	–	–	–
Hayleys PLC	**68,313**	**174.90**	**11,948**	**19,269**	68,313	187.00	12,775	19,269
Hemas Holdings PLC	**62**	**80.00**	**5**	**2**	60	88.80	5	2
John Keells Holdings PLC	**130,611**	**167.60**	**21,890**	**20,527**	130,611	159.70	20,859	20,527
Melstacorp PLC	**245,960**	**43.50**	**10,699**	**9,814**	245,960	50.30	12,372	9,814
Subtotal			**60,817**	**63,769**			46,011	49,612
Healthcare								
Ceylon Hospitals PLC	**121,900**	**78.00**	**9,508**	**12,868**	121,900	71.10	8,667	12,868
Ceylon Hospitals PLC (Non-voting)	**61,100**	**67.40**	**4,118**	**4,423**	61,100	69.00	4,216	4,423
Subtotal			**13,626**	**17,291**			12,883	17,291

Sector/Name of the Company	As at December 31, 2019				As at December 31, 2018			
	Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000	Number of shares	Market price Rs.	Market value Rs. '000	Cost of the investment Rs. '000
Hotels and Travels								
John Keells Hotels PLC	267,608	11.60	3,104	3,473	267,608	7.80	2,087	3,473
Tal Lanka Hotels PLC	212,390	14.40	3,058	6,625	212,390	13.00	2,761	6,625
Subtotal			6,162	10,098			4,848	10,098
Investment Trusts								
Renuka Holdings PLC	117,158	19.30	2,261	3,180	117,158	16.60	1,945	3,180
Renuka Holdings PLC (Non-voting)	265,368	13.50	3,582	4,958	265,368	14.70	3,901	4,958
Subtotal			5,843	8,138			5,846	8,138
Land and Property								
CT Land Development PLC	25,000	30.00	750	531	25,000	28.10	703	531
Overseas Reality (Ceylon) PLC	183,320	16.00	2,933	2,717	183,320	16.50	3,025	2,717
RIL Property PLC	3,333,333	5.90	19,667	26,667	3,333,333	6.90	23,000	26,667
Subtotal			23,350	29,915			26,728	29,915
Manufacturing								
ACL Cables PLC	100,000	57.50	5,750	3,676	100,000	37.00	3,700	3,676
Ceylon Grain Elevators PLC	250,000	68.50	17,125	18,156	250,000	59.50	14,875	18,156
Dipped Products PLC	200,000	84.00	16,800	24,239	200,000	85.00	17,000	24,239
Lanka Walltiles PLC	60	72.50	4	5	60	71.00	4	5
Pelwatte Sugar Industries PLC	12,300	0.10	1	351	12,300	0.10	1	351
Royal Ceramics Lanka PLC	155,927	88.50	13,800	18,057	155,927	74.60	11,632	18,057
Subtotal			53,480	64,484			47,212	64,484
Plantations								
Kotagala Plantations PLC	302,625	7.20	2,179	9,172	302,625	6.70	2,028	9,172
Subtotal			2,179	9,172			2,028	9,172
Power and Energy								
Hemas Power PLC	–	–	–	–	106,249	21.10	2,242	2,053
Lanka IOC PLC	685,984	19.00	13,034	15,013	685,984	24.60	16,875	15,013
LVL Energy Fund PLC	648,100	7.50	4,861	6,481	648,100	8.40	5,444	6,481
Subtotal			17,895	21,494			24,561	23,547
Telecommunications								
Dialog Axiata PLC	949,172	12.30	11,675	6,300	949,172	10.10	9,587	6,300
Subtotal			11,675	6,300			9,587	6,300
Total			983,138	374,248			768,807	360,241
Mark to market gains/(losses)				608,890				408,566
Market value of equity securities				983,138				768,807

32.3 Industry/Sector composition of equity securities – Group and Bank

Industry/Sector	As at December 31, 2019 Market value Rs. '000	Cost of the investment Rs. '000	%	As at December 31, 2018 Market value Rs. '000	Cost of the investment Rs. '000	%
Bank, Finance and Insurance	**730,392**	**71,415**	**74.28**	533,657	69,512	69.41
Beverage, Food and Tobacco	**25,037**	**27,881**	**2.55**	32,511	27,881	4.23
Chemicals and Pharmaceuticals	**28,032**	**27,606**	**2.85**	18,765	27,606	2.44
Construction and Engineering	**4,650**	**16,685**	**0.47**	4,170	16,685	0.54
Diversified Holdings	**60,817**	**63,769**	**6.19**	46,011	49,612	5.99
Healthcare	**13,626**	**17,291**	**1.39**	12,883	17,291	1.68
Hotels and Travels	**6,162**	**10,098**	**0.63**	4,848	10,098	0.63
Investment Trusts	**5,843**	**8,138**	**0.59**	5,846	8,138	0.76
Land and Property	**23,350**	**29,915**	**2.38**	26,728	29,915	3.48
Manufacturing	**53,480**	**64,484**	**5.44**	47,212	64,484	6.14
Plantations	**2,179**	**9,172**	**0.22**	2,028	9,172	0.26
Power and Energy	**17,895**	**21,494**	**1.82**	24,561	23,547	3.19
Telecommunications	**11,675**	**6,300**	**1.19**	9,587	6,300	1.25
Subtotal	**983,138**	**374,248**	**100.00**	768,807	360,241	100.00
Mark to market gains/(losses)		**608,890**		–	408,566	
Market value of equity securities	**983,138**	**983,138**	**100.00**	768,807	768,807	100.00

33. Financial assets at amortised cost – Loans and advances to banks

Accounting policy

"Financial assets at amortised cost – Loans and advances to banks" include amounts due from banks.

As per SLFRS 9, Loans and advances to banks are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement, loans and advances to banks are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income" while the losses arising from impairment are recognised in "Impairment charges and other losses" in the Income Statement.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Gross loans and advances (Currency – United States Dollar)			**757,898**	763,110	**757,898**	763,110
Less: Provision for impairment	33.1	195	**111**	36	**111**	36
Net loans and advances			**757,787**	763,074	**757,787**	763,074

33.1 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Movement in Stage 1 impairment						
Balance as at January 1,			**36**	139	**36**	139
Charge/(write back) to the income statement	18.1 & 18.2	178 & 179	**75**	(103)	**75**	(103)
Balance as at December 31,			**111**	36	**111**	36

The maturity analysis of loans and advances to banks is given in Note 62 on pages 247 to 249.

The Bank did not make any payments to counterparty banks for the oil hedging transactions with effect from June 2, 2009, in response to a Directive received from the Exchange Controller of the Central Bank of Sri Lanka. Consequently, one of the counterparty banks appropriated USD 4.170 Mn. (Rs. 757.898 Mn.) which has been kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit (made by the Bank) and the amount due to the said counterparty bank, have been recorded in the Statement of Financial Position.

34. Financial assets at amortised cost – Loans and advances to other customers

Accounting policy

Financial assets at amortised cost – Loans and advances to other customers includes, loans and advances and lease receivables of the Group.

As per SLFRS 9, "Loans and advances to other customers" are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

When the Group is the lessor in a lease agreement that transfers substantially all risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amounts receivable under finance leases, net of initial rentals received, unearned lease income and provision for impairment, are classified as lease receivable and are presented within "Loans and advances to other customers" in the Statement of Financial Position.

After initial measurement, "Loans and advances to other customers" are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates loans and advances at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income", while the losses arising from impairment are recognised in "Impairment charges and other losses" in the Income Statement.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Gross loans and advances			**930,737,391**	897,955,796	**920,457,235**	890,229,368
Stage 1			**726,626,174**	750,597,718	**720,005,896**	745,651,617
Stage 2			**105,913,673**	92,317,199	**103,788,356**	91,600,192
Stage 3*			**98,197,544**	55,040,879	**96,662,983**	52,977,559
Less: Provision for impairment	34.2 (a) & 34.2 (b)	197 & 198	**36,818,080**	30,343,820	**35,811,491**	29,129,053
Stage 1			**2,702,070**	2,814,943	**2,613,480**	2,659,185
Stage 2			**8,494,001**	5,984,306	**8,318,831**	5,873,226
Stage 3			**25,622,009**	21,544,571	**24,879,180**	20,596,642
Net loans and advances			**893,919,311**	867,611,976	**884,645,744**	861,100,315

**As at December 31, 2019, gross loans and advances in stage 3 include Rs. 940.059 Mn. granted against guarantees issued by the Government of Sri Lanka.*

The maturity analysis of Loans and advances to other customers is given in Note 62 on pages 247 to 249.

34.1 Analysis of financial assets at amortised cost – Loans and advances to other customers

34.1 (a) By product

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Loans and advances						
Overdrafts			**137,643,817**	141,993,985	**135,717,795**	140,966,522
Trade finance			**72,194,299**	77,680,497	**71,729,612**	77,599,050
Lease/hire purchase receivable	34.3	198	**36,147,829**	41,233,899	**34,169,283**	38,635,036
Credit cards			**14,975,902**	12,975,517	**14,975,902**	12,975,517
Pawning			**2,973,662**	1,577,472	**2,973,662**	1,577,472
Staff loans			**10,624,199**	9,311,033	**10,602,640**	9,300,749
Housing loans			**63,569,094**	62,534,866	**63,569,094**	62,388,165
Personal loans			**39,742,048**	36,968,592	**39,395,743**	34,832,746
Term loans						
Short term			**150,536,419**	136,652,308	**150,257,462**	136,353,991
Long term			**370,852,399**	352,283,284	**365,588,319**	350,881,443
Bills of exchange			**31,477,723**	24,744,343	**31,477,723**	24,718,677
Total			**930,737,391**	897,955,796	**920,457,235**	890,229,368

34.1 (b) By currency

	GROUP		BANK	
As at December 31,	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Sri Lankan Rupee	**694,387,671**	692,648,484	**689,748,758**	687,970,789
United States Dollar	**152,785,345**	137,588,618	**150,573,125**	136,516,513
Great Britain Pound	**1,297,284**	952,806	**1,297,284**	952,806
Euro	**6,671,660**	1,850,804	**6,671,660**	1,850,804
Australian Dollar	**609,115**	611,436	**609,115**	611,436
Japanese Yen	**286,695**	176,039	**286,695**	176,039
Singapore Dollar	**2,512**	–	**2,512**	–
Bangladesh Taka	**71,252,778**	62,142,187	**71,252,778**	62,142,187
Maldivian Rufiyaa	**3,141,714**	1,909,104	**–**	–
Others	**302,617**	76,318	**15,308**	8,794
Total	**930,737,391**	897,955,796	**920,457,235**	890,229,368

34.1 (c) By industry

	GROUP		BANK	
As at December 31,	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Agriculture and fishing	**68,775,119**	84,646,406	**68,549,963**	84,363,522
Arts, entertainment and recreation	**1,118,938**	949,302	**1,118,243**	949,302
Construction	**45,439,269**	39,767,556	**45,032,791**	39,405,660
Consumption and other	**201,412,039**	175,991,944	**200,919,556**	173,937,599
Education	**3,225,133**	2,670,021	**2,964,160**	2,670,021
Financial services	**35,777,329**	38,654,814	**37,831,333**	39,756,387
Healthcare, social services and support services	**18,605,625**	18,546,251	**18,525,490**	18,546,251
Information technology and communication services	**11,403,418**	13,856,776	**11,403,418**	13,856,776
Infrastructure development	**17,083,131**	19,215,514	**17,083,131**	19,215,514
Lending to overseas entities	**108,985,813**	88,601,256	**103,344,570**	85,552,523
Manufacturing	**123,625,669**	103,027,653	**120,321,445**	102,830,411
Professional, scientific, and technical activities	**23,782,598**	23,318,540	**23,486,651**	23,318,540
Tourism	**62,811,790**	59,495,850	**62,198,466**	59,495,850
Transport and storage	**12,906,113**	11,446,731	**12,758,129**	11,315,073
Wholesale and retail trade	**195,785,407**	217,767,182	**194,919,889**	215,015,939
Total	**930,737,391**	897,955,796	**920,457,235**	890,229,368

34.2 Movement in provision for impairment during the year

34.2 (a) Group

			Stage 1		Stage 2		Stage 3		Total	
	Note	Page No.	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Balance as at January 1,			**2,814,943**	3,126,167	**5,984,306**	4,348,188	**21,544,571**	15,136,256	**30,343,820**	22,610,611
Charge/(write back) to the Income Statement	18.1	178	**(108,915)**	(324,074)	**2,511,088**	1,632,467	**7,907,684**	7,071,147	**10,309,857**	8,379,540
Net write-off during the year			**(2,396)**	(800)	**(1,150)**	(819)	**(2,596,520)**	(590,601)	**(2,600,066)**	(592,220)
Exchange rate variance on foreign currency provisions			**(1,562)**	13,650	**(243)**	4,470	**6,035**	278,179	**4,230**	296,299
Interest accrued/(reversals) on impaired loans and advances	13.1	172	**–**	–	**–**	–	**(1,258,339)**	(360,876)	**(1,258,339)**	(360,876)
Other movements			**–**	–	**–**	–	**18,578**	10,466	**18,578**	10,466
Balance as at December 31,			**2,702,070**	2,814,943	**8,494,001**	5,984,306	**25,622,009**	21,544,571	**36,818,080**	30,343,820

34.2 (b) Bank

	Note	Page No.	Stage 1 2019 Rs. '000	Stage 1 2018 Rs. '000	Stage 2 2019 Rs. '000	Stage 2 2018 Rs. '000	Stage 3 2019 Rs. '000	Stage 3 2018 Rs. '000	Total 2019 Rs. '000	Total 2018 Rs. '000
Balance as at January 1,			2,659,185	3,041,886	5,873,226	4,165,027	20,596,642	14,211,504	29,129,053	21,418,417
Charge/(write back) to the income statement	18.2	179	(41,669)	(393,953)	2,447,313	1,704,548	7,637,999	6,812,653	10,043,643	8,123,248
Net write-off during the year			(2,396)	(800)	(1,118)	(819)	(2,121,615)	(355,284)	(2,125,129)	(356,903)
Exchange rate variance on foreign currency provisions			(1,640)	12,052	(590)	4,470	5,915	278,179	3,685	294,701
Interest accrued/(reversals) on impaired loans and advances	13.1	172	–	–	–	–	(1,258,339)	(360,876)	(1,258,339)	(360,876)
Other movements			–	–	–	–	18,578	10,466	18,578	10,466
Balance as at December 31,			2,613,480	2,659,185	8,318,831	5,873,226	24,879,180	20,596,642	35,811,491	29,129,053

34.3 Lease/Hire purchase receivable

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Gross lease/hire purchase receivable			36,147,829	41,233,899	34,169,283	38,635,036
Within one year	34.3 (a) & (b)	198 & 199	15,538,778	16,540,861	14,604,341	15,678,711
From one to five years	34.3 (a) & (b)	198 & 199	20,526,109	24,492,495	19,483,941	22,865,357
After five years	34.3 (a) & (b)	198 & 199	82,942	200,543	81,001	90,968
Less: Provision for impairment	34.3 (c) (i) & 34.3 (c) (ii)	199	1,054,982	1,125,076	844,229	818,897
Stage 1			81,705	108,543	75,055	79,063
Stage 2			269,760	191,150	199,872	108,098
Stage 3			703,517	825,383	569,302	631,736
Net lease receivable			35,092,847	40,108,823	33,325,054	37,816,139

34.3 (a) Lease/Hire purchase receivable – Group

As at December 31,	Within one year 2019 Rs. '000	Within one year 2018 Rs. '000	One to five years 2019 Rs. '000	One to five years 2018 Rs. '000	After five years 2019 Rs. '000	After five years 2018 Rs. '000
Total lease/hire purchase receivable	19,887,838	21,381,158	23,713,231	28,796,807	91,506	211,729
Less: Unearned lease/hire purchase income	4,349,060	4,840,297	3,187,122	4,304,312	8,564	11,186
Gross lease/hire purchase receivable	15,538,778	16,540,861	20,526,109	24,492,495	82,942	200,543
Less: Provision for impairment	580,227	565,361	473,804	546,121	951	13,594
Stage 1	35,818	42,240	45,727	65,008	160	1,295
Stage 2	103,822	64,097	165,278	122,738	660	4,315
Stage 3	440,587	459,024	262,799	358,375	131	7,984
Subtotal	14,958,551	15,975,500	20,052,305	23,946,374	81,991	186,949

34.3 (b) Lease/Hire purchase receivable – Bank

As at December 31,	Within one year		One to five years		After five years	
	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Total lease/hire purchase receivable	18,698,793	20,175,028	22,424,947	26,725,184	89,478	100,556
Less: Unearned lease/hire purchase income	4,094,452	4,496,317	2,941,006	3,859,827	8,477	9,588
Gross lease/hire purchase receivable	14,604,341	15,678,711	19,483,941	22,865,357	81,001	90,968
Less: Provision for impairment	491,048	467,528	352,651	350,398	530	971
Stage 1	32,680	32,820	42,222	46,163	153	80
Stage 2	81,116	37,560	118,379	69,647	377	891
Stage 3	377,252	397,148	192,050	234,588	–	–
Subtotal	14,113,293	15,211,183	19,131,290	22,514,959	80,471	89,997

34.3 (c) Movement in provision for impairment during the year

34.3 (c) (i) Group

	Stage 1		Stage 2		Stage 3		Total	
	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Balance as at January 1,	108,543	133,155	191,150	145,397	825,383	584,884	1,125,076	863,436
Charge/(write back) to the Income Statement	(24,747)	(24,612)	79,340	46,359	201,764	497,133	256,357	518,880
Net write-off during the year	(2,091)	–	(730)	(606)	(307,099)	(255,622)	(309,920)	(256,228)
Interest accrued/(reversals) on impaired loans and advances	–	–	–	–	(16,395)	(889)	(16,395)	(889)
Other movements	–	–	–	–	(136)	(123)	(136)	(123)
Balance as at December 31,	81,705	108,543	269,760	191,150	703,517	825,383	1,054,982	1,125,076

34.3 (c) (ii) Bank

	Stage 1		Stage 2		Stage 3		Total	
	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Balance as at January 1,	79,063	98,055	108,098	59,536	631,736	267,196	818,897	424,787
Charge/(write back) to the Income Statement	(1,917)	(18,992)	92,472	49,168	106,476	434,640	197,031	464,816
Net write-off during the year	(2,091)	–	(698)	(606)	(152,379)	(69,088)	(155,168)	(69,694)
Interest accrued/(reversals) on impaired loans and advances	–	–	–	–	(16,395)	(889)	(16,395)	(889)
Other movements	–	–	–	–	(136)	(123)	(136)	(123)
Balance as at December 31,	75,055	79,063	199,872	108,098	569,302	631,736	844,229	818,897

35. Financial assets at amortised cost – Debt and other financial instruments

Accounting policy

As per SLFRS 9, "Financial Investments" are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

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

After initial measurement, these assets are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest Income" while the losses arising from impairment are recognised in "impairment charges for loans and other losses" in the Income Statement.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Government Securities – Sri Lanka			83,350,413	68,228,143	82,986,575	67,948,005
Treasury Bonds			47,278,715	32,982,542	47,278,715	32,982,542
Sri Lanka Sovereign Bonds			36,071,698	35,245,601	35,707,860	34,965,463
Government Securities – Bangladesh			15,284,770	9,539,364	15,284,770	9,539,364
Treasury Bills			4,080,152	4,368,976	4,080,152	4,368,976
Treasury Bonds			11,204,618	5,170,388	11,204,618	5,170,388
Government Securities – Maldives			5,553,077	5,140,927	–	–
Treasury Bills			5,553,077	5,140,927	–	–
Other instruments			3,300,536	6,634,319	3,300,536	6,634,319
Debentures	35.2	201	2,520,350	5,952,635	2,520,350	5,952,635
Trust certificates	35.3	201	777,994	680,203	777,994	680,203
Corporate investments in Bangladesh	35.4	201	2,192	1,481	2,192	1,481
Less: Provision for impairment	35.1(a) & 35.1(b)	200	429,775	268,340	427,062	266,252
Total			107,059,021	89,274,413	101,144,819	83,855,436

35.1 Movement in provision for impairment during the year

35.1 (a) Group

	Note	Page No.	Stage 1 2019 Rs. '000	Stage 1 2018 Rs. '000	Stage 2 2019 Rs. '000	Stage 2 2018 Rs. '000	Stage 3 2019 Rs. '000	Stage 3 2018 Rs. '000	Total 2019 Rs. '000	Total 2018 Rs. '000
Balance as at January 1,			268,340	69,680	–	–	–	–	268,340	69,680
Charge/(write back) to the Income Statement	18.1	178	8,569	198,443	–	–	152,870	–	161,439	198,443
Net write-off during the year			–	–	–	–	–	–	–	–
Exchange rate variance on foreign currency provisions			(4)	217	–	–	–	–	(4)	217
Balance as at December 31,			276,905	268,340	–	–	152,870	–	429,775	268,340

35.1 (b) Bank

	Note	Page No.	Stage 1 2019 Rs. '000	Stage 1 2018 Rs. '000	Stage 2 2019 Rs. '000	Stage 2 2018 Rs. '000	Stage 3 2019 Rs. '000	Stage 3 2018 Rs. '000	Total 2019 Rs. '000	Total 2018 Rs. '000
Balance as at January 1,			266,252	69,680	–	–	–	–	266,252	69,680
Charge/(write back) to the Income Statement	18.2	179	7,940	196,572	–	–	152,870	–	160,810	196,572
Net write-off during the year			–	–	–	–	–	–	–	–
Exchange rate variance on foreign currency provisions			–	–	–	–	–	–	–	–
Balance as at December 31,			274,192	266,252	–	–	152,870	–	427,062	266,252

The maturity analysis of financial assets at amortised cost – Debt and other financial instruments is given in Note 62 on pages 247 to 249.

35.2 Debentures

As at December 31,	GROUP				BANK			
	2019		2018		2019		2018	
	Number of debentures	Carrying value Rs. '000	Number of debentures	Carrying value Rs. '000	Number of debentures	Carrying value Rs. '000	Number of debentures	Carrying value Rs. '000
Bogawantalawa Tea Estate PLC	919,100	80,317	–	–	919,100	80,317	–	–
Commercial Leasing and Finance PLC	10,000,000	1,097,500	10,000,000	1,097,500	10,000,000	1,097,500	10,000,000	1,097,500
Dunamis Capital PLC	500,000	50,403	500,000	50,403	500,000	50,403	500,000	50,403
Hayleys PLC	8,000,000	820,130	10,878,400	1,114,983	8,000,000	820,130	10,878,400	1,114,983
MTD Walkers PLC	1,528,701	152,870	1,528,701	156,627	1,528,701	152,870	1,528,701	156,627
Singer Finance (Lanka) PLC	2,902,500	319,130	2,902,500	319,130	2,902,500	319,130	2,902,500	319,130
Hemas Holdings PLC	–	–	525,900	54,048	–	–	525,900	54,048
Lanka ORIX Leasing Company PLC	–	–	20,000,000	2,045,370	–	–	20,000,000	2,045,370
Orient Finance PLC	–	–	1,968,800	197,173	–	–	1,968,800	197,173
Richard Pieris and Company PLC	–	–	2,111,400	217,127	–	–	2,111,400	217,127
Singer (Sri Lanka) PLC	–	–	4,672,900	482,582	–	–	4,672,900	482,582
Softlogic Finance PLC	–	–	2,123,400	217,692	–	–	2,123,400	217,692
Subtotal		2,520,350		5,952,635		2,520,350		5,952,635

35.3 Trust certificates

As at December 31,	GROUP		BANK	
	2019 Carrying value Rs. '000	2018 Carrying value Rs. '000	2019 Carrying value Rs. '000	2018 Carrying value Rs. '000
Richard Pieris Arpico Finance Ltd.	777,994	680,203	777,994	680,203
Subtotal	777,994	680,203	777,994	680,203

35.4 Corporate investments in Bangladesh

As at December 31,	GROUP		BANK	
	2019 Carrying value Rs. '000	2018 Carrying value Rs. '000	2019 Carrying value Rs. '000	2018 Carrying value Rs. '000
Prize bonds	2,192	1,481	2,192	1,481
Subtotal	2,192	1,481	2,192	1,481

36. Financial assets measured at fair value through other comprehensive income

Accounting policy

As per SLFRS 9, this comprises debt instruments measured at FVOCI and equity instruments designated at FVOCI.

Debt instruments at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss in "Net other operating income" when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Government Securities						
Government Securities – Sri Lanka	36.1	202	**198,465,987**	177,111,812	**198,209,424**	176,858,054
Less: Provision for impairment	36.2	202	**861,693**	595,694	**861,693**	595,694
			197,604,294	176,516,118	**197,347,731**	176,262,360
Equity securities	36.3 (a) & 36.3 (b)	203 & 204	**220,723**	244,493	**220,599**	244,369
Quoted shares – (Market value)			**169,013**	195,149	**169,013**	195,149
Unquoted shares			**51,710**	49,344	**51,586**	49,220
Total			**197,825,017**	176,760,611	**197,568,330**	176,506,729

The maturity analysis of financial assets measured at fair value through other comprehensive income is given in Note 62 on pages 247 to 249.

36.1 Government Securities

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Treasury Bills	**9,472,297**	21,770,401	**9,215,734**	21,516,643
Treasury Bonds	**74,818,967**	73,941,454	**74,818,967**	73,941,454
Sri Lanka Sovereign Bonds	**57,164,759**	21,865,496	**57,164,759**	21,865,496
Sri Lanka Development Bonds	**57,009,964**	59,534,461	**57,009,964**	59,534,461
Subtotal	**198,465,987**	177,111,812	**198,209,424**	176,858,054

36.2 Movement in provision for impairment during the year

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Movement in Stage 1 Impairment						
Balance as at January 1,			**595,694**	194,256	**595,694**	194,256
Charge/(write back) to the income statement	18.1 & 18.2	178 & 179	**265,999**	401,438	**265,999**	401,438
Balance as at December 31,			**861,693**	595,694	**861,693**	595,694

36.3 Equity securities

36.3 (a) Equity securities – As at December 31, 2019

Sector/Name of the Company	GROUP Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	BANK Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Quoted shares:								
Bank, Finance and Insurance								
DFCC Bank PLC	3,496	91.90	321	155	3,496	91.90	321	155
Hatton National Bank PLC	12,383	172.20	2,132	373	12,383	172.20	2,132	373
Nations Trust Bank PLC	1,396	80.00	112	27	1,396	80.00	112	27
National Development Bank PLC	6,144	100.00	614	249	6,144	100.00	614	249
Sampath Bank PLC	6,464	162.40	1,050	664	6,464	162.40	1,050	664
Seylan Bank PLC	1,085	52.50	57	26	1,085	52.50	57	26
Subtotal			4,286	1,494			4,286	1,494
Land and Property								
RIL Property PLC	26,128,266	5.90	154,157	209,026	26,128,266	5.90	154,157	209,026
Subtotal			154,157	209,026			154,157	209,026
Manufacturing								
Alumex PLC	714,200	14.80	10,570	9,999	714,200	14.80	10,570	9,999
Subtotal			10,570	9,999			10,570	9,999
Total – quoted shares			169,013	220,519			169,013	220,519
Unquoted shares:								
Bank, Finance and Insurance								
Central Depository of Bangladesh Ltd.	3,427,083	BDT 2.75	20,267	20,267	3,427,083	BDT 2.75	20,267	20,267
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
LankaClear (Pvt) Limited	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Services Bureau Limited	500,000	10.00	5,000	5,000	500,000	10.00	5,000	5,000
Lanka Ratings Agency Limited	689,590	12.50	8,620	8,620	689,590	12.50	8,620	8,620
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	47	EUR 841.90	7,259	7,259	47	EUR 841.90	7,259	7,259
Total – unquoted shares			51,710	51,710			51,586	51,586
Total equity securities			220,723	272,229			220,599	272,105

36.3 (b) Equity securities – As at December 31, 2018

Sector/Name of the Company	GROUP Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000	BANK Number of shares	Market price Rs.	Market value Rs. '000	Cost of investment Rs. '000
Quoted shares:								
Bank, Finance and Insurance								
DFCC Bank PLC	3,496	93.00	325	155	3,496	93.00	325	155
Hatton National Bank PLC	12,202	214.00	2,611	337	12,202	214.00	2,611	337
Nations Trust Bank PLC	1,367	89.20	122	25	1,367	89.20	122	25
National Development Bank PLC	5,826	106.80	622	215	5,826	106.80	622	215
Sampath Bank PLC	6,209	235.00	1,459	327	6,209	235.00	1,459	327
Seylan Bank PLC	1,060	78.00	83	24	1,060	78.00	83	24
Subtotal			5,222	1,083			5,222	1,083
Land and Property								
RIL Property PLC	26,128,266	6.90	180,285	209,026	26,128,266	6.90	180,285	209,026
Subtotal			180,285	209,026			180,285	209,026

Sector/Name of the Company	GROUP Number of shares	GROUP Market price Rs.	GROUP Market value Rs. '000	GROUP Cost of investment Rs. '000	BANK Number of shares	BANK Market price Rs.	BANK Market value Rs. '000	BANK Cost of investment Rs. '000
Manufacturing								
Alumex PLC	714,200	13.50	9,642	9,999	714,200	13.50	9,642	9,999
Subtotal			9,642	9,999			9,642	9,999
Total – quoted shares			195,149	220,108			195,149	220,108
Unquoted shares:								
Bank, Finance and Insurance								
Central Depository of Bangladesh Limited	3,427,083	BDT 2.75	20,651	20,651	3,427,083	BDT 2.75	20,651	20,651
Credit Information Bureau of Sri Lanka	5,637	100.00	564	564	4,400	100.00	440	440
LankaClear (Pvt) Limited	1,000,000	10.00	10,000	10,000	1,000,000	10.00	10,000	10,000
Lanka Financial Services Bureau Limited	225,000	10.00	2,250	2,250	225,000	10.00	2,250	2,250
Lanka Ratings Agency Limited	689,590	12.50	8,620	8,620	689,590	12.50	8,620	8,620
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	47	EUR 841.90	7,259	7,259	47	EUR 841.90	7,259	7,259
Total – unquoted shares			49,344	49,344			49,220	49,220
Total equity securities			244,493	269,452			244,369	269,328

37. Investments in subsidiaries

Accounting policy

Subsidiaries are investees controlled by the Group. The Group "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Bank continues to recognise the investments in subsidiaries at cost.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of all subsidiaries in the Group have a common financial year which ends on December 31, except for the Serendib Finance Ltd., and CBC Myanmar Microfinance Company Limited, whose financial year ends on March 31. The Financial Statements of the Bank's subsidiaries are prepared using consistent accounting policies.

The reason for using a different reporting date by the Serendib Finance Ltd., is due to the requirement imposed by the Central Bank of Sri Lanka for licensed finance companies to publish their key financial data and key performance indicators for a 12-month period ending March 31 and 6-month period ending September 30, every year, in accordance with the format prescribed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka. Similarly, the financial year of CBC Myanmar Microfinance Company Limited ends on March 31, due to requirements imposed by the Financial Regulatory Department of Myanmar.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

All subsidiaries of the Bank have been incorporated in Sri Lanka except Commex Sri Lanka S.R.L., Commercial Bank of Maldives Private Limited, and CBC Myanmar Microfinance Company Limited which were incorporated in Italy, Republic of Maldives and Myanmar respectively.

As at December 31,	Note	Page No.	Holding (***) %	GROUP 2019 Cost Rs. '000	GROUP 2019 Market value/ Directors' valuation Rs. '000	GROUP 2018 Cost Rs. '000	GROUP 2018 Market value/ Directors' valuation Rs. '000	BANK 2019 Cost Rs. '000	BANK 2019 Market value/ Directors' valuation Rs. '000	BANK 2018 Cost Rs. '000	BANK 2018 Market value/ Directors' valuation Rs. '000
Local subsidiaries:											
Quoted:											
Commercial Development Company PLC (*)			90.00	–	–	–	–	**261,198**	**877,196**	268,203	777,388
(10,800,000 Ordinary shares)									**(@Rs.79.10)**		(@ Rs. 70.10)
(11,089,705 Ordinary shares as at December 31, 2018)			(92.41 in 2018)								

As at December 31,				GROUP				BANK			
				2019		2018		2019		2018	
	Note	Page No.	Holding (***) %	Cost Rs. '000	Market value/ Directors' valuation Rs. '000	Cost Rs. '000	Market value/ Directors' valuation Rs. '000	Cost Rs. '000	Market value/ Directors' valuation Rs. '000	Cost Rs. '000	Market value/ Directors' valuation Rs. '000
Unquoted:											
CBC Tech Solutions Limited (formerly known as ONEzero Company Limited)			100	–	–	–	–	5,000	5,000	5,000	5,000
(500,001 Ordinary shares)									(@Rs.10.00)		(@ Rs. 10.00)
(500,001 Ordinary shares as at December 31, 2018)											
Commercial Insurance Brokers (Pvt) Ltd. (239,999 Ordinary shares)			58	–	–	–	–	250,000	250,000	–	–
									(@Rs.10.00)		
Unquoted:											
Serendib Finance Ltd.			100	–	–	–	–	2,791,046	2,791,046	2,616,046	2,616,046
(151,469,986 Ordinary shares)											
(138,978,909 Ordinary shares as at December 31, 2018)											
Foreign subsidiaries:											
Unquoted:											
Commex – Sri Lanka S.R.L.(incorporated in Italy) (**)			100	–	–	–	–	370,633	327,855	131,725	88,947
(300,000 Ordinary shares) (300,000 Ordinary shares as at December 31, 2018)											
Commercial Bank of Maldives Private Limited			55	–	–	–	–	984,707	984,707	984,707	984,707
(104,500 Ordinary shares)											
(104,500 Ordinary shares as at December 31, 2018)											
CBC Myanmar Microfinance Co. Limited			100	–	–	–	–	391,478	391,478	300,728	300,728
(2,420,000 Ordinary shares)											
(1,920,000 Ordinary shares as at December 31, 2018)											
Gross Total				–	–	–	–	5,054,062	5,627,282	4,306,409	4,772,816
Provision for impairment	37.1	205						(42,778)	–	(42,778)	–
Net total				–	–	–	–	5,011,284	5,627,282	4,263,631	4,772,816

(*) During 2015 the Board of Directors of the Bank resolved to reduce the shareholding of Commercial Development Company PLC, (in which the Bank originally had a stake of 94.55%) to comply with the requirements of the Listing Rule No. 7.13 of the Colombo Stock Exchange on Minimum Public Holding. Accordingly, the Bank disposed 545,705 shares since November 2015 through the Colombo Stock Exchange and reduced the shareholding in the above Company to 90.00% by December 31, 2019.

Consequent to the above disposal, ownership interests of the Bank has changed while retaining control. As per SLFRS 10 on "Consolidated Financial Statements", changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control are equity transactions and hence, the resulting gain/loss is recognised in equity.

(**)The investment made in Commex Sri Lanka S.R.L. Italy has been written down to account for pre-operational expenses.

(***) Unless otherwise indicated, holding percentage remains unchanged from 2018 to 2019.

The maturity analysis of investment in subsidiaries is given in Note 62 on pages 247 to 249.

37.1 Movement in provision for impairment o/a subsidiaries during the year

			GROUP		BANK	
	Note	Page No.	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Balance as at January 1,			–	–	42,778	42,778
Charge/(write back) to the Income Statement			–	–	–	–
Balance as at December 31,			–	–	42,778	42,778

37.2 Acquisition of subsidiary

Bank acquired 40% stake in Commercial Insurance Brokers (Private) Limited, from Chemanex PLC, for a purchase consideration of Rupees Two Hundred and Fifty Million (Rs. 250 Mn.) on August 5, 2019.

As the Bank's subsidiary, Commercial Development Company PLC too has a stake of 20% in Commercial Insurance Brokers (Private) Limited, it makes the Group's stake in Commercial Insurance Brokers (Private) Limited to be 58.00% as at December 31, 2019 and total purchase consideration of Rs. 343.955 Mn. The Bank obtained all relevant regulatory approvals prior to the acquisition of this company.

37.2.1 Consideration transferred

Total purchase consideration stated above was satisfied in the form of cash and fair value of investments in associates in Group's books.

37.2.2 Identifiable assets acquired and liabilities assumed

The recognised amounts of assets acquired and liabilities assumed of Commercial Insurance Brokers (Private) Limited as at the date of acquisition were as follows.

	Note	Page No.	Fair value recognised on acquisition Rs. '000
Assets			
Cash and cash equivalents			158,284
Loans and advances to other customers			4,960
Property, plant and equipment (Net)	39.1	209	435,428
Investment properties	40	219	46,350
Intangible assets (Net)	41.1	221	5,802
Other assets			28,218
Total assets			**679,042**
Liabilities			
Current tax liabilities	49	227	(13,660)
Deferred tax liabilities	43.1	222	(88,884)
Provision for gratuity payable	50.2 (b)	229	(30,253)
Other liabilities			(34,511)
Total liabilities			**(167,308)**
Fair value of identifiable net assets at the date of acquisition			**511,734**
Fair value of identifiable net assets at the date of acquisition attributable to Bank			**298,853**

Fair value of the land and buildings and investment properties acquired was obtained using the valuations carried out by an independent professional valuer.

37.2.3 Goodwill

Goodwill arising from the acquisition has been recognised as the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

	Note	Page No.	Rs. '000
Consideration transferred	37.2.4	206	343,955
Fair value of identifiable net assets at the date of acquisition attributable to Bank	37.2.2	206	(298,853)
Goodwill			45,102

37.2.4 Cost of the acquisition of a subsidiary, net of cash acquired

	GROUP Rs. '000	BANK Rs. '000
Total purchase consideration transferred	343,955	250,000
Fair value of investments in associates in Group books	93,955	–
Cash consideration	250,000	250,000
Cash and cash equivalents acquired on business combination	(158,284)	–
Cost of the acquisition of a subsidiary, net of cash acquired	91,716	250,000

The maturity analysis of investment in subsidiaries is given in Note 62 on pages 247 to 249.

38. Investments in associates

Accounting Policy

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on "Investments in Associates and Joint Ventures". The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the Accounting Policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Accordingly, under the Equity Method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the associates and are reported as a separate line item in the Statement of Financial Position. The Income Statement reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in Equity through OCI. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in associate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

The Group discontinues the use of the Equity Method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments".

Upon loss of significant influence over the associate, the Group measures and recognises any retained 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 recognised in profit or loss.

After application of the Equity Method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the loss as "Share of Profit of Associate" in the Income Statement.

In the separate Financial Statements, Investments in associates are accounted at cost.

As at December 31,	Incorporation and operation	Ownership interest %	No. of shares	**2019** Cost Rs. '000	**2019** Carrying value Rs. '000	2018 Cost Rs. '000	2018 Carrying value Rs. '000
Equity Investments Lanka Ltd.	Sri Lanka	22.92	4,110,938	**44,331**	**56,821**	44,331	58,102
Commercial Insurance Brokers (Pvt) Ltd.	Sri Lanka	18.48*	120,000	**–**	**–**	100	47,218
				44,331	**56,821**	44,431	105,320

(*) As mentioned under Accounting Policy 1.3, the Bank acquired 40% Stake in Commercial Insurance Brokers (Private) Limited (CIBL) during 2019. As the Bank's subsidiary, Commercial Development Company PLC, too has a stake of 20% in CIBL, the Group's stake in CIBL as at December 31, 2019 increased to 58%. The Group's stake in CIBL as at December 31, 2018 was 18.48%.

38.1 Reconciliation of summarised financial information

Reconciliation of the summarised financial information to the carrying amount of the interest in associates recognised in the Consolidated Financial Statements is as follows:

	Note	Page No.	**2019** Equity Investments Lanka Ltd. Rs. '000	**2019** Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	**2019** Total Rs. '000	2018 Equity Investments Lanka Ltd. Rs. '000	2018 Commercial Insurance Brokers (Pvt) Ltd. Rs. '000	2018 Total Rs. '000
Cost of investments			**44,331**	**100**	**44,431**	44,331	100	44,431
Add: Share of profit applicable to the Group								
Investment in associate – As at January 1,			**13,771**	**47,118**	**60,889**	22,197	43,216	65,413
Total comprehensive income			**(1,281)**	**49,906**	**48,625**	(8,426)	6,042	(2,384)
Profit/(loss) for the period recognised in income statement, net of tax			**(339)**	**10,331**	**9,992**	(55)	6,103	6,048
Profit or loss and other comprehensive income, net of tax			**(942)**	**39,575**	**38,633**	(8,371)	(61)	(8,432)
Movement due to change in equity			**–**	**(409)**	**(409)**	–	(281)	(281)
Dividend received			**–**	**(2,760)**	**(2,760)**	–	(1,859)	(1,859)
Acquisition of the control of the associate	37.2.4	206	**–**	**(93,955)**	**(93,955)**	–	–	–
Balance as at December 31,			**56,821**	**–**	**56,821**	58,102	47,218	105,320

38.2 Summarised financial information in respect of associates is set out below:

38.2 (a) Summarised Income Statement

For the year ended December 31,	2019			2018		
	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Revenue	22,672	213,059	235,731	23,265	294,872	318,137
Expenses	(24,051)	(140,126)	(164,177)	(22,425)	(243,439)	(265,864)
Income tax	(101)	(16,786)	(16,887)	(1,081)	(18,605)	(19,686)
Profit from continuing operations, net of tax	(1,480)	56,147	54,667	(241)	32,828	32,587
Group's share of profit from continuing operations, net of tax	(339)	10,331	9,992	(55)	6,103	6,048
Other comprehensive income, net of tax	(4,109)	215,080	210,971	(36,522)	(327)	(36,849)
Group's share of other comprehensive income from continuing operations, net of tax	(942)	39,575	38,633	(8,371)	(61)	(8,432)
Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	(1,281)	49,906	48,625	(8,426)	6,042	(2,384)

38.2 (b) Summarised Statement of Financial Position

As at December 31,	2019		2018	
	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Non-current assets	156,161	486,820	161,215	144,361
Current assets	97,190	191,035	96,838	199,648
Non-current liabilities	(1,472)	(119,058)	(1,810)	(27,235)
Current liabilities	(3,967)	(48,172)	(2,743)	(61,267)
Net assets	247,912	510,625	253,500	255,507
Group's share of net assets	56,821	93,955	58,102	47,218
Acquisition of the control of the associate	–	(93,955)	–	–
Carrying amount of interest in associates	56,821	–	58,102	47,218

The Group recognises the share of net assets of the associates under the Equity Method to arrive at the Directors' valuation.

The maturity analysis of Investments in associates is given in Note 62 on pages 247 to 249.

39. Property, plant and equipment and right-of-use assets

Accounting policy

The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on "Property, Plant and Equipment" in accounting for its owned assets (including buildings under operating leases where the Group is the lessor) which are held for and used in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

Basis of recognition

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

Basis of measurement

An item of property, plant and 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 asset and subsequent costs (excluding the costs of day-to-day servicing) as explained in note below.
The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

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

- Cost model
  The Group applies the Cost Model to all property, plant and equipment except freehold land and freehold and leasehold buildings. These are recorded at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

- Revaluation model
  The Group applies the revaluation model for the entire class of freehold land, freehold and leasehold buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land, freehold and leasehold and buildings of the Group are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from carrying amounts, to ensure that the carrying amounts do not differ from the fair values as at the reporting date. The next revaluation exercise on the freehold land, freehold and leasehold buildings will be carried out on or before December 31, 2020.

  On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the amounts written down previously. Any decrease in the carrying amount is recognised as an expense in the income statement or charged to Revaluation Reserve in Equity through OCI, only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

  The Group revalued its freehold land, freehold and leasehold buildings as at December 31, 2017. Methods and significant assumptions including unobservable market inputs employed in estimating the fair value together with the sensitivity of same are given in Note 39.5 (b) and Note 39.5 (c).

  The Bank carried out a revaluation of its freehold land, freehold and leasehold buildings as at December 31, 2017 as required by Section 7.1 (b) of the Direction No. 01 of 2014 on "Valuation of Immovable Property of Licensed Commercial Banks" issued by the CBSL and recognised the revaluation gains/(losses) in the Financial Statements.

Subsequent expenditure

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

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. 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 recognised in "Net other operating income" in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on "Property, plant and Equipment".

Capital work-in-progress

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

Right-of-use assets

In accordance with SLFRS 16, effective from January 1, 2019, Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position.

39.1 Group – 2019

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs.'000	Office equipment, furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	Right of use assets Rs. '000	**Total 2019 Rs. '000**	Total 2018 Rs. '000
Cost/valuation												
Balance as at January 1,			7,465,645	4,294,255	1,240,759	5,957,479	480,508	6,363,950	330,646	–	**26,133,242**	24,218,194
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	4,948,144	**4,948,144**	–
Property, plant and equipment acquired on business combination	37.2.2	206	337,000	83,712	–	19,459	54,506	30,460	–	–	**525,137**	–
Additions/transfers during the year			–	6,525	–	589,097	39,990	560,785	183,157	1,294,192	**2,673,746**	2,081,002
Disposals during the year			–	–	–	(36,097)	(23,832)	(82,761)	–	–	**(142,690)**	(296,116)
Exchange rate variance			–	–	–	(4,643)	(2,045)	(8,898)	–	(44,772)	**(60,358)**	131,362
Transfers/adjustments			(10,448)	10,448	–	(1,537)	–	(71,665)	–	–	**(73,202)**	(1,200)
Balance as at December 31,			7,792,197	4,394,940	1,240,759	6,523,758	549,127	6,791,871	513,803	6,197,564	**34,004,019**	26,133,242

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs.'000	Office equipment, furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	Right of use assets Rs. '000	**Total 2019 Rs. '000**	Total 2018 Rs. '000
Accumulated depreciation and impairment losses												
Balance as at January 1,			–	193,632	47,983	3,992,128	273,940	4,610,323	–	–	**9,118,006**	7,901,150
Accumulated depreciation assumed on business combination	37.2.2	206	–	26,925	–	12,313	22,623	27,848	–	–	**89,709**	–
Charge for the year	20	179	–	155,974	35,581	669,307	68,141	612,785	–	1,045,623	**2,587,411**	1,383,581
Impairment loss			–	–	–	–	–	–	–	–	**–**	–
Disposals during the year			–	–	–	(35,612)	(22,621)	(79,999)	–	–	**(138,232)**	(265,704)
Exchange rate variance			–	–	–	(2,390)	(1,125)	(5,926)	–	–	**(9,441)**	99,052
Transfers/adjustments			–	–	–	(1,355)	–	(65,125)	–	–	**(66,480)**	(73)
Balance as at December 31,			–	376,531	83,564	4,634,391	340,958	5,099,906	–	1,045,623	**11,580,973**	9,118,006
Net book value as at December 31, 2019			7,792,197	4,018,409	1,157,195	1,889,367	208,169	1,691,965	513,803	5,151,941	**22,423,046**	–
Net book value as at December 31, 2018			7,465,645	4,100,623	1,192,776	1,965,351	206,568	1,753,627	330,646	–	–	17,015,236

39.2 Group – 2018

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs.'000	Office equipment, furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	Total 2018 Rs. '000	Total 2017 Rs. '000
Cost/valuation											
Balance as at January 1,			7,362,729	4,198,028	1,332,104	4,983,219	353,334	5,811,340	177,440	24,218,194	18,861,131
Additions/transfers during the year			102,916	4,162	720	1,039,612	177,210	603,155	153,227	2,081,002	2,163,733
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	(356,903)
Surplus on revaluation of property			–	–	–	–	–	–	–	–	3,845,981
Disposals during the year			–	–	–	(98,158)	(59,437)	(138,500)	(21)	(296,116)	(284,381)
Exchange rate variance			–	–	–	34,006	9,401	87,955	–	131,362	(11,367)
Transfers/adjustments			–	92,065	(92,065)	(1,200)	–	–	–	(1,200)	–
Balance as at December 31,			7,465,645	4,294,255	1,240,759	5,957,479	480,508	6,363,950	330,646	26,133,242	24,218,194
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	1,701	50,447	3,506,201	253,608	4,089,193	–	7,901,150	7,291,465
Charge for the year	20	179	–	154,847	34,620	556,860	48,812	588,442	–	1,383,581	1,185,698
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	(356,903)
Disposals during the year			–	–	–	(97,384)	(38,361)	(129,959)	–	(265,704)	(207,575)
Exchange rate variance			–	–	–	26,524	9,881	62,647	–	99,052	(11,535)
Transfers/adjustments			–	37,084	(37,084)	(73)	–	–	–	(73)	–
Balance as at December 31,			–	193,632	47,983	3,992,128	273,940	4,610,323	–	9,118,006	7,901,150
Net book value as at December 31, 2018			7,465,645	4,100,623	1,192,776	1,965,351	206,568	1,753,627	330,646	17,015,236	–
Net book value as at December 31, 2017			7,362,729	4,196,327	1,281,657	1,477,018	99,726	1,722,147	177,440	–	16,317,044

The carrying amount of Group's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31,	2019			2018		
	Cost	**Accumulated Depreciation**	**Net book value**	Cost	Accumulated Depreciation	Net book value
	Rs. '000	**Rs. '000**	**Rs. '000**	Rs. '000	Rs. '000	Rs. '000
Class of asset						
Freehold land	**1,121,538**	**–**	**1,121,538**	1,131,986	–	1,131,986
Freehold buildings	**1,710,894**	**492,927**	**1,217,967**	1,693,921	449,795	1,244,126
Leasehold buildings	**330,470**	**297,059**	**33,411**	330,470	292,304	38,166
Total	**3,162,902**	**789,986**	**2,372,916**	3,156,377	742,099	2,414,278

39.3 Bank – 2019

	Note	Page No.	Freehold land	Freehold buildings	Leasehold buildings	Computer equipment	Motor vehicles	Office equipment, furniture and fixtures	Capital work-in-progress	Right-of-use assets	**Total 2019**	Total 2018
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Cost/valuation												
Balance as at January 1,			7,243,410	4,170,205	100,037	5,902,923	201,175	6,205,242	326,660	–	**24,149,652**	22,338,222
Effect of adoption of SLFRS 16			–	–	–	–	–	–	–	5,124,625	**5,124,625**	–
Additions/transfers during the year			–	6,525	–	567,689	7,890	549,005	182,857	1,294,192	**2,608,158**	1,937,332
Disposals during the year			–	–	–	(35,508)	(5,270)	(81,940)	–	–	**(122,718)**	(235,151)
Exchange rate variance			–	–	–	(4,512)	(2,045)	(8,711)	–	(41,812)	**(57,080)**	110,449
Transfers/adjustments			(10,448)	10,448	–	(1,537)	–	(71,665)	–	–	**(73,202)**	(1,200)
Balance as at December 31,			7,232,962	4,187,178	100,037	6,429,055	201,750	6,591,931	509,517	**6,377,005**	**31,629,435**	24,149,652
Accumulated Depreciation and Impairment Losses												
Balance as at January 1,			–	189,127	16,295	3,963,596	134,197	4,545,191	–	–	**8,848,406**	7,703,512
Charge for the year	20	179	–	152,513	2,934	657,936	17,359	584,354	–	1,125,243	**2,540,339**	1,279,378
Disposals during the year			–	–	–	(35,071)	(5,270)	(79,310)	–	–	**(119,651)**	(226,155)
Exchange rate variance			–	–	–	(2,427)	(1,125)	(6,120)	–	–	**(9,672)**	91,744
Transfers/adjustments			–	–	–	(1,355)	–	(65,125)	–	–	**(66,480)**	(73)
Balance as at December 31,			–	341,640	19,229	4,582,679	145,161	4,978,990	–	1,125,243	**11,192,942**	8,848,406
Net book value as at December 31, 2019			7,232,962	3,845,538	80,808	1,846,376	56,589	1,612,941	509,517	5,251,762	**20,436,493**	–
Net book value as at December 31, 2018			7,243,410	3,981,078	83,742	1,939,327	66,978	1,660,051	326,660	–	–	15,301,246

39.4 Bank – 2018

	Note	Page No.	Freehold land	Freehold buildings	Leasehold buildings	Computer equipment	Motor vehicles	Office equipment, furniture and fixtures	Capital work-in-progress	Total 2018	Total 2017
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/valuation											
Balance as at January 1,			7,144,134	4,073,978	192,102	4,937,841	124,853	5,691,860	173,454	22,338,222	17,374,681
Additions/transfers during the year			99,276	4,162	–	1,034,115	67,576	578,976	153,227	1,937,332	1,959,075
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	(277,190)
Surplus on revaluation of property			–	–	–	–	–	–	–	–	3,542,214
Disposals during the year			–	–	–	(97,495)	(655)	(136,980)	(21)	(235,151)	(246,416)
Exchange rate variance			–	–	–	29,662	9,401	71,386	–	110,449	(14,142)
Transfers/adjustments			–	92,065	(92,065)	(1,200)	–	–	–	(1,200)	–
Balance as at December 31,			7,243,410	4,170,205	100,037	5,902,923	201,175	6,205,242	326,660	24,149,652	22,338,222

	Note	Page No.	Freehold land Rs. '000	Freehold buildings Rs. '000	Leasehold buildings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Office equipment, furniture and fixtures Rs. '000	Capital work-in-progress Rs. '000	Total 2018 Rs. '000	Total 2017 Rs. '000
Accumulated depreciation and impairment losses											
Balance as at January 1,			–	–	50,445	3,486,636	114,223	4,052,208	–	7,703,512	7,066,856
Charge for the year	20	179	–	152,043	2,934	548,794	10,748	564,859	–	1,279,378	1,097,096
Transfer of accumulated depreciation on assets revalued			–	–	–	–	–	–	–	–	(277,190)
Disposals during the year			–	–	–	(96,721)	(655)	(128,779)	–	(226,155)	(169,990)
Exchange rate variance			–	–	–	24,960	9,881	56,903	–	91,744	(13,260)
Transfers/adjustments			–	37,084	(37,084)	(73)	–	–	–	(73)	–
Balance as at December 31,			–	189,127	16,295	3,963,596	134,197	4,545,191	–	8,848,406	7,703,512
Net book value as at December 31, 2018			7,243,410	3,981,078	83,742	1,939,327	66,978	1,660,051	326,660	15,301,246	–
Net book value as at December 31, 2017			7,144,134	4,073,978	141,657	1,451,205	10,630	1,639,652	173,454	–	14,634,710

The carrying amount of Bank's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31,	2019			2018		
	Cost Rs. '000	**Accumulated depreciation Rs. '000**	**Net book value Rs. '000**	Cost Rs. '000	Accumulated depreciation Rs. '000	Net book value Rs. '000
Class of asset						
Freehold land	**958,572**	**–**	**958,572**	969,020	–	969,020
Freehold buildings	**1,655,373**	**481,833**	**1,173,540**	1,638,400	440,206	1,198,194
Leasehold buildings	**98,138**	**64,727**	**33,411**	98,138	59,972	38,166
Total	**2,712,083**	**546,560**	**2,165,523**	2,705,558	500,178	2,205,380

The maturity analysis of Property, plant and equipment is given in Note 62 on pages 147 to 149.

39.5 (a) Information on freehold land and buildings of the Bank – Extents and locations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Location	Number of buildings	Extent (perches)	Buildings (square feet)	Revalued amounts land Rs. '000	Revalued amounts buildings Rs. '000	Net book value/ revalued amount Rs. '000	Net book value before revaluation Rs. '000
CEO's Bungalow – No. 27, Queens Road, Colombo 03	1	64	5,616	961,000	39,000	992,200	550,910
Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela	1	423	5,649	72,100	17,000	87,740	66,613
Holiday Bungalow – Haputale, No. 23, Lilly Avenue, Welimada Road, Haputale	1	258	5,662	41,200	21,300	60,370	43,650
Branch Buildings							
Battaramulla – No. 213, Kaduwela Road, Battaramulla	1	14	11,216	52,500	99,000	141,600	126,769
Battaramulla – No. 213, Kaduwela Road, Battaramulla	–	13	Bare Land	50,000	–	50,000	50,000
Borella – No. 92, D S Senanayake Mawatha, Borella, Colombo 08	1	16	16,880	196,000	216,000	394,720	333,711
Chilaw – No. 44, Colombo Road, Chilaw	1	35	9,420	91,754	42,390	132,025	98,672
City Office – No. 98, York Street, Colombo 01	1	–	24,599	–	–	40,836	–
Duplication Road – Nos. 405, 407, R A De Mel Mawatha, Colombo 03	1	20	4,194	220,400	10,000	228,355	231,814
Galewela – No. 49/57, Matale Road, Galewela	1	99	5,632	29,700	16,300	46,787	36,358
Galle City – No. 59, Wackwella Road, Galle	1	7	3,675	54,000	9,150	62,387	47,850
Galle Fort – No. 22, Church Street, Fort, Galle	1	100	11,625	255,650	45,000	298,400	247,000
Gampaha – No. 51, Queen Mary's Road, Gampaha	1	33	4,775	74,025	11,595	84,451	67,208

Location	Number of buildings	Extent (perches)	Buildings (square feet)	Revalued amounts land Rs. '000	Revalued amounts buildings Rs. '000	Net book value/ revalued amount Rs. '000	Net book value before revaluation Rs. '000
Hikkaduwa – No. 217, Galle Road, Hikkaduwa	1	37	7,518	35,670	27,780	61,816	49,184
Ja-Ela – No. 140, Negombo Road, Ja-Ela	1	13	7,468	33,000	26,000	57,514	48,091
Jaffna – No. 474, Hospital Road, Jaffna	–	78	Bare Land	1,000,000	–	1,000,000	581,000
Kandy – No. 120, Kotugodella Veediya, Kandy	1	45	44,500	396,000	256,600	634,271	560,250
Karapitiya – No. 89, Hirimbura Cross Road, Karapitiya	1	38	3,627	–	–	103,838	–
Kegalle – No. 186, Main Street, Kegalle	1	85	2,650	156,700	7,200	163,324	134,250
Keyzer Street – No. 32, Keyzer Street, Colombo 11	1	7	6,100	82,000	24,000	104,703	80,050
Kollupitiya – No. 285, Galle Road, Colombo 03	1	17	16,254	225,000	68,000	287,560	173,036
Kotahena – No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	1	28	26,722	197,000	210,000	396,500	331,845
Kurunegala – No. 4, Suratissa Mawatha, Kurunegala	1	50	10,096	236,800	43,200	277,840	231,399
Maharagama – No. 154, High Level Road, Maharagama	1	18	8,440	93,000	47,000	136,240	82,619
Matale – No. 70, King Street, Matale	1	51	8,596	125,000	61,000	182,514	130,000
Matara – No. 18, Station Road, Matara	1	38	8,137	60,080	28,770	87,206	73,990
Minuwangoda – No. 9, Siriwardena Mawatha, Minuwangoda	1	25	5,550	56,250	17,483	72,567	47,541
Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 05	1	22	11,193	176,000	104,000	272,571	210,604
Narammala – No. 55, Negombo Road, Narammala	1	41	5,353	61,605	19,910	80,523	69,094
Negombo – Nos. 24, 26, Fernando Avenue, Negombo	1	37	11,360	136,000	36,000	169,120	100,280
Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda	1	39	11,150	150,000	60,000	205,200	193,925
Nuwara Eliya – No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	1	42	10,184	124,800	74,400	194,949	147,243
Panadura – No. 375, Galle Road, Panadura	1	12	6,168	36,900	42,400	75,060	64,828
Peliyagoda Stores – No. 37, New Nuge Road, Peliyagoda	1	–	14,676	–	–	8,440	–
Pettah – People's Park Shopping Complex, Colombo 11	1	–	3,147	–	67,000	61,640	50,091
Pettah-Stores – People's Park Shopping Complex, Colombo 11	1	–	225	–	5,500	5,000	4,145
Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11	1	20	22,760	360,000	190,000	537,421	419,041
Trincomalee – No. 474, Power House Road, Trincomalee	–	100	Bare Land	100,000	–	100,000	90,300
Union Place – No. 1, Union Place, Colombo 02	1	30	63,385	500,000	1,000,000	1,420,000	1,119,643
Wellawatte – No. 343, Galle Road, Colombo 06	1	45	51,225	650,000	1,100,000	1,679,950	715,791
Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa	1	36	9,226	54,000	31,000	82,862	67,103
Total	38			7,144,134	4,073,978	11,078,500	7,675,898

39.5 (b) Information on freehold land and buildings of the Bank – Valuations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Date of valuation: December 31, 2017

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Net book value before revaluation of		Revalued amount of		Revaluation gain/(loss) recognised on	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
H M N Herath								
Chilaw No. 44, Colombo Road, Chilaw	Market comparable method		63,522	35,150	91,754	42,390	28,232	7,240
	• Price per perch for land	Rs. 2,600,000 p.p.						
	• Price per square foot for building	Rs. 5,000 p.sq.ft.						
	• Depreciation rate	10%						
Gampaha No. 51, Queen Mary's Road, Gampaha	Market comparable method		57,575	9,633	74,025	11,595	16,450	1,962
	• Price per perch for land	Rs. 2,250,000 p.p.						
	• Price per square foot for building	Rs. 4,500 p.sq.ft.						
	• Depreciation rate	45%						

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Net book value before revaluation of Land Rs. '000	Net book value before revaluation of Buildings Rs. '000	Revalued amount of Land Rs. '000	Revalued amount of Buildings Rs. '000	Revaluation gain/(loss) recognised on Land Rs. '000	Revaluation gain/(loss) recognised on Buildings Rs. '000
Minuwangoda No. 9, Siriwardena Mawatha, Minuwangoda	Market comparable method		31,250	16,291	56,250	17,483	25,000	1,192
	• Price per perch for land	Rs. 2,250,000 p.p.						
	• Price per square foot for building	Rs. 4,500 p.sq.ft.						
	• Depreciation rate	30%						
P B Kalugalagedara								
Keyzer Street No. 32, Keyzer Street, Colombo 11	Market comparable method		56,000	24,050	82,000	24,000	26,000	(50)
	• Price per perch for land	Rs. 11,000,000 p.p.						
	• Price per square foot for building	Rs. 500 to Rs. 6,000 p.sq.ft.						
Kollupitiya No. 285, Galle Road, Colombo 03	Market comparable method		115,000	58,036	225,000	68,000	110,000	9,964
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 1,250 to Rs. 5,000 p.sq.ft.						
Kotahena No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	Investment method		140,000	191,845	197,000	210,000	57,000	18,155
	• Gross monthly rental	Rs. 2,800,000 p.m.						
	• Years purchase (present value of one unit per period)	18.18						
	• Void period	4 months p.a.						
Mr R S Wijesuriya								
Battaramulla No. 213, Kaduwela Road, Battaramulla	Market comparable method		52,500	74,269	52,500	99,000	–	24,731
	• Price per perch for land	Rs. 3,750,000 p.p.						
	• Price per square foot for building	Rs. 8,500 p.sq.ft.						
Battaramulla No. 213, Kaduwela Road, Battaramulla	Market comparable method		50,000	–	50,000	–	–	–
	• Price per perch for land	Rs. 3,750,000 p.p.						
Panadura No. 375, Galle Road, Panadura	Market comparable method		30,750	34,078	36,900	42,400	6,150	8,322
	• Price per perch for land	Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 6,500 p.sq.ft.						
Sarath G Fernando								
Holiday Bungalow – Bandarawela Ambatenne Estate, Bandarawela	Market comparable method		56,700	9,913	72,100	17,000	15,400	7,087
	• Price per perch for land	Rs. 75,000 to Rs. 250,000 p.p.						
	• Price per square foot for building	Rs. 4,250 to Rs. 4,750 p.sq.ft.						
	• Depreciation rate	35%						
Holiday Bungalow – Haputale No. 23, Lilly Avenue, Welimada Road, Haputale	Market comparable method		30,900	12,750	41,200	21,300	10,300	8,550
	• Price per perch for land	Rs. 200,000 p.p.						
	• Price per square foot for building	Rs. 3,500 to Rs. 6,500 p.sq.ft.						
	• Depreciation rate	40%						
Kandy No. 120, Kotugodella Veediya, Kandy	Market comparable method		354,000	206,250	396,000	256,600	42,000	50,350
	• Price per perch for land	Rs. 9,500,000 p.p.						
	• Price per square foot for building	Rs. 6,500 to Rs. 10,000 p.sq.ft.						
	• Depreciation rate	30% and 35%						

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Net book value before revaluation of		Revalued amount of		Revaluation gain/(loss) recognised on	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
Kegalle No. 186, Main Street, Kegalle	Market comparable method		128,000	6,250	156,700	7,200	28,700	950
	• Price per perch for land	Rs. 1,250,000 to Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 6,000 p.sq.ft.						
	• Depreciation rate	55%						
Matale No. 70, Kings Street, Matale	Market comparable method		75,000	55,000	125,000	61,000	50,000	6,000
	• Price per perch for land	Rs. 750,000 to Rs. 2,500,000 p.p.						
	• Price per square foot for building	Rs. 9,750 p.sq.ft.						
	• Depreciation rate	20%						
Nuwara Eliya No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	Market comparable method		82,000	65,243	124,800	74,400	42,800	9,157
	• Price per perch for land	Rs. 2,000,000 to Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 9,750 p.sq.ft.						
	• Depreciation rate	25%						
S A S Fernando								
Galle City No. 59, Wackwella Road, Galle	Market comparable method		40,500	7,350	54,000	9,150	13,500	1,800
	• Price per perch for land	Rs. 8,000,000 p.p.						
	• Price per square foot for building	Rs. 2,000 to Rs. 3,000 p.sq.ft.						
Galle Fort No. 22, Church Street, Fort, Galle	Market comparable method		210,000	37,000	255,650	45,000	45,650	8,000
	• Price per perch for land	Rs. 3,000,000 p.p.						
	• Price per square foot for building	Rs. 3,180 p.sq.ft.						
Hikkaduwa No. 217, Galle Road, Hikkaduwa	Market comparable method		26,370	22,814	35,670	27,780	9,300	4,966
	• Price per perch for land	Rs. 750,000 to Rs. 1,100,000 p.p.						
	• Price per square foot for building	Rs. 3,000 to Rs. 4,000 p.sq.ft.						
Matara No. 18, Station Road, Matara	Market comparable method		50,695	23,295	60,080	28,770	9,385	5,475
	• Price per perch for land	Rs. 1,000,000 to Rs. 2,000,000 p.p.						
	• Price per square foot for building	Rs. 3,000 to Rs. 3,750 p.sq.ft.						
Trincomalee No. 474, Power House Road, Trincomalee	Market comparable method		90,300	–	100,000	–	9,700	–
	• Price per perch for land	Rs. 1,000,000 p.p.						
S T Sanmuganathan								
Jaffna No. 474, Hospital Road, Jaffna	Market comparable method		581,000	–	1,000,000	–	419,000	–
	• Price per perch for land	Rs. 5,000,000 p.p.						
Siri Nissanka								
Borella No. 92, D S Senanayake Mawatha, Colombo 08	Market comparable method		156,300	177,411	196,000	216,000	39,700	38,589
	• Price per perch for land	Rs. 12,500,000 p.p.						
	• Price per square foot for building	Rs. 12,750 p.sq.ft.						

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Net book value before revaluation of		Revalued amount of		Revaluation gain/(loss) recognised on	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
CEO's Bungalow No. 27, Queens Road, Colombo 03	Market comparable method		544,850	6,060	961,000	39,000	416,150	32,940
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 7,000 p.sq.ft.						
Narahenpita No. 201, Kirula Road, Narahenpita, Colombo 05	Market comparable method		132,300	78,304	176,000	104,000	43,700	25,696
	• Price per perch for land	Rs. 8,000,000 p.p.						
	• Price per square foot for building	Rs. 9,350 p.sq.ft.						
Pettah – Main Street No. 280, Main Street, Pettah, Colombo 11	Investment method		280,000	139,041	360,000	190,000	80,000	50,959
	• Gross monthly rental	Rs. 2,557,500 p.m.						
Union Place No. 1, Union Place, Colombo 02	Market comparable method		450,000	669,643	500,000	1,000,000	50,000	330,357
	• Price per perch for land	Rs. 18,000,000 p.p.						
	• Price per square foot for building	Rs. 16,500 p.sq.ft.						
Duplication Road Nos. 405, 407, R A De Mel Mawatha, Colombo 03	Market comparable method		229,349	2,465	220,400	10,000	(8,949)	7,535
	• Price per perch for land	Rs. 11,000,000 p.p.						
	• Price per square foot for building	Rs. 2,300 p.sq.ft.						
Maharagama No. 154, Highlevel Road, Maharagama	Market comparable method		53,250	29,369	93,000	47,000	39,750	17,631
	• Price per perch for land	Rs. 5,250,000 p.p.						
	• Price per square foot for building	Rs. 5,600 p.sq.ft.						
Nugegoda No. 100, Stanley Thilakaratne Mawatha, Nugegoda	Market comparable method		156,000	37,925	150,000	60,000	(6,000)	22,075
	• Price per perch for land	Rs. 7,500,000 p.p.						
	• Price per square foot for building	Rs. 8,350 p.sq.ft.						
Wellawatte No. 343, Galle Road, Colombo 06	Market comparable method		249,520	466,271	650,000	1,100,000	400,480	633,729
	• Price per perch for land	Rs. 15,000,000 p.p.						
	• Price per square foot for building	Rs. 22,000 p.sq.ft.						
W D P Rupananda								
Ja-Ela No. 140, Negombo Road, Ja-Ela	Market comparable method		29,000	19,091	33,000	26,000	4,000	6,909
	• Price per perch for land	Rs. 2,500,000 p.p.						
	• Price per square foot for building	Rs. 5,000 p.sq.ft.						
	• Depreciation rate	30%						
Negombo Nos. 24, 26, Fernando Avenue, Negombo	Market comparable method		73,000	27,280	136,000	36,000	63,000	8,720
	• Price per perch for land	Rs. 3,000,000 to Rs. 4,000,000 p.p.						
	• Price per square foot for building	Rs. 4,000 to Rs. 5,250 p.sq.ft.						
	• Depreciation rate	30%						
Pettah People's Park Shopping Complex, Colombo 11	Investment method		–	50,091	–	67,000	–	16,909
	• Gross monthly rental	Rs. 460,000 p.m.						
	• Years purchase (Present value of 1 unit per period)	18.18						
	• Void period	4 months p.a.						
Pettah People's Park Shopping Complex, Colombo 11	Investment method		–	4,145	–	5,500	–	1,355
	• Gross monthly rental	Rs. 41,500 p.m.						
	• Years purchase (Present value of 1 unit per period)	18.18						
	• Void period	4 months p.a.						

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Net book value before revaluation of		Revalued amount of		Revaluation gain/(loss) recognised on	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
Wennappuwa Nos. 262, 264, Colombo Road, Wennappuwa	Market comparable method		42,000	25,103	54,000	31,000	12,000	5,897
	• Price per perch for land	Rs. 1,500,000 p.p.						
	• Price per square foot for building	Rs. 3,750 to Rs. 5,250 p.sq.ft.						
	• Depreciation rate	30%						
W S Pemaratne								
Galewela No. 49/57, Matale Road, Galewela	Market comparable method		22,275	14,083	29,700	16,300	7,425	2,217
	• Price per perch for land	Rs. 300,000 p.p.						
	• Price per square foot for building	Rs. 2,350 to Rs. 4,000 p.sq.ft.						
	• Depreciation rate	25%						
Kurunegala No. 4, Suratissa Mawatha, Kurunegala	Market comparable method		199,325	32,074	236,800	43,200	37,475	11,126
	• Price per perch for land	Rs. 5,000,000 p.p.						
	• Price per square foot for building	Rs. 3,500 to Rs. 4,750 p.sq.ft.						
	• Depreciation rate	12%						
Narammala No. 55, Negombo Road, Narammala	Market comparable method		53,391	15,703	61,605	19,910	8,214	4,207
	• Price per perch for land	Rs. 1,500,000 p.p.						
	• Price per square foot for building	Rs. 4,000 p.sq.ft.						
	• Depreciation rate	7%						
Total			4,992,622	2,683,276	7,144,134	4,073,978	2,151,512	1,390,702

p.p. – per perch p.sq.ft. – per square foot p.m. – per month p.a. – per annum

39.5 (c) Valuation techniques and sensitivity of the fair value measurement of the freehold land and buildings of the Bank

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

Valuation technique	Significant unobservable valuation inputs (ranges of each property are given in the table above)	Sensitivity of the fair value measurement to inputs
Market comparable method This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	Estimated fair value would increase /(decrease) if; Price per perch would increase/(decrease) Price per square foot would increase/(decrease) Depreciation rate for building would decrease/(increase)
Investment method This method involves the capitalisation of the expected rental income at an appropriate rate of years purchsed currently charactorised by the real estate market.	Gross Annual Rentals Years purchase (Present value of 1 unit per period) Void period	Estimated fair value would increase/(decrease) if; Gross Annual Rentals would increase/(decrease) Years purchase would increase/(decrease) Void period would decrease/(increase)

39.6 Title restriction on property, plant and equipment

There were no restrictions existed on the title of the property, plant and equipment of the Group/Bank as at the reporting date.

39.7 Property, plant and equipment pledged as security for liabilities – Bank

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date.

39.8 Compensation from third parties for items of property, plant and equipment – Bank

The compensation received/receivable from third parties for items of property, plant and equipment that were impaired, lost or given up at the reporting date of the Bank is as follows:

As at December 31,	**2019 Rs. '000**	2018 Rs. '000
Total claims lodged	**6,654**	11,649
Total claims received	**(3,619)**	(4,059)
Total claims rejected	**–**	–
Total claims receivable	**3,035**	7,590

39.9 Fully-depreciated property, plant and equipment – Bank

The cost of fully-depreciated property, plant and equipment of the Bank which are still in use is as follows:

As at December 31,	**2019 Rs. '000**	2018 Rs. '000
Computer equipment	**1,982,684**	1,699,267
Office equipment, furniture and fixtures	**2,652,359**	2,273,634
Motor vehicles	**54,870**	60,140

39.10 Temporarily idle property, plant and equipment – Bank

Following property, plant and equipment of the Bank were temporarily idle (until the assets are issued to the business units):

As at December 31,	**2019 Rs. '000**	2018 Rs. '000
Computer equipment	**214,063**	94,636
Office equipment, furniture and fixtures	**92,110**	102,653

39.11 Property, plant and equipment retired from active use – Bank

Following property, plant and equipment of the Bank were retired from active use:

As at December 31,		**2019 Rs. '000**	2018 Rs. '000
Computer equipment	Cost	**343,177**	302,799
	Depreciation	**329,144**	283,466
	NBV	**14,033**	19,333
Office equipment, furniture and fixtures	Cost	**113,758**	112,046
	Depreciation	**109,372**	105,588
	NBV	**4,386**	6,458

39.12 Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2019 (2018 – Nil).

40. Investment properties

Accounting policy

Investment Properties are those which are held either to earn rental income or for capital appreciation or for both.

An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

The Group states the Investment properties at its fair value.

When a portion of the property is held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purposes, the Group accounts for the portions separately if these portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is treated as investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the net other operating income.

			GROUP		BANK	
			2019	2018	**2019**	2018
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Cost/Valuation						
Balance as at January 1,			**–**	–	**–**	–
Investment properties acquired on business combination	37.2.2	206	**46,350**	–	**–**	–
Additions during the year			**–**	–	**–**	–
Fair value gains/(losses)*			**–**	–	**–**	–
Balance as at December 31,			**46,350**	–	**–**	–

(*) The Investment property was fair valued at the time of acquisition of CIB. There was no material change to its fair value from the acquisition date to the reporting date. The details of the valuation are mentioned in Note 40.1(a) and 40.1(b).

The maturity analysis of investment properties is given in Note 62 on pages 247 to 249.

There were no capitalised borrowing cost related to the acquisition of Investment properties during the year 2019 (2018 – Nil).

40.1 (a) Information on investment properties of the Group – Extents and Locations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Location	Number of buildings	Extent (Perches)	Buildings (Square feet)	Fair value of the investment property Rs. '000
No. 347, Dr Colvin R De Silva Mawatha, Colombo 2, Sri Lanka	1	–	8,616	46,350

40.1 (b) Information on investment properties of the Group – Valuations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Date of valuation: August 5, 2019

Name of professional valuer/ location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Fair value of the investment property Building Rs. '000
G J Sumanasena No. 347, Dr Colvin R De Silva Mawatha, Colombo 02, Sri Lanka	Market comparable method • Price per square foot • Depreciation rate	Rs. 8,250 p.sq.ft. 30%	46,350

40.1 (c) Valuation techniques and sensitivity of the fair value measurement of the Investment properties of the Group

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

Valuation Technique	Significant unobservable valuation inputs (ranges of each property are given in the table above)	Sensitivity of the fair value measurement to inputs
Market comparable method		Estimated fair value would increase/(decrease) if;
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per square foot for building Depreciation rate for building	Price per square foot would increase/(decrease) Depreciation rate for building would decrease/(increase)

41. Intangible assets

Accounting policy

The Group's intangible assets include the value of acquired goodwill, trademarks and computer software.

Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on "Intangible Assets".

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 initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure

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

Useful economic lives, amortisation and impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

- **Intangible assets with finite lives and amortisation**

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates, which require prospective application.

The amortisation expense on intangible assets with finite lives is expensed as incurred.

- **Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

- **Computer software**

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

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

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

- **Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

– The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.

– Its intention to complete and its ability to use or sell the asset.

– The asset will generate future economic benefits.

– The availability of resources to complete the asset.

– The ability to measure reliably the expenditure during development.

– The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

As at the reporting date, the Group does not have development costs capitalised as an internally-generated intangible asset.

As at December 31,	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Computer software	41.1	221	824,816	698,913	712,596	579,486
Software under development	41.2	221	375,742	334,954	367,414	326,626
Goodwill arising on business combination			445,147	400,045	–	–
Trademarks			9	19	–	–
Total			1,645,714	1,433,931	1,080,010	906,112

41.1 Computer software

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cost/valuation						
Balance as at January 1,			2,134,021	1,942,915	1,948,436	1,847,585
Computer software acquired on business combination	37.2.2	206	17,328	–	–	–
Additions during the year			339,200	378,969	311,544	305,509
Disposals/write-off during the year			–	(215,892)	–	(215,892)
Exchange rate variance			(2,697)	26,829	(1,261)	10,034
Transfers/adjustments			35,100	1,200	35,100	1,200
Balance as at December 31,			2,522,952	2,134,021	2,293,819	1,948,436
Accumulated amortisation and impairment losses						
Balance as at January 1,			1,435,108	1,403,507	1,368,950	1,374,195
Accumulated amortisation assumed on business combination	37.2.2	206	11,526	–	–	–
Amortisation for the year	20	179	252,392	218,076	213,240	188,789
Impairment loss			–	–	–	–
Disposals/write-off during the year			–	(202,301)	–	(202,301)
Exchange rate variance			(890)	15,753	(967)	8,194
Transfers/adjustments			–	73	–	73
Balance as at December 31,			1,698,136	1,435,108	1,581,223	1,368,950
Net book value as at December 31,			824,816	698,913	712,596	579,486

41.2 Software under development

	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cost/valuation				
Balance as at January 1,	334,954	311,748	326,626	303,420
Additions during the year	75,888	27,672	75,888	27,672
Disposals during the year	–	–	–	–
Transfers/adjustments	(35,100)	(4,466)	(35,100)	(4,466)
Balance as at December 31,	375,742	334,954	367,414	326,626

There were no restrictions on the title of the intangible assets of the Group as at the reporting date. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2019 (2018 – Nil).

The maturity analysis of intangible assets is given in Note 62 on pages 247 to 249.

42. Leasehold property

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Cost/Valuation						
Balance as at January 1,			**128,700**	128,700	**84,840**	84,840
Additions during the year			**–**	–	**–**	–
Balance as at December 31,			**128,700**	128,700	**84,840**	84,840
Accumulated amortisation						
Balance as at January 1,			**25,636**	24,184	**13,188**	12,246
Amortisation for the year	20	179	**1,452**	1,452	**942**	942
Balance as at December 31,			**27,088**	25,636	**14,130**	13,188
Net book value as at December 31,			**101,612**	103,064	**70,710**	71,652

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Class of asset: leasehold land				
Cost	**23,715**	23,715	**14,846**	14,846
Accumulated amortisation	**17,442**	16,411	**14,129**	13,187
Net book	**6,273**	7,304	**717**	1,659

The maturity analysis of leasehold property is given in Note 62 on pages 247 to 249.

43. Deferred tax assets and liabilities

Accounting policy

Net deferred tax (assets)/liabilities of an entity cannot be set-off against another entity's deferred tax (assets)/liabilities as there is no legally enforceable right to set-off.

	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Recognised under deferred tax assets	**530,165**	188,487	**294,059**	–
Recognised under deferred tax liabilities	**416,458**	971,424	**–**	646,248
Summary of net deferred tax liability	**(113,707)**	782,937	**(294,059)**	646,248

43.1 Summary of net deferred tax liability

	Note	Page No.	GROUP 2019 Temporary difference Rs. '000	GROUP 2019 Tax effect Rs. '000	GROUP 2018 Temporary difference Rs. '000	GROUP 2018 Tax effect Rs. '000	BANK 2019 Temporary difference Rs. '000	BANK 2019 Tax effect Rs. '000	BANK 2018 Temporary difference Rs. '000	BANK 2018 Tax effect Rs. '000
Balance as at January 1,			**2,965,274**	**782,937**	13,035,986	3,565,215	**2,490,485**	**646,248**	12,013,759	3,274,826
Deferred tax liabilities assumed on business combination	37.2.2	206	**317,443**	**88,884**	–	–	**–**	**–**	–	–
Amount originating/(reversing) to income statement	23	181	**(7,144,426)**	**(2,048,100)**	(3,367,030)	(875,295)	**(6,969,438)**	**(2,002,575)**	(3,236,067)	(841,357)
Amount originating/(reversing) to statement of profit or loss and other comprehensive income			**3,460,011**	**968,803**	(248,368)	(69,543)	**3,459,896**	**968,771**	(277,989)	(77,837)

			GROUP				BANK			
			2019		2018		**2019**		2018	
			Temporary difference	**Tax effect**	Temporary difference	Tax effect	**Temporary difference**	**Tax effect**	Temporary difference	Tax effect
	Note	Page No.	**Rs. '000**	**Rs. '000**	Rs. '000	Rs. '000	**Rs. '000**	**Rs. '000**	Rs. '000	Rs. '000
Amount originating/(reversing) to retained earnings (Deferred tax on SLFRS 16 and SLFRS 9 Transitional adjustments)			**205,811**	**57,627**	(6,455,314)	(1,807,488)	**205,811**	**57,627**	(6,009,218)	(1,682,581)
Amount originating/(reversing) to retained earnings on expired ESOP			**123,489**	**34,577**	–	–	**123,489**	**34,577**	–	–
Exchange rate variance			**–**	**1,565**	–	(29,952)	**–**	**1,293**	–	(26,803)
Balance as at December 31,			**(72,398)**	**(113,707)**	2,965,274	782,937	**(689,757)**	**(294,059)**	2,490,485	646,248

43.2 Reconciliation of net deferred tax liability – Group

	Statement of financial position		Profit or loss		Other comprehensive income	
For the year ended/as at December 31,	**2019**	2018	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	**600,169**	603,379	**8,684**	(101,990)	**–**	–
Accelerated depreciation for tax purposes – Leased assets	**1,539,687**	2,048,376	**508,689**	202,469	**–**	–
Revaluation surplus on freehold buildings	**1,162,121**	1,109,315	**38,230**	37,587	**–**	–
Revaluation surplus on freehold land (*)	**1,772,750**	1,772,750	**–**	–	**–**	(10,009)
Tax effect on actuarial gains on defined benefit plans	**20,479**	2,762	**–**	–	**(17,590)**	(24,331)
Effective interest rate on deposits	**–**	–	**–**	1,432	**–**	–
Effect of exchange rate variance	**–**	–	**1,802**	(31,802)	**(237)**	1,850
	5,095,206	5,536,582	**557,405**	107,696	**(17,827)**	(32,490)
Deferred tax assets on:						
Defined benefit plans	**640,669**	532,058	**100,858**	97,822	**–**	–
Tax effect on actuarial losses on defined benefit plans	**87,511**	78,403	**–**	–	**9,108**	(7,335)
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	**(175,938)**	825,146	**–**	–	**(1,001,084)**	135,282
Specific provision on lease receivable	**–**	–	**–**	(56,254)	**–**	–
Leave encashment	**134,209**	130,824	**3,385**	(50,407)	**–**	–
Tax effect on actuarial losses on leave encashment	**84,571**	67,835	**–**	–	**16,736**	(15,324)
Straight lining of lease rentals	**–**	57,627	**–**	9,887	**–**	–
Derecognision of commission income	**–**	–	**–**	(131,046)	**–**	–
Equity-settled share-based payments	**131,178**	165,755	**–**	17,406	**–**	–
Impairment provision	**4,049,843**	2,827,014	**1,222,829**	826,863	**–**	–
Carried forward tax loss on leasing business	**–**	–	**–**	–	**–**	–
Hedging reserve	**14,923**	(9,341)	**–**	–	**24,264**	(10,590)
Deferred tax on previous losses	**28,089**	73,522	**(45,433)**	48,526	**–**	–
Performance bonus	**5,795**	4,802	**993**	4,802	**–**	–
Deferred tax on specific provision	**157,428**	–	**157,428**	–	**–**	–
Operating leases	**50,635**	–	**50,635**	–	**–**	–
	5,208,913	4,753,645	**1,490,695**	767,599	**(950,976)**	102,033
Deferred tax effect on profit or loss and other comprehensive income for the year			**2,048,100**	875,295	**(968,803)**	69,543
Net deferred tax liability as at December 31,	**(113,707)**	782,937				

(*) As per the Inland Revenue Act No. 24 of 2017, which became effective from April 1, 2018, capital assets/business assets will attract tax at applicable corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land in these Financial Statements.

43.3 Reconciliation of net deferred tax liability – Bank

For the year ended/as at December 31,	Statement of financial position 2019 Rs. '000	Statement of financial position 2018 Rs. '000	Profit or loss 2019 Rs. '000	Profit or loss 2018 Rs. '000	Other comprehensive income 2019 Rs. '000	Other comprehensive income 2018 Rs. '000
Deferred tax liabilities on:						
Accelerated depreciation for tax purposes – Own assets	526,086	531,123	5,037	(82,274)	–	–
Accelerated depreciation for tax purposes – Leased assets	1,435,404	1,913,755	478,351	213,515	–	–
Revaluation surplus on freehold buildings	782,631	820,530	37,899	37,255	–	–
Revaluation surplus on freehold land (*)	1,756,155	1,756,155	–	–	–	–
Tax effect on actuarial gains on defined benefit plans	20,602	2,858	–	–	(17,744)	(25,350)
Effective interest rate on deposits	–	–	–	1,432	–	–
Effect of exchange rate variance	–	–	1,530	(28,653)	(237)	1,850
	4,520,878	5,024,421	522,817	141,275	(17,981)	(23,500)
Deferred tax assets on:						
Defined benefit plans	614,716	517,921	96,795	95,902	–	–
Tax effect on actuarial losses on defined benefit plans	87,167	78,059	–	–	9,108	(7,402)
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income	(176,355)	824,543	–	–	(1,000,898)	134,653
Specific provision on lease receivable	–	–	–	(56,254)	–	–
Leave encashment	134,209	130,824	3,385	(50,407)	–	–
Tax effect on actuarial losses on leave encashment	84,571	67,835	–	–	16,736	(15,324)
Straight lining of lease rentals	–	57,627	–	9,887	–	–
Derecognition of commission income	–	–	–	(131,046)	–	–
Equity-settled share-based payments	131,178	165,755	–	17,406	–	–
Impairment provision	3,720,404	2,544,950	1,175,454	814,594	–	–
Hedging reserve	14,923	(9,341)	–	–	24,264	(10,590)
Deferred tax on specific provision	157,428	–	157,428	–	–	–
Operating leases	46,696	–	46,696	–	–	–
	4,814,937	4,378,173	1,479,758	700,082	(950,790)	101,337
Deferred tax effect on profit or loss and other comprehensive income for the year			2,002,575	841,357	(968,771)	77,837
Net deferred tax liability as at December 31,	(294,059)	646,248				

(*) As per the Inland Revenue Act No. 24 of 2017, which became effective from April 1, 2018, capital assets/business assets will attract tax at applicable corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land in these Financial Statements.

The maturity analysis of deferred tax liabilities given in Note 62 on pages 247 to 249.

44. Other assets

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Receivables	101,395	17,081	101,395	17,081
Deposits and prepayments	1,540,458	2,250,371	1,540,811	2,260,494
Clearing account balance	5,005,006	7,777,825	5,005,006	7,777,825
Unamortised cost on staff loans (Day 1 difference)	4,886,941	4,081,846	4,886,941	4,081,846
Other accounts	11,910,069	9,924,349	11,788,094	9,773,876
Total	23,443,869	24,051,472	23,322,247	23,911,122

The maturity analysis of other assets is given in Note 62 on pages 247 to 249.

45. Due to banks

Accounting policy

These represent call money borrowings, credit balances in Nostro Accounts and borrowings from banks. Subsequent to initial recognition, these are measured at amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Borrowings	**50,717,387**	52,273,032	**48,415,656**	50,012,061
Local currency borrowings	**2,806,443**	2,260,971	**504,712**	–
Foreign currency borrowings	**47,910,944**	50,012,061	**47,910,944**	50,012,061
Securities sold under repurchase (Repo) agreements (*)	**3,090,038**	89,020	**3,090,038**	89,020
Total	**53,807,425**	52,362,052	**51,505,694**	50,101,081

(*) Securities sold under repurchase (Repo) agreements are shown on the face of the Statement of Financial Position except for the Repos with banks.

The maturity analysis of due to banks is given in Note 62 on pages 247 to 249.

46. Derivative financial liabilities

Accounting policy

Derivative financial liabilities – Held for trading

Derivative financial liabilities are classified as held for trading. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Derivatives embedded in financial liabilities are treated separately and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as embedded derivative would meet the definition of derivative and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the profit or loss.

Derivatives are recorded at fair value with corresponding gains or losses are recognised in net gains/(losses) on trading in the Income Statement.

			GROUP		BANK	
As at December 31,			**2019**	2018	**2019**	2018
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Derivative financial liabilities – Held for trading						
Foreign currency derivatives			**1,442,022**	8,021,783	**1,442,022**	8,021,783
Currency swaps			**1,140,261**	5,946,484	**1,140,261**	5,946,484
Forward contracts			**295,838**	2,069,807	**295,838**	2,069,807
Spot contracts			**5,923**	5,492	**5,923**	5,492
Derivative financial liabilities – Cash flow hedges held for risk management						
Interest rate swaps	46.1	225	**53,295**	–	**53,295**	–
Total			**1,495,317**	8,021,783	**1,495,317**	8,021,783

46.1 Derivative financial liabilities – Cash flow hedges held for risk management

The Group uses interest rate swaps to hedge the interest rate risk arising from a floating rate borrowing denominated in foreign currencies.

During the year, loss (net of tax) of Rs. 62.391 Mn., [2018 – gain (net of tax) of Rs. 27.231 Mn.] relating to the effective portion of cash flow hedges were recognised in OCI.

The maturity analysis of derivative financial liabilities is given in Note 62 on pages 247 to 249.

47. Financial liabilities at amortised cost – Due to depositors

Accounting policy

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call, and certificates of deposit. Subsequent to initial recognition deposits are measured at amortised cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in "Interest expense" in the Income Statement.

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Local currency deposits	**800,224,277**	747,951,765	**800,688,240**	748,142,891
Current account balances	**43,981,795**	45,166,224	**44,009,507**	45,177,113
Savings deposits	**248,903,630**	227,412,160	**249,181,306**	227,493,335
Time deposits	**507,284,805**	475,290,328	**507,443,380**	475,389,390
Certificates of deposit	**54,047**	83,053	**54,047**	83,053
Foreign currency deposits	**268,758,310**	246,419,110	**252,619,420**	234,894,423
Current account balances	**31,851,740**	32,286,978	**23,694,078**	26,476,915
Savings deposits	**77,548,427**	72,501,383	**73,941,830**	69,972,029
Time deposits	**159,358,143**	141,630,749	**154,983,512**	138,445,479
Total	**1,068,982,587**	994,370,875	**1,053,307,660**	983,037,314

47.1 Analysis of due to customers/deposits from customers

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
(a) By product				
Current account balances	**75,833,535**	77,453,202	**67,703,585**	71,654,028
Savings deposits	**326,452,057**	299,913,543	**323,123,136**	297,465,364
Time deposits	**666,642,948**	616,921,077	**662,426,892**	613,834,869
Certificates of deposit	**54,047**	83,053	**54,047**	83,053
Total	**1,068,982,587**	994,370,875	**1,053,307,660**	983,037,314
(b) By currency				
Sri Lankan Rupee	**800,224,277**	747,951,765	**800,688,240**	748,142,891
United States Dollar	**150,545,610**	144,023,443	**138,953,807**	136,589,435
Great Britain Pound	**10,844,928**	12,321,533	**10,842,070**	12,318,915
Euro	**11,276,248**	12,725,445	**11,163,481**	12,644,251
Australian Dollar	**6,990,874**	8,836,477	**6,990,874**	8,836,477
Bangladesh Taka	**83,280,562**	62,620,046	**83,280,562**	62,620,046
Maldivian Rufiyaa	**4,476,756**	4,058,311	**–**	–
Other currencies	**1,343,332**	1,833,855	**1,388,626**	1,885,299
Total	**1,068,982,587**	994,370,875	**1,053,307,660**	983,037,314
(c) By institution/customers				
Deposits from banks	**2,731,885**	2,425,725	**2,731,885**	2,425,725
Deposits from finance companies	**5,632,555**	8,303,951	**5,448,671**	8,340,126
Deposits from other customers	**1,060,618,147**	983,641,199	**1,045,127,104**	972,271,463
Total	**1,068,982,587**	994,370,875	**1,053,307,660**	983,037,314

The maturity analysis of financial liabilities at amortised cost – Due to depositors is given in Note 62 on pages 247 to 249.

48. Financial liabilities at amortised cost – Other borrowings

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Refinance borrowings	**7,917,888**	7,210,334	**7,917,888**	7,210,334
Borrowings from International Finance Corporation (IFC)	**15,331,005**	18,151,578	**15,331,005**	18,151,578
Total	**23,248,893**	25,361,912	**23,248,893**	25,361,912

The maturity analysis of financial liabilities at amortised cost – Other borrowings is given in Note 62 on pages 247 to 249.

49. Current tax liabilities

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			**6,735,997**	4,202,850	**6,566,358**	4,143,911
Tax payable assumed on business combination	37.2.2	206	**13,660**	–	**–**	–
Provision for the year			**8,600,747**	9,648,955	**8,308,597**	9,453,100
Reversal of (over)/under provision	23	181	**(989,148)**	(537,943)	**(991,884)**	(564,363)
Self-assessment payments			**(8,301,839)**	(5,971,026)	**(8,087,930)**	(5,856,270)
Notional tax credits (*)			**–**	(348,978)	**–**	(348,311)
Withholding tax/other credits			**(841,251)**	(750,000)	**(805,060)**	(733,426)
Exchange rate variance			**(20,978)**	492,139	**(22,437)**	471,717
Balance as at December 31,			**5,197,188**	6,735,997	**4,967,644**	6,566,358

(*) Notional tax credit on secondary market transactions

Interest income from Sri Lankan Rupee denominated Government Securities were subjected to withholding tax at source (Notional Tax) as per Inland Revenue Act No. 10 of 2006, effective up to March 31, 2018. Accordingly, interest income accrued or received on outright or reverse repurchase transactions on Government Securities, less interest expense accrued or paid on repurchase transactions with such Government Securities, was grossed up by the amount of Notional Tax.

However, as per the provision of the Inland Revenue Act No. 24 of 2017 effective from April 1, 2018, interest income from Government Securities was excluded from the requirement to withholding tax. Hence, notional tax credit hitherto claimed by the Bank was discontinued since April 1, 2018 with implementation of Inland Revenue Act No. 24 of 2017.

Accordingly, interest income from Government Securities for the period from January 1, 2018 to March 31, 2018 been grossed up by notional tax amounting to Rs. 348.978 Mn. and Rs. 348.311 Mn. by the Group and the Bank respectively.

The maturity analysis of current tax liabilities is given in Note 62 on pages 247 to 249.

50. Other liabilities

Accounting policy

Other liabilities include provisions made on account of interest, fees and expenses, gratuity/pensions, leave encashment, and other provisions. These liabilities are recorded at amounts expected to be payable as at the reporting date.

			GROUP		BANK	
As at December 31,			**2019**	2018	**2019**	2018
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Accrued expenditure			**2,112,034**	2,724,062	**2,016,803**	2,658,304
Cheques sent on clearing			**5,005,006**	7,774,059	**5,005,006**	7,774,059
Lease liability	50.1	228	**5,055,939**	–	**5,146,689**	–
Provision for gratuity payable	50.2 (b)	229	**2,114,432**	1,778,016	**2,020,984**	1,726,920
Provision for unfunded pension scheme	50.3 (b)	230	**257,031**	242,819	**257,031**	242,819
Provision for leave encashment	50.4 (b)	231	**781,362**	709,495	**781,362**	709,495
Payable on oil hedging transactions			**1,127,571**	1,135,326	**1,127,571**	1,135,326
Impairment provision in respect of off-balance sheet credit exposures	59.3 (a) & 59.3 (b)	245	**1,320,080**	726,640	**1,316,837**	726,640
Other payables			**13,002,429**	9,457,096	**12,824,426**	9,232,788
Total			**30,775,884**	24,547,513	**30,496,709**	24,206,351

The maturity analysis of other liabilities is given in Note 62 on pages 247 to 249.

50.1 Lease liability

			GROUP		BANK	
			2019	2018	**2019**	2018
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Operating lease commitments as at December 31, 2018			**6,455,090**	–	**6,432,570**	–
Weighted average incremental borrowing rate as at January 1, 2019 (%)			**9.06**	–	**9.39**	–
Discounted operating lease commitments balance as at January 1, effect of adoption of IFRS 16			**4,418,459**	–	**4,594,604**	–
Additions			**1,294,192**	–	**1,294,192**	–
Exchange rate variance			**(36,971)**	–	**(34,216)**	–
Accretion of interest	13.2	173	**429,263**	–	**457,449**	–
Payments			**(1,049,004)**	–	**(1,165,340)**	–
Balance as at December 31,			**5,055,939**	–	**5,146,689**	–

The maturity analysis of lease liability is given in Note 62 on pages 247 to 249.

50.1 (a) Sensitivity Analysis on lease liability

The following table illustrates the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the Bank as at December 31, 2019.

	GROUP		BANK	
Variable	**Sensitivity effect on Statement of Financial Position (Lease liability) Rs. '000**	**Sensitivity effect on Income Statement Rs. '000**	**Sensitivity effect on Statement of Financial Position (Lease liability) Rs. '000**	**Sensitivity effect on Income Statement Rs. '000**
1% increase in incremental borrowing rate	**(162,538)**	**7,401**	**(153,998)**	**6,501**
1% decrease in incremental borrowing rate	**172,498**	**(8,700)**	**163,512**	**(7,690)**

50.2 Provision for gratuity payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2019 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

50.2 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	Staff turnover	The staff turnover rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health, and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2018) to determine the liabilities of the active employees in the gratuity, were used in the actuarial valuation carried out as at December 31, 2019.
	Normal retirement age	The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays.
Financial	Rate of discount	**Sri Lankan operation** In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation.
		Bangladesh operation In the absence of long-term high quality corporate bonds or government bonds with the term that matches liabilities a long-term interest rate of 8.00% p.a. (2018 - 8.00% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	**Sri Lankan operation** A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.
		Bangladesh operation A salary increment of 10.00% p.a. (2018 – 10% p.a.) has been used in respect of the active employees.

50.2 (b) Movement in the provision for gratuity payable

			GROUP		BANK	
			2019	2018	**2019**	2018
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,			**1,778,016**	1,515,410	**1,726,920**	1,474,387
Gratuity payable assumed on business combination	37.2.2	206	**30,253**	–	**–**	–
Expense recognised in the Income Statement	50.2 (c)	229	**457,642**	328,544	**442,022**	316,939
Exchange rate variance			**(5,750)**	52,568	**(5,750)**	52,568
Amount paid during the year			**(80,511)**	(51,231)	**(76,440)**	(45,817)
Actuarial (gains)/losses recognised in other comprehensive income			**(65,218)**	(67,275)	**(65,768)**	(71,157)
Balance as at December 31,			**2,114,432**	1,778,016	**2,020,984**	1,726,920

50.2 (c) Expense recognised in the income statement – Gratuity

	GROUP		BANK	
For the year ended December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Interest cost	**192,671**	159,617	**185,649**	155,673
Current service cost	**264,971**	168,927	**256,373**	161,266
Total	**457,642**	328,544	**442,022**	316,939

50.2 (d) Sensitivity analysis on actuarial valuation

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the gratuity valuation of the Group and the Bank as at December 31, 2019.

Variable	GROUP Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000	BANK Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000
1% increase in discount rate	**(286,205)**	**(282,001)**
1% decrease in discount rate	**353,191**	**348,409**
1% increase in salary	**360,079**	**355,231**
1% decrease in salary	**(296,034)**	**(291,703)**

50.3 Provision for unfunded pension scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2019 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuary to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on "Employee Benefits".

50.3 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health, and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2018) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2019.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.
	Normal retirement age	55 or 60 years as opted by the employees.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.
	Post retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

50.3 (b) Movement in the provision for unfunded pension scheme

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			**242,819**	285,095	**242,819**	285,095
Expense recognised in the Income Statement	50.3 (c)	230	**27,924**	32,728	**27,924**	32,728
Amount paid during the year			**(48,789)**	(47,283)	**(48,789)**	(47,283)
Transfers			**–**	12,435	**–**	12,435
Actuarial (gains)/losses recognised in other comprehensive income			**35,077**	(40,156)	**35,077**	(40,156)
Balance as at December 31,			**257,031**	242,819	**257,031**	242,819

50.3 (c) Expense recognised in the Income Statement – Unfunded pension scheme

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest cost	**27,924**	32,728	**27,924**	32,728
Total	**27,924**	32,728	**27,924**	32,728

50.3 (d) Sensitivity analysis on actuarial valuation – Unfunded pension scheme

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the unfunded pension scheme of the Bank as at December 31, 2019.

Variable	GROUP Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000	BANK Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000
1% increase in discount rate	**(10,783)**	**(10,783)**
1% decrease in discount rate	**11,780**	**11,780**
1% increase in salary	–	–
1% decrease in salary	–	–

50.4 Provision for leave encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2019 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on "Employee Benefits".

50.4 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 1967/70 Mortality table issued by the Institute of Actuaries, London
	Staff turnover	The probability of a member withdrawing from the scheme within a year of ages between 20 to 55 years.
	Disability	The probability of a member becoming disable within a year of ages between 20 to 55 years.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.

50.4 (b) Movement in the provision for leave encashment

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			**709,495**	944,251	**709,495**	944,251
Expense recognised in the Income Statement	50.4 (c)	231	**81,592**	103,868	**81,592**	103,868
Amount paid during the year			**(69,499)**	(283,895)	**(69,499)**	(283,895)
Actuarial (gains)/losses recognised in other comprehensive income			**59,774**	(54,729)	**59,774**	(54,729)
Balance as at December 31,			**781,362**	709,495	**781,362**	709,495

50.4 (c) Expense recognised in the income statement – Leave encashment

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Interest cost	**81,592**	103,868	**81,592**	103,868
Current service cost	–	–	–	–
Total	**81,592**	103,868	**81,592**	103,868

50.4 (d) Sensitivity analysis on actuarial valuation – Leave encashment

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the leave encashment liability valuation of the Bank as at December 31, 2019.

Variable	GROUP Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000	BANK Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000
1% increase in discount rate	(94,453)	(94,453)
1% decrease in discount rate	115,065	115,065
1% increase in salary	118,074	118,074
1% decrease in salary	(98,371)	(98,371)

50.5 Employee retirement benefit

50.5.1 Pension fund – Defined benefit plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2019 by Mr M Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

50.5.1 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – in service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff Turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2018) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2019.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.
	Normal retirement age	55 or 60 years as opted by the employees.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

50.5.1 (b) Movement in the present value of defined benefit obligation – Bank

	2019 Rs. '000	2018 Rs. '000
Balance as at January 1,	217,829	204,441
Interest cost	25,050	22,489
Current service cost	4,400	3,823
Benefits paid during the year	(19,101)	(17,619)
Actuarial (gains)/losses	19,583	4,695
Balance as at December 31,	**247,761**	217,829

50.5.1 (c) Movement in the fair value of plan assets

	2019 Rs. '000	2018 Rs. '000
Fair value as at January 1,	**204,860**	160,530
Expected return on plan assets	**23,559**	17,658
Contribution paid into plan	**2,145**	46,001
Benefits paid by the plan	**(19,101)**	(17,619)
Actuarial (gains)/losses on plan assets	**2,735**	(1,710)
Fair value as at December 31,	**214,198**	204,860

50.5.1 (d) Liability recognised in the statement of financial position

	Note	Page No.	2019 Rs. '000	2018 Rs. '000
Present value of defined benefit obligations as at December 31,	50.5.1 (b)	232	**247,761**	217,829
Fair value of plan assets	50.5.1 (c)	233	**(214,198)**	(204,860)
Net liability recognised under other liabilities			**33,563**	12,969

50.5.1 (e) Plan assets consist of the following:

	2019 Rs. '000	2018 Rs. '000
Deposits held with the Bank	**214,198**	204,860
Total	**214,198**	204,860

50.5.2 W&OP Fund – Defined benefit plan

An actuarial valuation of the Retirement Pension W&OP Fund was carried out as at December 31, 2019 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

50.5.2 (a) Actuarial assumptions

Type of assumption	Criteria	Description
Demographic	Mortality – In service	A 67/70 Mortality table issued by the Institute of Actuaries, London
	After retirement	A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London
	Staff Turnover	The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (as at December 31, 2018) to determine the liability on account of the active employees in the funded scheme, were used in the actuarial valuation carried out as at December 31, 2019.
	Disability	Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.
	Normal retirement age	55 or 60 years as opted by the employees.
Financial	Rate of discount	In the absence of a deep market in long-term bonds in Sri Lanka, a long-term interest rate of 10.50% p.a. (2018 – 11.50% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.
	Salary increases	A salary increment of 10.00% p.a. (2018 – 11.00% p.a.) has been used in respect of the active employees.
	Post-retirement pension increase rate	There is no agreed rate of increase even though the pension payments are subject to periodic increases and increases are granted solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

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50.5.2 (b) Movement in the present value of defined benefit obligation – Bank

	2019 Rs. '000	2018 Rs. '000
Balance as at January 1,	61,287	67,534
Interest cost	7,048	6,061
Current service cost	415	348
Transfers	–	(12,435)
Benefits paid during the year	(5,786)	(5,589)
Actuarial (gains)/losses	5,896	5,368
Balance as at December 31,	**68,860**	**61,287**

50.5.2 (c) Movement in the fair value of plan assets

	2019 Rs. '000	2018 Rs. '000
Fair value as at January 1,	66,848	48,270
Expected return on plan assets	7,687	5,310
Contribution paid into plan	280	19,524
Benefits paid by the plan	(5,786)	(5,589)
Actuarial gains/(losses) on plan assets	(12,976)	(667)
Fair value as at December 31,	**56,053**	**66,848**

50.5.2 (d) Liability recognised in the Statement of Financial Position

	Note	Page No.	2019 Rs. '000	2018 Rs. '000
Present value of defined benefit obligations as at December 31,	50.5.2 (b)	234	68,860	61,287
Fair value of plan assets	50.5.2 (c)	234	(56,053)	(66,848)
Net liability recognised under other liabilities			**12,807**	**(5,561)**

50.5.2 (e) Plan assets consist of the following:

	2019 Rs. '000	2018 Rs. '000
Deposits held with the Bank	56,053	66,848
Total	**56,053**	**66,848**

50.5.3 Pension fund – Defined contribution plan

During 2006, the Bank restructured its pension scheme which was a Defined Benefit Plan (DBP) to a Define Contribution Plan (DCP). This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provided for lump sum payments instead of commuted/monthly pension to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and future service package. The cost to be incurred on account of the past service package in excess of the funds available in the pension fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, estimated to increase for this purpose at 10% p.a. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who joined the restructured scheme.

51. Due to subsidiaries

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Local subsidiaries				
Commercial Development Company PLC	–	–	19,724	23,400
CBC Tech Solutions Limited	–	–	34,568	17,555
Serendib Finance Limited	–	–	–	–
Commercial Insurance Brokers (Private) Limited			–	–
Subtotal	–	–	54,292	40,955
Foreign subsidiaries				
Commex Sri Lanka S.R.L. – Italy	–	–	–	–
Commercial Bank of Maldives Private Limited	–	–	–	–
CBC Myanmar Microfinance Co. Limited	–	–	–	–
Subtotal	–	–	–	–
Total	–	–	54,292	40,955

The maturity analysis of Due to subsidiaries is given in Note 62 on pages 247 to 249.

52. Subordinated liabilities

Accounting policy

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			36,904,430	24,699,430	36,904,430	24,699,430
Amount borrowed during the year			–	10,000,000	–	10,000,000
Repayments/redemptions during the year			–	–	–	–
Subtotal			36,904,430	34,699,430	36,904,430	34,699,430
Exchange rate variance			(93,750)	2,205,000	(93,750)	2,205,000
Balance as at December 31, (before adjusting for amortised interest and transaction cost)	52.1	236	36,810,680	36,904,430	36,810,680	36,904,430
Unamortised transaction cost			(39,174)	(51,384)	(39,174)	(51,384)
Net effect of amortised interest payable			1,115,283	1,139,411	1,115,283	1,139,411
Adjusted balance as at December 31,			37,886,789	37,992,457	37,886,789	37,992,457

52.1 Categories of subordinated liabilities

Categories	Colombo Stock Exchange Listing	Interest payable frequency	Allotment date	Maturity date	Effective annual yield 2019 %	Effective annual yield 2018 %	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Fixed Rate Debentures										
2016/2021 – 10.75% p.a.	Listed	Biannually	09.03.2016	08.03.2021	**11.04**	11.04	**4,430,340**	4,430,340	**4,430,340**	4,430,340
2016/2021 – 12.00% p.a.	Listed	Biannually	28.10.2016	27.10.2021	**12.36**	12.36	**5,071,800**	5,071,800	**5,071,800**	5,071,800
2016/2026 – 11.25% p.a.	Listed	Biannually	09.03.2016	08.03.2026	**11.57**	11.57	**1,749,090**	1,749,090	**1,749,090**	1,749,090
2016/2026 – 12.25% p.a.	Listed	Biannually	28.10.2016	27.10.2026	**12.63**	12.63	**1,928,200**	1,928,200	**1,928,200**	1,928,200
2018/2023 – 12.00% p.a.	Listed	Biannually	23.07.2018	22.07.2023	**12.36**	12.36	**8,393,840**	8,393,840	**8,393,840**	8,393,840
2018/2028 – 12.50% p.a.	Listed	Biannually	23.07.2018	22.07.2028	**12.89**	12.89	**1,606,160**	1,606,160	**1,606,160**	1,606,160
Floating rate subordinated loans										
IFC Borrowings – 6 M LIBOR + 5.75%		Biannually	13.03.2013	14.03.2023	**8.388**	8.385	**13,631,250**	13,725,000	**13,631,250**	13,725,000
Total							**36,810,680**	36,904,430	**36,810,680**	36,904,430

52.2 Subordinated liabilities by maturity

As at December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Payable within one year	**–**	–	**–**	–
Payable after one year	**36,810,680**	36,904,430	**36,810,680**	36,904,430
Total	**36,810,680**	36,904,430	**36,810,680**	36,904,430

The maturity analysis of subordinated liabilities is given in Note 62 on pages 247 to 249.

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest, or other breaches with respect to its subordinated liabilities during the year ended December 31, 2019.

53. Stated capital

Accounting policy

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue cost.

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			**39,147,882**	37,143,541	**39,147,882**	37,143,541
Issue of ordinary voting shares under the employee share option plan			**30,128**	203,083	**30,128**	203,083
Transfer from employee share option reserve	57.6	243	**–**	6,414	**–**	6,414
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares			**1,738,948**	1,794,844	**1,738,948**	1,794,844
Ordinary voting shares			**1,627,125**	1,679,774	**1,627,125**	1,679,774
Ordinary non-voting shares			**111,823**	115,070	**111,823**	115,070
Balance as at December 31,			**40,916,958**	39,147,882	**40,916,958**	39,147,882

53.1 Movement in number of shares

	Number of ordinary voting shares		Number of ordinary non-voting shares	
	2019	2018	**2019**	2018
Balance as at January 1,	**945,709,403**	931,971,691	**65,013,174**	63,927,611
Issue of ordinary voting shares under the employee share option plan	**293,385**	1,739,324	**–**	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	**15,249,529**	11,998,388	**1,241,095**	1,085,563
Balance as at December 31,	**961,252,317**	945,709,403	**66,254,269**	65,013,174

The shares of Commercial Bank of Ceylon PLC are quoted on the Colombo Stock Exchange. The non-voting ordinary shares of the Bank, rank *pari passu* in respect of all rights with the ordinary voting shares of the Bank except voting rights on Resolutions passed at General Meetings.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The Bank has offered an Employee Share Option Plan. Please see Note 53.2 below for details.

53.2 Employee share option plan – 2008

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on April 16, 2008, to introduce an Employee Share Option Plan for the benefit of all the Executive Officers in Grade III and above by creating up to 3% of the ordinary voting shares at the rate of 1% shares each year over a period of three to five years, upon the Bank achieving specified performance targets.

Option price is determined on the basis of the weighted average market price of Bank's voting shares, during the period of ten market days immediately prior to each option offer date.

Number of options offered under each tranche is based on the overall performance of the Bank and the individual performance of the eligible employees in the preceding year. In the event of a rights issue of shares, capitalisation of reserves, stock splits or stock dividends by the Bank during the vesting period, the number of options offered and the price are suitably adjusted as per the applicable rules of ESOP – 2008 which have been drafted in line with the accepted market practices.

One-third of the options offered under each tranche is vested to eligible employees after one year from the date of offer, second One-third of the options after two years from the date of offer and final One-third after three years from the date of offer, as detailed below:

Details relating to Tranche III are given below. (Both Tranche I and II have lapsed due to options being vested and exercised, options cancelled before vesting and options cancelled due to non-acceptance.)

	Tranche III			Total
Date granted	April 30, 2012	April 30, 2012	April 30, 2012	
Price (Rs.) – (*)	102.69	102.69	102.69	
	1/3 of options	1/3 of options	1/3 of options	
Exercisable between	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	April 30, 2015 to April 29, 2019	
Original number of options	2,596,558	2,616,965	2,623,341	7,836,864
Number of options cancelled before vesting	–	(49,706)	(79,964)	(129,670)
Number of options vested	2,596,558	2,567,259	2,543,377	7,707,194
Options cancelled due to non-acceptance	(210,926)	(325,903)	(844,314)	(1,381,143)
Number of options exercised up to December 31, 2019	(2,385,632)	(2,241,356)	(1,699,063)	(6,326,051)
Number of options to be exercised as at December 31, 2019	–	–	–	–

(*) Adjusted on account of rights issue of shares and sub division of shares.

The Employee Share Option Plan – 2008 was exempted from the requirements of the SLFRS 2 on "Share-based payment" as it was granted prior to January 1, 2012, the effective date of the aforesaid Accounting Standard.

The details of Employee Share Option Plans within the scope of the SLFRS 2 on "Share-based Payment" are reported in Note 54 to the Financial Statements below:

54. Share-based payment

54.1 Description of the share-based payment arrangement

As at the reporting date, the Group had the following equity settled share-based payment arrangement which was granted after January 1, 2012, the effective date of the Accounting Standard SLFRS 2 on "Share-based Payment".

Employee Share Option Plan – 2015

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on March 31, 2015, to introduce an Employee Share Option Plan for the benefit of all Executive Officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rate of 0.5% shares in the first two years and 1% share in the last year over a period of three to five years, upon the Bank achieving specified performance targets. The performance conditions include minimum performance targets over the budget and over the industry peers and the service conditions include the fulfilment of the minimum service period at vesting dates of each tranche.

Key terms and conditions related to the offer are detailed below:

		Tranches		
		Tranche I	Tranche II	Tranche III
Percentage of issue of new voting shares (Maximum)		0.50%	0.50%	1.0%
Date granted		April 1, 2015	April 1, 2015	April 1, 2015
Exercise price (Rs.)		120.46	134.74	136.35
Exercisable between		October 1, 2016 to September 30, 2019	October 1, 2017 to September 30, 2020	October 1, 2018 to September 30, 2021
Date of vesting		September 30, 2016	September 30, 2017	September 30, 2018
Vesting conditions		1 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the financial year 2015	2 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the financial year 2016	3 ½ years of service from the grant date and the fulfilment of performance conditions stated above for the financial year 2017
Number of options vested on the date of vesting				
Options granted to key management personnel		59,615	61,400	138,632
Option granted to other executive officers		4,096,243	4,167,461	9,313,432
Total options vested on the date of vesting		4,155,858	4,228,861	9,452,064

All options are to be settled by physical delivery of ordinary voting shares of the Bank. There are neither cash settlement alternatives nor the Bank has a past practise of cash settlement for these types of options.

The exercise price of each tranche is computed based on a volume-weighted average market price of the Bank's ordinary (voting) shares, during the period of thirty (30) market days, six months prior to the date of vesting.

54.2 Measurement of fair value

As required by SLFRS 2 on "Share-based Payment", the fair value of the ESOP 2015 was estimated at the grant date using the Binomial Valuation Model taking into consideration various terms and conditions upon which the share options are granted.

The inputs used in measurement of fair value at the grant date of ESOP 2015 were as follows:

	Tranches		
Description of the valuation input	Tranche I	Tranche II	Tranche III
Expected dividend rate (%)	3.50	3.50	3.50
Risk free rate (%)	8.00	8.00	8.00
Probability of share price increase (%)	80.00	80.00	80.00
Probability of share price decrease (%)	20.00	20.00	20.00
Size of annual increase of share price (%)	20.00	20.00	20.00
Size of annual reduction in share price (%)	10.00	10.00	10.00
Original expected exercise price (Rs.)	206.90	227.54	250.24

Growths in share prices stated above have been based on evaluation of the historical volatility of the Bank's share price over past 10 years, adjusted for post-war growth in All Share Price Index published by the Colombo Stock Exchange.

54.3 Reconciliation of outstanding share options

The number and weighted-average exercise prices of share options are as follows:

Tranche	Tranche I		Tranche II		Tranche III	
Exercise price	120.46		134.74		136.35	
Year	**2019**	2018	**2019**	2018	**2019**	2018
No. of voting shares vested and to be vested as at January 1,	**3,228,021**	3,345,110	**4,048,728**	4,102,298	**9,451,610**	8,292,926
Granted during the year	**–**	–	**–**	–	**–**	1,158,684
Exercised during the year	**–**	(117,089)	**–**	(53,570)	**–**	–
Number of options expired	**(3,228,021)**		**–**	–	**–**	–
No. of voting shares vested and to be vested as at December 31,	**–**	3,228,021	**4,048,728**	4,048,728	**9,451,610**	9,451,610

54.4 Expense recognised in income statement

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Accordingly, the expense in the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense [Refer Note 19].

55. Statutory reserves

Accounting policy

Several statutory and voluntary reserves are maintained by the Group in order to meet various legal and operational requirements. The details of these reserves including the nature and purpose of maintaining them are given in Notes 55, 56 and 57 on pages 239 to 243.

As at December 31,	Note	Page No.	GROUP **2019** **Rs. '000**	GROUP 2018 Rs. '000	BANK **2019** **Rs. '000**	BANK 2018 Rs. '000
Statutory reserve fund	55.1	239	**8,387,701**	7,444,178	**8,205,391**	7,354,143
Total			**8,387,701**	7,444,178	**8,205,391**	7,354,143

55.1 Statutory reserve fund

As at December 31,	GROUP **2019** **Rs. '000**	GROUP 2018 Rs. '000	BANK **2019** **Rs. '000**	BANK 2018 Rs. '000
Balance as at January 1,	**7,444,178**	6,492,552	**7,354,143**	6,476,952
Transfers made during the year	**1,017,536**	1,012,527	**851,248**	877,191
Statutory reserve attributable to non-controlling interest	**(74,013)**	(60,901)	**–**	–
Balance as at December 31,	**8,387,701**	7,444,178	**8,205,391**	7,354,143

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 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 the 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.

56. Retained earnings

	Note	Page No.	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,			4,949,955	5,086,609	5,063,076	4,987,446
Impact of adopting SLFRS 16/ SLFRS 9			(57,627)	(5,140,993)	(57,627)	(4,822,089)
Balance as at January 1, – Adjusted			4,892,328	(54,384)	5,005,449	165,357
Total comprehensive income			17,205,859	17,833,952	16,968,027	17,654,113
Profit for the year			17,263,259	17,734,706	17,024,967	17,543,828
Other comprehensive income, net of tax			(57,400)	99,246	(56,940)	110,285
Dividends paid			(6,596,161)	(6,500,351)	(6,596,161)	(6,500,351)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years			(350)	1,604	(547)	1,148
Transfer of value of expired ESOP			88,913	–	88,913	–
Transfers to other reserves			(10,413,523)	(6,331,626)	(10,321,248)	(6,257,191)
Profit on sale of partial disposal of a subsidiary			14,498	3,344	–	–
Reinstatement of non-controlling interest due to partial disposal of a subsidiary			(9,379)	(2,584)	–	–
Balance as at December 31,			5,182,185	4,949,955	5,144,433	5,063,076

57. Other reserves

57. (a) Current year – 2019

	Note	Page No.	GROUP Balance as at January 1, Rs. '000	GROUP Movement/ transfers Rs. '000	GROUP Balance as at December 31, Rs. '000	BANK Balance as at January 1, Rs. '000	BANK Movement/ transfers Rs. '000	BANK Balance as at December 31, Rs. '000
Revaluation reserve	57.1	241	7,819,131	18,654	7,837,785	7,088,054	–	7,088,054
General reserve	57.2	241	57,650,003	9,470,000	67,120,003	57,650,003	9,470,000	67,120,003
Available-for-sale reserve	57.3	242	–	–	–	–	–	–
Fair value reserve	57.4	242	(1,386,355)	3,169,858	1,783,503	(1,384,982)	3,170,423	1,785,441
Foreign currency translation reserve	57.5	242	3,157,052	(391,060)	2,765,992	2,871,770	(399,787)	2,471,983
Employee share option reserve	57.6	243	591,984	(123,490)	468,494	591,984	(123,490)	468,494
Hedging reserve	57.7	243	24,019	(62,391)	(38,372)	24,019	(62,391)	(38,372)
Total			67,855,834	12,081,571	79,937,405	66,840,848	12,054,755	78,895,603

57. (b) i Previous year – 2018

	Note	Page No.	GROUP Balance as at January 1, Rs. '000	GROUP Impact of adopting SLFRS 9 Rs. '000	GROUP Balance as at January 1, Adjusted Rs. '000	GROUP Movement/ Transfers Rs. '000	GROUP Balance as at December 31, Rs. '000
Revaluation reserve	57.1	241	7,834,003	–	7,834,003	(14,872)	7,819,131
General reserve	57.2	241	52,270,003	–	52,270,003	5,380,000	57,650,003
Available-for-sale reserve	57.3	242	(1,707,486)	1,707,486	–	–	–
Fair value reserve	57.4	242	–	(325,412)	(325,412)	(1,060,943)	(1,386,355)
Foreign currency translation reserve	57.5	242	348,973	–	348,973	2,808,079	3,157,052
Employee share option reserve	57.6	243	529,817	–	529,817	62,167	591,984
Hedging reserve	57.7	243	(3,212)	–	(3,212)	27,231	24,019
Total			59,272,098	1,382,074	60,654,172	7,201,662	67,855,834

57. (b) ii Previous year – 2018

	Note	Page No.	BANK Balance as at January 1, Rs. '000	Impact of adopting SLFRS 9 Rs. '000	Balance as at January 1, Adjusted Rs. '000	Movement/ Transfers Rs. '000	Balance as at December 31, Rs. '000
Revaluation reserve	57.1	241	7,088,054	–	7,088,054	–	7,088,054
General reserve	57.2	241	52,270,003	–	52,270,003	5,380,000	57,650,003
Available-for-sale reserve	57.3	242	(1,707,494)	1,707,494	–	–	–
Fair value reserve	57.4	242	–	(325,420)	(325,420)	(1,059,562)	(1,384,982)
Foreign currency translation reserve	57.5	242	314,253	–	314,253	2,557,517	2,871,770
Employee share option reserve	57.6	243	529,817	–	529,817	62,167	591,984
Hedging reserve	57.7	243	(3,212)	–	(3,212)	27,231	24,019
Total			58,491,421	1,382,074	59,873,495	6,967,353	66,840,848

57.1 Revaluation reserve

Accounting policy

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings as at the date of revaluation.

	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,	**7,819,131**	7,834,003	**7,088,054**	7,088,054
Surplus on revaluation of freehold land and buildings	**–**	–	**–**	–
Deferred tax effect on revaluation surplus on freehold land and buildings	**–**	(10,010)	**–**	–
Revaluation gain on disposal of freehold land and buildings	**–**	–	**–**	–
Share of other comprehensive income of associate	**39,575**	–	**–**	–
Movement due to changes in equity	**(20,921)**	(4,862)	**–**	–
Balance as at December 31,	**7,837,785**	7,819,131	**7,088,054**	7,088,054

57.2 General reserve

Accounting policy

The Bank transfers the surplus profit, after payment of interim dividend and after retaining sufficient profits to pay final dividends proposed, from the retained earnings account to the General Reserve account. The purpose of setting up the General Reserve is to meet potential future unknown liabilities.

	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Balance as at January 1,	**57,650,003**	52,270,003	**57,650,003**	52,270,003
Transfers during the year	**9,470,000**	5,380,000	**9,470,000**	5,380,000
Balance as at December 31,	**67,120,003**	57,650,003	**67,120,003**	57,650,003

57.3 Available-for-sale reserve

Accounting policy

The available-for-sale reserve is comprised of the cumulative net change in fair value of financial investments available for sale until such investments are derecognised or impaired.

	GROUP		BANK	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	**–**	(1,707,486)	**–**	(1,707,494)
Impact of adopting SLFRS 9	**–**	1,707,486	**–**	1,707,494
Balance as at January 1, – Adjusted	**–**	–	**–**	–
Net fair value gains/(losses) on remeasuring financial investments available-for-sale	**–**	–	**–**	–
Balance as at December 31,	**–**	–	**–**	–

57.4 Fair value reserve

Accounting policy

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

	GROUP		BANK	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	**(1,386,355)**	–	**(1,384,982)**	–
Impact of adopting SLFRS 9	**–**	(325,412)	**–**	(325,420)
Balance as at January 1, – Adjusted	**(1,386,355)**	(325,412)	**(1,384,982)**	(325,420)
Net fair value gains/(losses) on remeasuring financial assets at fair value through other comprehensive income	**3,170,800**	(1,060,943)	**3,170,423**	(1,059,562)
Share of other comprehensive income of associate	**(942)**	–	**–**	–
Balance as at December 31,	**1,783,503**	(1,386,355)	**1,785,441**	(1,384,982)

57.5 Foreign currency translation reserve

Accounting Policy

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation and the foreign subsidiaries of the Bank were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the reporting date and the Statement of Profit or Loss and Other Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation of these Financial Statements are taken to foreign currency translation reserve through other comprehensive income.

	GROUP		BANK	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,	**3,157,052**	348,973	**2,871,770**	314,253
Net gains/(losses) arising from translating the Financial Statements of foreign operations	**(396,201)**	3,003,952	**(399,787)**	2,557,517
Foreign Currency Translation Reserve attributable to non-controlling Interest	**5,141**	(195,873)	**–**	–
Balance as at December 31,	**2,765,992**	3,157,052	**2,471,983**	2,871,770

57.6 Employee share option reserve

Accounting policy

The employee share option reserve is used to recognise the value of equity-settled share-based payments to be provided to employees, including Key Management Personnel, as part of their remuneration.

			GROUP		BANK	
			2019	2018	2019	2018
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,			591,984	529,817	591,984	529,817
Transfers during the year	19	179	–	68,581	–	68,581
Transfers to stated capital	53	236	–	(6,414)	–	(6,414)
Transfer to retained earnings on expired ESOP			(123,490)	–	(123,490)	–
Balance as at December 31,			468,494	591,984	468,494	591,984

57.7 Hedging reserve

Accounting policy

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedge cash flows affect profit or loss.

	GROUP		BANK	
	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at January 1,	24,019	(3,212)	24,019	(3,212)
Transfers during the year	(62,391)	27,231	(62,391)	27,231
Balance as at December 31,	(38,372)	24,019	(38,372)	24,019

58. Non-controlling interest

Accounting policy

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the Bank has non-controlling interest in three subsidiaries namely, Commercial Development Company PLC (NCI of 10%), Commercial Insurance Brokers (Pvt) Limited (NCI of 42%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the reporting date as follows:

	2019	2018
	Rs. '000	Rs. '000
Balance as at January 1,	1,198,981	871,906
Profit for the year	157,137	128,125
Other comprehensive income, net of tax	(5,077)	195,685
Dividends paid for the year	(5,010)	(4,218)
Unclaimed dividend absorbed/(dividend paid) in respect of previous years	22	37
Reinstatement of non-controlling interest due to partial disposal of a subsidiary	30,300	7,446
Acquisition of subsidiary with non-controlling interest	212,881	–
Balance as at December 31,	1,589,234	1,198,981

59. Contingent liabilities and commitments

Accounting policy

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

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities.

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

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

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

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

			GROUP		BANK	
As at December 31,			2019	2018	2019	2018
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Contingencies			470,935,864	497,339,745	470,624,684	497,201,464
Guarantees			58,619,708	48,466,580	58,463,720	48,412,151
Performance bonds			38,704,636	45,115,711	38,606,887	45,112,151
Documentary credits			52,361,670	49,478,564	52,317,807	49,398,272
Other contingencies	59.1	244	321,249,850	354,278,890	321,236,270	354,278,890
Commitments			110,025,943	106,681,655	109,374,589	106,681,655
Undrawn commitments on direct advances			109,676,108	106,223,235	109,046,521	106,223,235
Capital commitments	59.2	245	349,835	458,420	328,068	458,420
Total			580,961,807	604,021,400	579,999,273	603,883,119

59.1 Other contingencies

	GROUP		BANK	
As at December 31,	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Forward exchange contracts:	57,627,084	98,922,263	57,627,084	98,922,263
Forward exchange sales	30,265,726	52,853,513	30,265,726	52,853,513
Forward exchange purchases	27,361,358	46,068,750	27,361,358	46,068,750
Interest Rate Swap agreements/currency swaps	188,772,874	182,984,415	188,772,874	182,984,415
Interest rate swaps	–	–	–	–
Currency swaps	188,772,874	182,984,415	188,772,874	182,984,415
Others	74,849,892	72,372,212	74,836,312	72,372,212
Acceptances	44,018,170	41,931,557	44,007,816	41,931,557
Bills for collection	29,272,988	29,200,428	29,269,762	29,200,428
Stock of Travellers' Cheques	1,547,390	1,230,582	1,547,390	1,230,582
Bullion on consignment	11,344	9,645	11,344	9,645
Subtotal	321,249,850	354,278,890	321,236,270	354,278,890

59.2 Capital commitments

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

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Commitments in relation to property, plant and equipment	**134,473**	406,011	**112,706**	406,011
Approved and contracted for	**97,273**	215,011	**75,506**	215,011
Approved but not contracted for	**37,200**	191,000	**37,200**	191,000
Commitments in relation to intangible assets	**215,362**	52,409	**215,362**	52,409
Approved and contracted for	**215,362**	52,409	**215,362**	52,409
Approved but not contracted for	**–**	–	**–**	–
Subtotal	**349,835**	458,420	**328,068**	458,420

59.3 Movement in provision for impairment during the year

59.3 (a) Group

			Stage 1		Stage 2		Stage 3		Total	
			2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,			**528,932**	656,764	**89,177**	111,946	**108,531**	78,949	**726,640**	847,659
Charge/(write back) to the Income Statement	18.1	178	**239,399**	(130,732)	**98,060**	(22,769)	**256,212**	29,582	**593,671**	(123,919)
Net write-off during the year			**–**	–	**–**	–	**–**	–	**–**	–
Exchange rate variance on foreign currency provisions			**(231)**	2,900	**–**	–	**–**	–	**(231)**	2,900
Interest accrued/(reversals) on impaired loans and advances			**–**	–	**–**	–	**–**	–	**–**	–
Other movements			**–**	–	**–**	–	**–**	–	**–**	–
Balance as at December 31,			**768,100**	528,932	**187,237**	89,177	**364,743**	108,531	**1,320,080**	726,640

59.3 (b) Bank

			Stage 1		Stage 2		Stage 3		Total	
			2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	Note	Page No.	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000	**Rs. '000**	Rs. '000
Balance as at January 1,			**528,932**	656,764	**89,177**	111,946	**108,531**	78,949	**726,640**	847,659
Charge/(write back) to the Income Statement	18.2	179	**236,209**	(130,732)	**98,060**	(22,769)	**256,212**	29,582	**590,481**	(123,919)
Net write-off during the year			**–**	–	**–**	–	**–**	–	**–**	–
Exchange rate variance on foreign currency provisions			**(284)**	2,900	**–**	–	**–**	–	**(284)**	2,900
Interest accrued/(reversals) on impaired loans and advances			**–**	–	**–**	–	**–**	–	**–**	–
Other movements			**–**	–	**–**	–	**–**	–	**–**	–
Balance as at December 31,			**764,857**	528,932	**187,237**	89,177	**364,743**	108,531	**1,316,837**	726,640

59.4 Contingent liabilities and commitments of subsidiaries and associates

59.4 (a) Contingent liabilities and commitments of subsidiaries

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

59.4 (b) Contingent liabilities and commitments of associates

The Associate of the Group, namely, Equity Investments Lanka (Private) Limited does not have any contingencies as at the reporting date.

(The Associates of the Group, namely, Equity Investments Lanka (Private) Limited and Commercial Insurance Brokers (Private) Limited did not have any contingencies as at December 31, 2018.)

60. Net assets value per ordinary share

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank (Rs. '000)	**134,424,249**	119,397,849	**133,162,385**	118,405,949
Number of ordinary shares used as the denominator:				
Total number of shares	**1,027,506,586**	1,010,722,577	**1,027,506,586**	1,010,722,577
Net assets value per share (Rs.)	**130.83**	118.13	**129.60**	117.15

61. Litigation against the Bank

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

Set out below are the unresolved legal claims against the Bank as at December 31, 2019 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Bank that has not been listed here on the basis of non-materiality to operations.

Plaintiff	Nature of the case	Courts and case No.	Value of the action (Rs. '000)	Description of the case	Present status
Customer	Damages	High Court Colombo Civil Case No. 306/2011/MR [Previous number is DC Colombo Case No. 57970/MR]	35,000	Action has been filed against the Bank and two other officers of the Bank and also against the other partner of a partnership concern for an alleged unauthorised transfer of funds.	There was no appearance by or on behalf of the plaintiff on November 14, 2011. Since, the plaintiff had failed to take steps, a motion was filed and supported for abatement. Notices have been issued on the plaintiff and the Attorney-at-Law for the plaintiff returnable on January 20, 2020.
Customer	Recovery of money	District Court Colombo DMR 974/2016	27,000	The plaintiff has filed action to recover a sum together with interest being the amount held by the Bank and failing to pay to the plaintiff due to attaching incorrect documents for a telegraphic transfer.	Further trial on May 13, 2020 and June 16, 2020.
Security service provider	Recovery of money	High Court Colombo Civil Case No. 591/17/MR	109,000	The plaintiff has filed action to recover a total sum of Rs.14,873,798.56 being the increment of salaries given to the workers by the Budgetary Relief Allowance of Workers Act No. 4 of 2016.	Further trial is fixed for March 5, 2020.

Plaintiff	Nature of the case	Courts and case No.	Value of the action (Rs. '000)	Description of the case	Present status
Customer	Claim on forward exchange contract	Commercial High Court 36/96(1)	183,050	Court action has been initiated by a customer regarding a forward exchange contract. Judgement was delivered in favour of the Bank dismissing the plaintiff's action, but the plaintiff has appealed against the judgement in the Supreme Court.	Next hearing is fixed for March 30, 2020.
Counter party Bank	Hedging transaction	Commercial High Court 571/08	100,000	Court action has been initiated by the plaintiff to prevent the Bank from exercising the inherent rights of the Bank to set off a deposit of the plaintiff amounting to USD 15 Mn. against a sum due from the plaintiff in terms of a hedging agreement.	Order was delivered in favour of the Bank and awaiting to obtain a copy of the Order.
Customer	Recovery of money	District Court Colombo DMR 2855/18	55,000	Court action has been initiated by the plaintiff to claim 10% of the sale price deposited at a property auction held by the Bank, since the balance 90% was not deposited within 30 days of the auction.	Written submission on February 24, 2020

62. Maturity analysis

Group

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

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31.12.2019 Rs. '000**	Total as at 31.12.2018 Rs. '000
Interest earning assets							
Financial assets							
Cash and cash equivalents	17,668,417	–	–	–	–	**17,668,417**	13,737,957
Balances with central banks	8,988,153	408,274	8,824	–	–	**9,405,251**	8,999,536
Placements with banks	11,686,456	13,217,353	–	–	–	**24,903,809**	19,898,515
Securities purchased under resale agreements	8,125,007	5,022,527	–	–	–	**13,147,534**	9,513,512
Derivative financial assets	–	–	–	–	–	**–**	–
Financial assets recognised through profit or loss – Measured at fair value	20,484,892	–	–	–	–	**20,484,892**	4,751,360
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	–	**–**	–
Financial assets at amortised cost – Loans and advances to other customers	326,725,665	220,858,552	203,513,342	98,480,803	44,340,949	**893,919,311**	867,611,976
Financial assets at amortised cost – Debt and other financial instruments	10,961,069	11,492,110	58,194,601	25,287,071	1,124,170	**107,059,021**	89,274,413
Financial assets measured at fair value through other comprehensive income	12,297,540	9,511,003	87,750,385	61,234,101	26,811,389	**197,604,418**	176,516,118
Total interest earning assets as at 31.12.2019	**416,937,199**	**260,509,819**	**349,467,152**	**185,001,975**	**72,276,508**	**1,284,192,653**	
Total interest earning assets as at 31.12.2018	404,094,462	268,971,680	281,262,449	185,228,766	50,746,030		1,190,303,387

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31.12.2019 Rs. '000**	Total as at 31.12.2018 Rs. '000
Non-interest earning assets							
Financial assets							
Cash and cash equivalents	36,012,701	–	–	–	–	**36,012,701**	30,618,005
Balances with Central Banks	22,036,524	12,773,753	821,014	511,274	553,416	**36,695,981**	46,406,999
Placements with banks	–	–	–	–	–	**–**	–
Securities purchased under resale agreements	–	–	–	–	–	**–**	–
Derivative financial assets	1,128,833	553,047	149,047	–	–	**1,830,927**	7,909,962
Financial assets recognised through profit or loss – measured at fair value	983,141	–	–	–	–	**983,141**	768,807
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	757,787	**757,787**	763,074
Financial assets at amortised cost – Loans and advances to other customers	–	–	–	–	–	**–**	–
Financial assets at amortised cost – Debt and other financial instruments	–	–	–	–	–	**–**	–
Financial assets measured at fair value through other comprehensive income	–	–	–	20,267	200,332	**220,599**	244,493
Non-Financial Assets							
Investments in associates	–	–	–	–	56,821	**56,821**	105,320
Property, plant and equipment and right-of-use assets	–	–	–	–	22,423,046	**22,423,046**	17,015,236
Investment properties	–	–	–	–	46,350	**46,350**	–
Intangible assets	–	–	–	–	1,645,714	**1,645,714**	1,433,931
Leasehold property	–	–	–	–	101,612	**101,612**	103,064
Deferred tax assets	–	–	530,165	–	–	**530,165**	188,487
Other assets	16,898,498	133,104	2,022,823	573,803	3,815,641	**23,443,869**	24,051,472
Total non-interest earning assets as at 31.12.2019	77,059,697	13,459,904	3,523,049	1,105,344	29,600,719	**124,748,713**	
Total non-interest earning assets as at 31.12.2018	80,074,079	20,513,461	4,479,819	1,360,329	23,181,162		129,608,850
Total assets – as at 31.12.2019	**493,996,896**	**273,969,723**	**352,990,201**	**186,107,319**	**101,877,227**	**1,408,941,366**	
Total assets – as at 31.12.2018	484,168,541	289,485,141	285,742,268	186,589,095	73,927,192		1,319,912,237
Percentage – as at 31.12.2019 (*)	**35.06**	**19.45**	**25.05**	**13.21**	**7.23**	**100.00**	
Percentage – as at 31.12.2018(*)	36.68	21.93	21.65	14.14	5.60		100.00

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

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

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31.12.2019 Rs. '000**	Total as at 31.12.2018 Rs. '000
Interest-bearing liabilities							
Financial liabilities							
Due to banks	17,450,496	19,958,064	9,948,588	4,740,417	–	**52,097,565**	30,535,441
Derivative financial liabilities	–	–	–	–	–	**–**	–
Securities sold under repurchase agreements	41,896,794	9,214,840	5,708	–	–	**51,117,342**	48,951,394
Financial liabilities at amortised cost – due to depositors	561,752,865	378,059,803	23,634,642	12,976,062	16,697,968	**993,121,340**	916,117,592
Financial liabilities at amortised cost – Other borrowings	1,414,641	3,414,344	8,484,475	5,310,021	4,625,412	**23,248,893**	25,361,912
Subordinated liabilities	739,330	363,741	9,477,720	22,022,547	5,283,451	**37,886,789**	37,992,457
Total interest – bearing liablities as at 31.12.2019	**623,254,126**	**411,010,792**	**51,551,133**	**45,049,047**	**26,606,831**	**1,157,471,929**	
Total Interest – bearing liabilities as at 31.12.2018	558,299,590	380,423,746	47,024,444	45,214,600	27,996,416		1,058,958,796

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at 31.12.2019 Rs. '000**	Total as at 31.12.2018 Rs. '000
Non-interest bearing liabilities							
Financial liabilities							
Due to banks	1,709,860	–	–	–	–	**1,709,860**	21,826,611
Derivative financial liabilities	1,106,950	330,515	4,557	–	53,295	**1,495,317**	8,021,783
Securities sold under repurchase agreements	–	–	–	–	–	**–**	–
Financial liabilities at amortised cost – Due to depositors	75,861,247	–	–	–	–	**75,861,247**	78,253,283
Financial liabilities at amortised cost – Other borrowings	–	–	–	–	–	**–**	–
Subordinated liabilities	–	–	–	–	–	**–**	–
Non-financial liabilities							
Current tax liabilities	2,166,445	3,030,743	–	–	–	**5,197,188**	6,735,997
Deferred tax liabilities	–	–	416,458	–	–	**416,458**	971,424
Other liabilities	20,176,158	3,090,450	3,575,261	1,500,250	2,433,765	**30,775,884**	24,547,513
Equity							
Stated capital	–	–	–	–	40,916,958	**40,916,958**	39,147,882
Statutory reserves	–	–	–	–	8,387,701	**8,387,701**	7,444,178
Retained earnings	–	–	–	–	5,182,185	**5,182,185**	4,949,955
Other reserves	–	–	–	–	79,937,405	**79,937,405**	67,855,834
Non-controlling Interest					1,589,234	**1,589,234**	1,198,981
Total non-interest-bearing liabilities and equity as at 31.12.2019	**101,020,660**	**6,451,708**	**3,996,276**	**1,500,250**	**138,500,543**	**251,469,437**	
Total non-interest-bearing liabilities and equity as at 31.12.2018	120,554,617	11,787,528	1,720,637	990,630	125,900,029		260,953,441
Total liabilities and equity – as at 31.12.2019	**724,274,786**	**417,462,500**	**55,547,409**	**46,549,297**	**165,107,374**	**1,408,941,366**	
Total liabilities and equity – as at 31.12.2018	678,854,207	392,211,274	48,745,081	46,205,230	153,896,445		1,319,912,237
Percentage – as at 31.12.2019 (*)	**51.41**	**29.63**	**3.94**	**3.30**	**11.72**	**100.00**	
Percentage – as at 31.12.2018 (*)	51.44	29.71	3.69	3.50	11.66		100.00

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

63. Operating segments

Accounting policy

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

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

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

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

The following table presents the income, profit and asset and liability information on the Group's strategic business divisions for the year ended December 31, 2019 and comparative figures for the year ended December 31, 2018.

For the year ended December 31,	Personal banking		Corporate banking	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
External operating income:				
Net interest income	**30,380,744**	28,043,793	**8,215,095**	7,631,402
Foreign exchange profit	**293,563**	340,879	**(197,352)**	377,715
Net fee and commission income	**7,132,948**	6,952,468	**2,021,781**	2,140,757
Other income	**101,604**	204,482	**4,005**	20,088
Total operating income	**37,908,859**	35,541,622	**10,043,529**	10,169,962
Impairment charges and other losses	**(8,464,789)**	(4,178,709)	**(2,462,978)**	(4,123,622)
Net operating income	**29,444,070**	31,362,913	**7,580,551**	6,046,340
Segment result	**12,370,434**	15,059,939	**4,290,767**	2,453,781
Profit from operations				
Share of profit of associates (net of tax)				
Income tax expense				
Non-controlling interest				
Net profit for the year, attributable to equity holders of the parent				

As at December 31,	Personal banking		Corporate banking	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Other information				
Segment assets	**453,435,388**	488,427,548	**297,863,844**	303,406,929
Investment in associates	**–**	–	**–**	–
Total assets	**453,435,388**	488,427,548	**297,863,844**	303,406,929
Segment liabilities	**798,045,682**	744,120,759	**170,142,385**	171,867,079
Total liabilities	**798,045,682**	744,120,759	**170,142,385**	171,867,079

For the year ended December 31,	Personal banking		Corporate banking	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Information on cash flows				
Cash flows from operating activities	**56,038,002**	78,859,644	**(8,255,367)**	(44,494,188)
Cash flows from investing activities	**–**	–	**–**	–
Cash flows from financing activities	**(787,379)**	–	**–**	–
Capital expenditure –				
Property, plant and equipment				
Intangible assets				
Net cash flow generated during the year				

International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
6,583,197	5,534,068	**237,804**	310,750	**(1,091,945)**	1,721,872	**4,031,496**	2,376,324	**48,356,391**	45,618,209
1,777,036	1,697,686	**–**	–	**4,705,294**	1,876,109	**283,803**	3,771,099	**6,862,344**	8,063,488
1,567,198	1,501,710	**25,905**	35,718	**4,006**	3,739	**–**	–	**10,751,838**	10,634,392
10,310	16,889	**20,214**	(19,418)	**1,214,550**	267,165	**365,393**	59,172	**1,716,076**	548,378
9,937,741	8,750,353	**283,923**	327,050	**4,831,905**	3,868,885	**4,680,692**	6,206,595	**67,686,649**	64,864,467
22,271	(2,128)	**(147,884)**	(2,287)	**(278,143)**	(526,616)	**–**	–	**(11,331,523)**	(8,833,362)
9,960,012	8,748,225	**136,039**	324,763	**4,553,762**	3,342,269	**4,680,692**	6,206,595	**56,355,126**	56,031,105
6,768,966	6,330,706	**60,606**	156,239	**3,147,297**	1,339,758	**(3,664,166)**	752,077	**22,973,904**	26,092,500
								22,973,904	26,092,500
								9,992	6,048
								(5,563,500)	(8,235,717)
								(157,137)	(128,125)
								17,263,259	17,734,706

International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
226,294,630	164,746,018	**10,571,965**	15,076,223	**365,530,712**	283,021,383	**55,188,006**	65,128,816	**1,408,884,545**	1,319,806,917
–	–	**–**	–	**–**	–	**56,821**	105,320	**56,821**	105,320
226,294,630	164,746,018	**10,571,965**	15,076,223	**365,530,712**	283,021,383	**55,244,827**	65,234,136	**1,408,941,366**	1,319,912,237
176,807,747	147,762,473	**10,628,786**	15,181,543	**73,802,848**	74,683,675	**43,500,435**	45,699,878	**1,272,927,883**	1,199,315,407
176,807,747	147,762,473	**10,628,786**	15,181,543	**73,802,848**	74,683,675	**43,500,435**	45,699,878	**1,272,927,883**	1,199,315,407

International operations		Investment banking		Dealing/treasury		Unallocated/eliminations		Total/consolidated	
2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
479,677	6,033,177	**125,707**	465,912	**(30,806,140)**	(33,147,207)	**–**	–	**17,581,879**	7,717,338
–	–	**3,262,836**	1,404,083	**–**	–	**–**	–	**3,262,836**	1,404,083
(261,625)	–	**–**	–	**–**	–	**(8,705,530)**	2,998,732	**(9,754,534)**	2,998,732
								(1,348,643)	(2,026,561)
								(415,088)	(406,641)
								9,326,450	9,686,951

64. Related party disclosures

Accounting policy

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

64.1 Parent and ultimate controlling party

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

64.2 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

KMP of the Bank

The Board of Directors of the Bank (including Executive and Non-Executive Directors) has been classified as KMP of the Bank.

KMP of the Group

As the Bank is the ultimate parent of the subsidiaries listed out in Note 1.3 on page 149, the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank is also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMP only for that respective subsidiary.

64.2.1 Compensation of KMP

	GROUP		BANK	
For the year ended December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Short-term employment benefits	**200,452**	194,031	**195,959**	191,982
Post-employment benefits	**8,342**	8,481	**8,342**	8,481
Total	**208,794**	202,512	**204,301**	200,463

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

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

64.2.2.1 Statement of Financial Position – Bank

	Year-end balance		Annual average balance	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**54,026**	53,700	**56,942**	32,930
Total	**54,026**	53,700	**56,942**	32,930
Liabilities				
Securities sold under repurchase agreements	**–**	–	**–**	2,534
Financial liabilities at amortised cost – Due to depositors	**351,104**	262,328	**307,150**	265,877
Subordinated liabilities	**2,000**	2,000	**2,000**	2,000
Total	**353,104**	264,328	**309,150**	270,411

64.2.2.2 Commitments and contingencies – Bank

	Year-end balance		Annual average balance	
	2019	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Undrawn facilities	**13,740**	16,293	**14,581**	15,429
Total	**13,740**	16,293	**14,581**	15,429

64.2.2.3 Direct and indirect accommodation – Bank

	Year-end balance	
	2019	2018
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	**0.04**	0.05

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

64.2.2.4 Income Statement

For the year ended December 31,	Note	Page No.	2019 Rs. '000	2018 Rs. '000
Interest income			**5,937**	3,597
Interest expense			**25,212**	24,594
Compensation to KMP	64.2.1		**204,301**	200,463

64.2.2.5 Share-based transactions of KMP and CFM

	Year-end balance	
	2019	2018
Number of ordinary shares held by KMP and CFM	**932,543**	866,367
Dividends paid (in Rs. '000)	**5,900**	7,353

	ESOP 2008		ESOP 2015	
As at the year end	**2019**	2018	**2019**	2018
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP)				
Tranche I	–	–	–	59,615
Tranche II	–	–	**61,400**	61,400
Tranche III	–	35,341	**138,632**	138,632

64.2.3 Transactions, arrangements and agreements involving entities which are controlled, and/or jointly controlled by the KMP or their CFM

No significant transactions during the year.

64.3 Transactions with Group entities

The Group entities include the subsidiaries and the associates of the Bank.

64.3.1 Transactions with subsidiaries

64.3.1.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	**2,839,838**	1,185,846	**2,095,752**	835,121
Other assets	**101,197**	32,226	**66,318**	31,833
Total	**2,941,035**	1,218,072	**2,162,070**	866,954
Liabilities				
Securities sold under repurchase agreements	**102,680**	153,068	**116,167**	140,023
Financial liabilities at amortised cost – Due to depositors	**538,099**	244,403	**306,010**	258,565
Other liabilities	**72,409**	18,293	**69,277**	46,039
Total	**713,188**	415,764	**491,454**	444,627

64.3.1.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2019 Rs. '000	2018 Rs. '000	**2019 Rs. '000**	2018 Rs. '000
Undrawn facilities	**101,232**	100,299	**98,388**	96,552
Total	**101,232**	100,299	**98,388**	96,552

64.3.1.3 Direct and indirect accommodation

	Year-end balance 2019	2018
Direct and indirect accommodation as a % of the Bank's Regulatory Capital	**1.94**	0.89

64.3.1.4 Income Statement

For the year ended December 31,	2019 Rs. '000	2018 Rs. '000
Interest income	**270,867**	109,490
Interest expense	**36,458**	36,329
Other income	**192,369**	176,633
Other expenses	**730,982**	596,795

64.3.1.5 Other transactions

For the year ended December 31,	2019 Rs. '000	2018 Rs. '000
Payments made to CBC Tech Solutions Limited in relation to purchase of computer hardware and software	**93,007**	760

64.3.2 Transactions with associates

64.3.2.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	–	2	–	74
Total	–	2	–	74
Liabilities				
Securities sold under repurchase agreements	–	–	–	16,,399
Financial liabilities at amortised cost – Due to depositors	**5,695**	33,261	**2,843**	17,367
Total	**5,695**	33,261	**2,843**	33,766

64.3.2.2 Commitments and contingencies

	Year-end balance		Annual average balance	
	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Undrawn facilities	–	1,000	–	1,000
Total	–	1,000	–	1,000

64.3.2.3 Income Statement

For the year ended December 31,	2019 Rs. '000	2018 Rs. '000
Interest income	–	21
Interest expense	**1,052**	3,178
Other income	**5,730**	14,428
Other expenses	**420**	–

64.3.2.4 Other transactions

	2019	2018
Number of ordinary shares of the Bank held by the associates as at the year-end	2,439	4,741
Dividend paid (Rs. '000)	23	144

64.4 Transactions with other related entities

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

64.4.1 Transactions with post-employment benefit plans for the employees of the Bank

64.4.1.1 Statement of Financial Position

	Year-end balance		Annual average balance	
	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Assets				
Financial assets at amortised cost – Loans and advances	–	–	39	15
Total	–	–	39	15
Liabilities				
Financial liabilities at amortised cost – Due to depositors	5,316,692	10,478,031	8,644,796	9,971,838
Securities sold under repurchase agreements	–	–	–	–
Total	5,316,692	10,478,031	8,644,796	9,971,838

64.4.1.2 Income Statement

For the year ended December 31,	2019 Rs. '000	2018 Rs. '000
Interest income	11	4
Interest expense	991,990	1,204,076
Contribution made/taxes paid by the Bank	1,108,193	1,114,613

64.5 Recurrent related party transactions

There are no recurrent related party transactions which in aggregate exceeds more than 10% of the gross revenue of the Bank.

64.6 Non-recurrent related party transactions

There are no non-recurrent related party transactions which exceeds 10% of equity or 5% of total assets, whichever is lower.

65. Non-cash items included in profit before tax

	GROUP		BANK	
For the year ended December 31,	2019 Rs. '000	2018 Rs. '000	2019 Rs. '000	2018 Rs. '000
Depreciation of property, plant and equipment	2,587,411	1,383,581	2,540,339	1,279,378
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	252,392	218,076	213,240	188,789
Impairment charges and other losses	11,330,271	8,832,396	11,060,214	8,574,233
Accretion of interest on lease liability	429,263	–	457,449	–
Contributions to defined benefit plans – Unfunded schemes	485,566	361,272	469,946	349,667
Provision made o/a of leave encashment	81,592	103,868	81,592	103,868
Equity-settled share-based payments	–	68,581	–	68,581
Unamortised interest payable o/a subordinated liabilities	12,210	12,210	12,210	12,210

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Mark to market on other financial instruments at fair value through profit or loss	**(226,686)**	(55,580)	**(226,713)**	(55,580)
Effect of exchange rate variances on investment in subsidiaries	**–**	–	**–**	56,485
Effect of exchange rate variances on loans and receivables to banks	**5,212**	(122,562)	**5,212**	(122,562)
Effect of exchange rate variances on property, plant and equipment and right-of-use assets	**50,917**	(32,310)	**47,408**	(18,705)
Effect of exchange rate variances on intangible assets	**1,807**	(11,076)	**294**	(1,840)
Effect of exchange rate variances on defined benefit plans	**(5,750)**	52,568	**(5,750)**	52,568
Effect of exchange rate variances on subordinated liabilities	**(93,750)**	2,205,000	**(93,750)**	2,205,000
Net effect of exchange rate variances on net deferred tax liability	**1,565**	(29,952)	**1,293**	(26,803)
Net effect of exchange rate variances on income tax liability	**(20,978)**	492,139	**(22,437)**	471,717
Net effect of exchange rate variance on lease liability	**(36,971)**	–	**(34,216)**	–
Grossed up notional tax and withholding tax credits	**(841,251)**	(1,098,978)	**(805,060)**	(1,081,737)
Total	**14,014,272**	12,380,685	**13,702,213**	12,056,211

66. Change in operating assets

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Net (increase)/decrease in derivative financial instruments	**6,045,676**	(5,542,067)	**6,045,676**	(5,542,067)
Net (increase)/decrease in balances with central banks	**9,305,303**	(9,860,186)	**14,923,463**	(9,583,144)
Net (increase)/decrease in placements with banks	**(5,003,174)**	(2,276,030)	**(4,626,582)**	(2,276,030)
Net (increase)/decrease in securities purchased under resale agreements	**(3,634,022)**	(9,513,512)	**(3,634,022)**	(9,513,512)
Net (increase)/decrease in other financial assets recognised through profit or loss	**(15,707,023)**	(1,068,607)	**(15,706,996)**	(1,068,607)
Net (increase)/decrease in loans and receivables to customers	**(36,612,232)**	(138,148,203)	**(33,589,071)**	(135,934,002)
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	**(17,155,771)**	(23,381,080)	**(17,153,529)**	(23,324,699)
Net (increase)/decrease in financial assets at amortised cost – Debt and other financial instruments	**(21,296,002)**	27,099,075	**(20,800,149)**	26,717,096
Net (increase)/decrease in other assets	**(161,130)**	(6,688,495)	**(208,076)**	(6,612,960)
Total	**(84,218,375)**	(169,379,105)	**(74,749,286)**	(167,137,925)

67. Change in operating liabilities

For the year ended December 31,	GROUP 2019 Rs. '000	GROUP 2018 Rs. '000	BANK 2019 Rs. '000	BANK 2018 Rs. '000
Net increase/(decrease) in due to banks	**1,445,373**	(7,882,840)	**1,404,613**	(7,019,910)
Net increase/(decrease) in derivative financial instruments	**(6,579,761)**	4,347,751	**(6,579,761)**	4,347,751
Net increase/(decrease) in securities sold under repurchase agreements	**2,165,948**	(580,991)	**2,115,561**	(572,305)
Net increase/(decrease) in deposits from banks, customers and debt securities issued	**74,611,712**	137,100,894	**70,270,346**	132,909,803
Net increase/(decrease) in other borrowings	**(2,113,019)**	1,575,818	**(2,113,019)**	1,575,818
Net increase/(decrease) in other liabilities	**349,416**	4,315,867	**404,196**	4,266,292
Net increase/(decrease) in due to subsidiaries	**–**	–	**13,337**	(33,568)
Total	**69,879,669**	138,876,499	**65,515,273**	135,473,881

68. Operating leases

68.1 Operating lease commitments (payables)

Accounting policy

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

As per LKAS 17, effective up to December 31, 2018 future minimum rentals payable under non-cancellable operating leases were considered as operating lease commitment, as follows:

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Less than one year	–	1,068,724	–	1,175,639
Between one to five years	–	3,018,540	–	2,991,293
Over five years	–	2,367,826	–	2,265,638
Total	–	6,455,090	–	6,432,570

The Group adopted SLFRS 16 w.e.f. January 1, 2019 and recognises a lease liability for leases previously classified as operating leases applying LKAS 17. Movement of lease liability is given in Note 50.1 on page 228 and maturity analysis of the lease liability is given in Note 62 on page 247.

68.2 Operating lease commitments (receivables)

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

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

	GROUP		BANK	
As at December 31,	**2019**	2018	**2019**	2018
	Rs. '000	Rs. '000	**Rs. '000**	Rs. '000
Less than one year	**6,783**	9,597	**4,793**	6,380
Between one to five years	**25,140**	20,471	**14,168**	15,840
Over five years	**11,872**	6,941	**11,261**	6,941
Total	**43,795**	37,009	**30,222**	29,161

69. Financial risk review

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

Introduction

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

Risk management framework

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

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

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

Refer Note 3.2 on page 154 for more information on the risk management framework of the Bank.

Integrated Risk Management Department (IRMD)

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

Risk measurement and reporting

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

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

69.1 Credit risk

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

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

69.1.1 Credit quality analysis

69.1.1 (a) Maximum exposure to credit risk by risk rating

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

As at December 31, 2019	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Subject to Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Subject to Lifetime ECL – credit impaired (Stage 3) Rs. '000
Cash and cash equivalents							
Risk free Investments			26,094,112	26,094,112	–	–	–
Rating 0-4: Investment grade			22,822,901	–	22,822,901	–	–
Rating 5-6: Moderate risk			3,623,424	–	3,623,424	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			52,540,437	26,094,112	26,446,325	–	–
Less: Provision for impairment			5,707	–	5,707	–	–
Net carrying amount	28	190	52,534,730	26,094,112	26,440,618	–	–
Placements with banks							
Government Securities (Risk free investments)							
Rating 0-4: Investment grade			21,583,795	–	21,583,795	–	–
Rating 5-6: Moderate risk			2,952,042	–	2,952,042	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			24,535,837	–	24,535,837	–	–
Less: Provision for impairment			8,596	–	8,596	–	–
Net carrying amount	30	191	24,527,241	–	24,527,241	–	–
Financial assets at amortised cost – Loans and advances to banks							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade			–	–	–	–	–
Rating 5-6: Moderate risk			757,898	–	757,898	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			757,898	–	757,898	–	–
Less: Provision for impairment			111	–	111	–	–
Net carrying amount	33	195	757,787	–	757,787	–	–
Financial assets at amortised cost – Loans and advances to other customers							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade (*)			688,520,415	–	597,141,302	68,922,076	22,457,037
Rating 5-6: Moderate risk			165,599,864	–	119,783,738	30,295,524	15,520,602
Rating 7-8: High risk			15,647,140	–	2,974,898	4,354,799	8,317,443
Rating 9: Extreme risk			50,689,816	–	105,958	215,957	50,367,901
Gross carrying amount			920,457,235	–	720,005,896	103,788,356	96,662,983
Less: Provision for impairment			35,811,491	–	2,613,480	8,318,831	24,879,180
Net carrying amount	34	196	884,645,744	–	717,392,416	95,469,525	71,783,803

As at December 31, 2019	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Subject to Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Subject to Lifetime ECL – credit impaired (Stage 3) Rs. '000
Financial assets at amortised cost – Debt and other financial instruments							
Government Securities (Risk free investments)			62,563,485	62,563,485	–	–	–
Rating 0-4: Investment grade			38,853,334	–	38,853,334	–	–
Rating 5-6: Moderate risk			2,192	–	2,192	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			152,870	–	–	–	152,870
Gross carrying amount			101,571,881	62,563,485	38,855,526	–	152,870
Less: Provision for impairment			427,062	–	274,192	–	152,870
Net carrying amount	35	199	101,144,819	62,563,485	38,581,334	–	–
Financial assets measured at fair value through other comprehensive income							
Government Securities (Risk free investments)			84,034,701	84,034,701	–	–	–
Rating 0-4: Investment grade			114,179,009	4,286	114,174,723	–	–
Rating 5-6: Moderate risk			216,313	216,313	–	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			198,430,023	84,255,300	114,174,723	–	–
Less: Provision for impairment			861,693	–	861,693	–	–
Net carrying amount	36	201	197,568,330	84,255,300	113,313,030	–	–
Off-balance sheet							
Contingent liabilities and commitments							
(i) Lending commitments							
Grade 0-6: Investment grade to moderate risk			109,046,521	–	107,481,309	816,932	748,280
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			109,046,521	–	107,481,309	816,932	748,280
(ii) **Contingencies**							
Grade 0-6: Investment grade to moderate risk			470,624,684	277,228,454	191,275,266	2,111,794	9,170
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			470,624,684	277,228,454	191,275,266	2,111,794	9,170
Total contingent liabilities and commitments	59	244	579,671,205	277,228,454	298,756,575	2,928,726	757,450
Provision for impairment	59.3 (b)	245	1,316,837	–	764,857	187,237	364,743

As at December 31, 2018	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Subject to Life time ECL – not credit impaired (Stage 2) Rs. '000	Subject to Life time ECL – credit impaired (Stage 3) Rs. '000
Cash and cash equivalents							
Risk free Investments			24,272,784	24,272,784	–	–	–
Rating 0-4: Investment grade			10,392,621	–	10,392,621	–	–
Rating 5-6: Moderate risk			4,873,484	–	4,873,484	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			39,538,889	24,272,784	15,266,105	–	–
Less: Provision for impairment			4,413	–	4,413	–	–
Net carrying amount	28	190	39,534,476	24,272,784	15,261,692	–	–

As at December 31, 2018	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to: 12-month ECL (Stage 1) Rs. '000	Subject to: Life time ECL – not credit impaired (Stage 2) Rs. '000	Subject to: Life time ECL – credit impaired (Stage 3) Rs. '000
Placements with banks							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade			15,471,661	–	15,471,661	–	–
Rating 5-6: Moderate risk			4,437,638	–	4,437,638	–	–
Rating 7-8 : High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			19,909,299	–	19,909,299	–	–
Less: Provision for impairment			10,784	–	10,784	–	–
Net carrying amount	30	191	19,898,515	–	19,898,515	–	–
Financial assets at amortised cost – Loans and advances to banks							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade			–	–	–	–	–
Rating 5-6: Moderate risk			763,110	–	763,110	–	–
Rating 7-8: High risk			–	–	–	–	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			763,110	–	763,110	–	–
Less: Provision for impairment			36	–	36	–	–
Net carrying amount	33	195	763,074	–	763,074	–	–
Financial assets at amortised cost – Loans and advances to other customers							
Government Securities (Risk free investments)			–	–	–	–	–
Rating 0-4: Investment grade (*)			686,400,750	–	622,743,394	56,950,508	6,706,848
Rating 5-6: Moderate risk			159,144,668	–	119,388,804	32,390,548	7,365,316
Rating 7-8: High risk			8,209,350	–	3,485,765	1,911,451	2,812,134
Rating 9: Extreme risk			36,474,600	–	33,654	347,685	36,093,261
Gross carrying amount			890,229,368	–	745,651,617	91,600,192	52,977,559
Less: Provision for impairment			29,129,053	–	2,659,185	5,873,226	20,596,642
Net carrying amount	34	196	861,100,315	–	742,992,432	85,726,966	32,380,917
Financial assets at amortised cost – Debt and other financial instruments							
Government Securities (Risk free investments)			42,521,906	42,521,906	–	–	–
Rating 0-4: Investment grade (*)			41,026,809	–	41,026,809	–	–
Rating 5-6: Moderate risk			416,346	–	416,346	–	–
Rating 7-8: High risk			156,627	–	–	156,627	–
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			84,121,688	42,521,906	41,443,155	156,627	–
Less: Provision for impairment			266,252	–	262,381	3,871	–
Net carrying amount	35	199	83,855,436	42,521,906	41,180,774	152,756	–
Financial assets measured at fair value through other comprehensive income							
Government Securities (Risk free investments)			95,458,096	95,458,096	–	–	–
Rating 0-4: Investment grade			81,405,180	5,222	81,399,958	–	–
Rating 5-6: Moderate risk			239,147	239,147	–	–	–
Rating 7-8: High risk			–	–	–	–	–

As at December 31, 2018	Note	Page No.	Carrying amount Rs. '000	Not subject to ECL Rs. '000	Subject to 12-month ECL (Stage 1) Rs. '000	Subject to Life time ECL – not credit impaired (Stage 2) Rs. '000	Subject to Life time ECL – credit impaired (Stage 3) Rs. '000
Rating 9: Extreme risk			–	–	–	–	–
Gross carrying amount			177,102,423	95,702,465	81,399,958	–	–
Less: Provision for impairment			595,694	–	595,694	–	–
Net carrying amount	36	201	176,506,729	95,702,465	80,804,264	–	–
Off-balance sheet (**)							
Contingent liabilities and commitments							
(i) Lending commitments							
Grade 0-6: Investment grade to moderate risk			106,223,235	–	104,605,989	1,142,946	474,300
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			106,223,235	–	104,605,989	1,142,946	474,300
(ii) **Contingencies**							
Grade 0-6: Investment grade to moderate risk			497,201,464	312,347,334	183,121,065	1,643,105	89,960
Grade 7-9: High risk to extreme risk			–	–	–	–	–
Gross carrying amount			497,201,464	312,347,334	183,121,065	1,643,105	89,960
Total contingent liabilities and commitments	59	244	603,424,699	312,347,334	287,727,054	2,786,051	564,260
Provision for impairment	59.3 (b)	245	726,640	–	528,932	89,177	108,531

(*) Investment grade also include Cash and Gold.

(**) Amounts reported above does not include capital commitments by the Bank disclosed in the Note 59 on "Contingent Liabilities and Commitments" on pages 244 to 246.

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

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

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

As at December 31, 2019	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Lifetime ECL not credit impaired (Stage 2) Rs. '000	Lifetime ECL credit impaired (Stage 3) Rs. '000
Cash and cash equivalents					
Gross carrying amount as at January 1, 2019	**39,534,476**	**24,272,784**	**15,261,692**	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	**17,879,445**	**1,821,328**	**16,058,117**	–	–
Financial assets derecognised or repaid (excluding write-offs)	**(4,873,484)**	–	**(4,873,484)**	–	–
As at December 31, 2019	**52,540,437**	**26,094,112**	**26,446,325**	–	–
Placements with banks					
Gross carrying amount as at January 1, 2019	**19,909,299**	–	**19,909,299**	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	**24,535,837**	–	**24,535,837**	–	–
Financial assets derecognised or repaid (excluding write-offs)	**(19,909,299)**	–	**(19,909,299)**	–	–
As at December 31, 2019	**24,535,837**	–	**24,535,837**	–	–

As at December 31, 2019	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Lifetime ECL not credit impaired (Stage 2) Rs. '000	Lifetime ECL credit impaired (Stage 3) Rs. '000
Financial assets at amortised cost – Loans and advances to banks					
Gross carrying amount as at January 1, 2019	763,074	–	763,074	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Foreign exchange adjustments	(5,176)	–	(5,176)	–	–
As at December 31, 2019	757,898	–	757,898	–	–
Financial assets at amortised cost – Loans and advances to other customers					
Gross carrying amount as at January 1, 2019	890,229,368	–	745,651,617	91,600,192	52,977,559
Transfer to Stage 1	–	–	15,468,853	(15,127,558)	(341,295)
Transfer to Stage 2	–	–	(40,641,620)	43,510,087	(2,868,467)
Transfer to Stage 3	–	–	(22,437,790)	(22,065,001)	44,502,791
New assets originated or purchased	400,415,183	–	370,525,403	20,535,833	9,353,947
Financial assets derecognised or repaid (excluding write-offs)	(399,373,750)	–	(348,543,034)	(36,985,925)	(13,844,791)
Write-offs	(3,932,317)	–	(17,533)	(28,672)	(3,886,112)
Changes to contractual cash flows due to modifications not resulting in derecognition	33,118,751	–	–	22,349,400	10,769,351
As at December 31, 2019	920,457,235	–	720,005,896	103,788,356	96,662,983
Financial assets at amortised cost – Debt and other financial instruments					
Gross carrying amount as at January 1, 2019	84,121,688	42,521,906	41,443,155	156,627	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	(152,870)	152,870
New assets originated or purchased	52,520,358	35,054,020	17,466,338	–	–
Financial assets derecognised or repaid (excluding write-offs)	(35,062,340)	(15,130,626)	(19,927,957)	(3,757)	–
Foreign exchange adjustments	(7,825)	118,185	(126,010)	–	–
As at December 31, 2019	101,571,881	62,563,485	38,855,526	–	152,870
Financial assets measured at fair value through other comprehensive income					
Gross carrying amount as at January 1, 2019	177,102,423	95,702,465	81,399,958	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	113,896,437	63,846,493	50,049,944	–	–
Financial assets derecognised or repaid (excluding write-offs)	(96,337,023)	(77,666,054)	(18,670,969)	–	–
Foreign exchange adjustments	(430,569)	–	(430,569)	–	–
Change in fair value due to remeasurement	4,198,755	2,372,396	1,826,359	–	–
As at December 31, 2019	198,430,023	84,255,300	114,174,723	–	–
Contingent liabilities and commitments					
Gross carrying amount as at January 1, 2019	603,424,699	312,347,333	287,727,054	2,786,052	564,260
Transfer to Stage 1	–	–	1,496,348	(1,495,102)	(1,246)
Transfer to Stage 2	–	–	(2,553,974)	2,558,608	(4,634)
Transfer to Stage 3	–	–	(444,019)	(130,489)	574,508
Net change in new assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs)	(23,753,494)	(35,118,879)	12,531,166	(790,343)	(375,438)
As at December 31, 2019	579,671,205	277,228,454	298,756,575	2,928,726	757,450

As at December 31, 2018	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL not credit impaired (Stage 2) Rs. '000	Life time ECL credit impaired (Stage 3) Rs. '000
Cash and cash equivalents					
Gross carrying amount as at January 1, 2018	33,224,619	23,280,599	9,944,020	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	9,557,624	992,185	8,565,439	–	–
Financial assets derecognised or repaid (excluding write-offs)	(3,243,354)	–	(3,243,354)	–	–
As at December 31, 2018	39,538,889	24,272,784	15,266,105	–	–
Placements with banks					
Gross carrying amount as at January 1, 2018	17,633,269	–	17,633,269	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	19,909,299	–	19,909,299	–	–
Financial assets derecognised or repaid (excluding write-offs)	(17,633,269)	–	(17,633,269)	–	–
As at December 31, 2018	19,909,299	–	19,909,299	–	–
Financial assets at amortised cost – Loans and advances to banks					
Gross carrying amount as at January 1, 2018	640,512	–	640,512	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
Foreign exchange adjustments	122,598	–	122,598	–	–
As at December 31, 2018	763,110	–	763,110	–	–
Financial assets at amortised cost – Loans and advances to other customers					
Gross carrying amount as at January 1, 2018	754,707,977	–	653,127,277	69,036,479	32,544,221
Transfer to Stage 1	–	–	18,306,726	(18,002,628)	(304,098)
Transfer to Stage 2	–	–	(31,715,554)	37,146,989	(5,431,435)
Transfer to Stage 3	–	–	(11,470,573)	(12,389,882)	23,860,455
New assets originated or purchased	422,014,584	–	389,231,399	29,382,680	3,400,505
Financial assets derecognised or repaid (excluding write-offs)	(308,833,738)	–	(271,826,591)	(27,858,893)	(9,148,254)
Write-offs	(1,107,207)	–	(1,067)	(9,567)	(1,096,573)
Changes to contractual cash flows due to modifications not resulting in derecognition	23,447,752	–	–	14,295,014	9,152,738
As at December 31, 2018	890,229,368	–	745,651,617	91,600,192	52,977,559
Financial assets at amortised cost – Debt and other financial instruments					
Gross carrying amount as at January 1, 2018	71,708,527	48,683,362	23,025,165	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	(156,627)	156,627	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	23,331,446	5,578,738	17,752,708	–	–
Financial assets derecognised or repaid (excluding write-offs)	(14,583,193)	(12,252,573)	(2,330,620)	–	–
Foreign exchange adjustments	3,664,908	512,379	3,152,529	–	–
As at December 31, 2018	84,121,688	42,521,906	41,443,155	156,627	–

As at December 31, 2018	Carrying amount Rs. '000	Not subject to ECL Rs. '000	12-month ECL (Stage 1) Rs. '000	Life time ECL not credit impaired (Stage 2) Rs. '000	Life time ECL credit impaired (Stage 3) Rs. '000
Financial assets measured at fair value through other comprehensive income					
Gross carrying amount as at January 1, 2018	195,279,170	151,910,811	43,368,359	–	–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New assets originated or purchased	85,700,610	34,181,954	51,518,656	–	–
Financial assets derecognised or repaid (excluding write-offs)	(108,535,424)	(90,390,300)	(18,145,124)	–	–
Foreign exchange adjustments	4,897,118	–	4,897,118	–	–
Change in fair value due to remeasurement	(239,051)	–	(239,051)	–	–
As at December 31, 2018	177,102,423	95,702,465	81,399,958	–	–
Contingent liabilities and commitments					
Gross carrying amount as at January 1, 2018	543,124,432	237,658,814	300,521,203	3,932,984	1,011,431
Transfer to Stage 1	–	–	2,382,299	(2,322,013)	(60,286)
Transfer to Stage 2	–	–	(3,329,668)	3,335,220	(5,552)
Transfer to Stage 3	–	–	(530,422)	(175,917)	706,339
Net assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs)	60,300,267	74,688,519	(11,316,358)	(1,984,222)	(1,087,672)
As at December 31, 2018	603,424,699	312,347,333	287,727,054	2,786,052	564,260

69.1.1 (c) Provision for impairment (ECL) movement

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

As at December 31, 2019	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Cash and cash equivalents						
Provision for impairment (ECL) as at January 1, 2019			4,413	–	–	4,413
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			(252)	–	–	(252)
New assets originated or purchased			5,261	–	–	5,261
Financial assets derecognised or repaid (excluding write-offs)			(3,659)	–	–	(3,659)
Foreign exchange adjustments			(56)	–	–	(56)
As at December 31, 2019	28.1	190	5,707	–	–	5,707
Placements with banks						
Provision for impairment (ECL) as at January 1, 2019			10,784	–	–	10,784
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
New remeasurement of impairment			–	–	–	–
New assets originated or purchased			8,640	–	–	8,640
Financial assets derecognised or repaid (excluding write-offs)			(10,784)	–	–	(10,784)
Foreign exchange adjustments			(44)	–	–	(44)

As at December 31, 2019	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
As at December 31, 2019	30.1	191	8,596	–	–	8,596
Financial assets at amortised cost – Loans and advances to banks						
Provision for impairment (ECL) as at January 1, 2019			36	–	–	36
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			75	–	–	75
As at December 31, 2019	33.1	195	111	–	–	111
Financial assets at amortised cost – Loans and advances to other customers						
Provision for impairment (ECL) as at January 1, 2019			2,659,185	5,873,226	20,596,642	29,129,053
Transfer to Stage 1			484,038	(390,805)	(93,233)	–
Transfer to Stage 2			(347,364)	571,627	(224,263)	–
Transfer to Stage 3			(158,257)	(1,937,954)	2,096,211	–
Net remeasurement of impairment			(812,498)	1,928,580	4,084,352	5,200,434
New assets originated or purchased			1,133,490	657,598	901,476	2,692,564
Financial assets derecognised or repaid (excluding write-offs)			(341,078)	(1,077,825)	(1,109,306)	(2,528,209)
Write-offs and recoveries			(2,396)	(1,118)	(2,121,615)	(2,125,129)
Foreign exchange adjustments			(1,640)	(590)	5,915	3,685
Unwinding of discount			–	–	(1,258,339)	(1,258,339)
Other movements			–	–	18,578	18,578
Changes to contractual cash flows due to modifications not resulting in derecognition			–	2,696,092	1,982,762	4,678,854
As at December 31, 2019	34.2 (b)	198	2,613,480	8,318,831	24,879,180	35,811,491
Financial assets at amortised cost – Debt and other financial instruments						
Provision for impairment (ECL) as at January 1, 2019			262,381	3,871	–	266,252
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	(3,871)	3,871	–
Net remeasurement of impairment			3,020	–	148,999	152,019
New assets originated or purchased			10,064	–	–	10,064
Financial assets derecognised or repaid (excluding write-offs)			(1,273)	–	–	(1,273)
As at December 31, 2019	35.1 (b)	200	274,192	–	152,870	427,062
Financial assets measured at fair value through other comprehensive income						
Provision for impairment (ECL) as at January 1, 2019			595,694	–	–	595,694
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			18,066	–	–	18,066
New assets originated or purchased			383,005	–	–	383,005
Financial assets derecognised or repaid (excluding write-offs)			(135,072)	–	–	(135,072)
As at December 31, 2019	36.2	202	861,693	–	–	861,693

As at December 31, 2019	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Contingent liabilities and commitments						
Provision for impairment (ECL) as at January 1, 2019			**528,932**	**89,177**	**108,531**	**726,640**
Transfer to Stage 1			**15,568**	**(15,167)**	**(401)**	**–**
Transfer to Stage 2			**(9,055)**	**10,952**	**(1,897)**	**–**
Transfer to Stage 3			**(7,807)**	**(8,846)**	**16,653**	**–**
Net remeasurement of impairment			**(10,100)**	**8,776**	**1,607**	**283**
Net change in new assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs)			**247,603**	**102,345**	**240,250**	**590,198**
Foreign exchange adjustments			**(284)**	**–**	**–**	**(284)**
As at December 31, 2019	59.3 (b)	245	**764,857**	**187,237**	**364,743**	**1,316,837**

As at December 31, 2018	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Cash and cash equivalents						
Provision for impairment (ECL) as at January 1, 2018			5,286	–	–	5,286
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			(1,577)	–	–	(1,577)
New assets originated or purchased			4,989	–	–	4,989
Financial assets derecognised or repaid (excluding write-offs)			(4,862)	–	–	(4,862)
Foreign exchange adjustments			577	–	–	577
As at December 31, 2018	28.1	190	4,413	–	–	4,413
Placements with banks						
Provision for impairment (ECL) as at January 1, 2018			31,533	–	–	31,533
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
New assets originated or purchased			9,980	–	–	9,980
Financial assets derecognised or repaid (excluding write-offs)			(31,533)	–	–	(31,533)
Foreign exchange adjustments			804	–	–	804
As at December 31, 2018	30.1	191	10,784	–	–	10,784
Financial assets at amortised cost – Loans and advances to banks						
Provision for impairment (ECL) as at January 1, 2018			139	–	–	139
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			(103)	–	–	(103)
As at December 31, 2018	33.1	195	36	–	–	36
Financial assets at amortised cost – Loans and advances to other customers						
Provision for impairment (ECL) as at January 1, 2018			3,041,886	4,165,027	14,211,503	21,418,416
Transfer to Stage 1			631,565	(552,887)	(78,678)	–

As at December 31, 2018	Note	Page No.	12-month ECL (Stage 1) Rs. '000	Lifetime ECL – not credit impaired (Stage 2) Rs. '000	Lifetime ECL – credit impaired (Stage 3) Rs. '000	Total Rs. '000
Transfer to Stage 2			(360,245)	627,849	(267,604)	–
Transfer to Stage 3			(96,237)	(852,199)	948,436	–
Net remeasurement of impairment			(1,174,547)	611,267	2,971,392	2,408,112
New assets originated or purchased			1,148,995	643,753	1,595,640	3,388,388
Financial assets derecognised or repaid (excluding write-offs)			(543,484)	(891,569)	(660,184)	(2,095,237)
Write-offs and recoveries			(800)	(819)	(355,284)	(356,903)
Foreign exchange adjustments			12,052	4,470	278,179	294,701
Unwinding of discount			–	–	(360,876)	(360,876)
Other movements			–	–	10,466	10,466
Changes to contractual cash flows due to modifications not resulting in derecognition			–	2,118,334	2,303,652	4,421,986
As at December 31, 2018	34.2 (b)	198	2,659,185	5,873,226	20,596,642	29,129,053
Financial assets at amortised cost – Debt and other financial instruments						
Provision for impairment (ECL) as at January 1, 2018			69,680	–	–	69,680
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			(691)	691	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			65,916	3,180	–	69,096
New assets originated or purchased			128,049	–	–	128,049
Financial assets derecognised or repaid (excluding write-offs)			(573)	–	–	(573)
As at December 31, 2018	35.1 (b)	200	262,381	3,871	–	266,252
Financial assets measured at fair value through other comprehensive income						
Provision for impairment (ECL) as at January 1, 2018			194,256	–	–	194,256
Transfer to Stage 1			–	–	–	–
Transfer to Stage 2			–	–	–	–
Transfer to Stage 3			–	–	–	–
Net remeasurement of impairment			109,424	–	–	109,424
New assets originated or purchased			372,576	–	–	372,576
Financial assets derecognised or repaid (excluding write-offs)			(80,562)	–	–	(80,562)
As at December 31, 2018	36.2	202	595,694	–	–	595,694
Contingent liabilities and commitments						
Provision for impairment (ECL) as at January 1, 2018			656,764	111,946	78,949	847,659
Transfer to Stage 1			52,852	(27,051)	(25,801)	–
Transfer to Stage 2			(9,201)	9,557	(356)	–
Transfer to Stage 3			(559)	(3,920)	4,479	–
Net remeasurement of impairment			(47,426)	20,362	24,163	(2,901)
New assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs)			(126,398)	(21,717)	27,097	(121,018)
Foreign exchange adjustments			2,900	–	–	2,900
As at December 31, 2018	59.3 (b)	245	528,932	89,177	108,531	726,640

69.1.1 (d) Financial assets recognised through profit or loss measured at fair value

Held-for-trading investments in debt and equity securities

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

	Note	Page No.	2019 Rs. '000	2018 Rs. '000
Debt instruments at FVTPL				
Government Securities – Sri Lanka				
Treasury bills			2,875,977	1,947,069
Treasury bonds			3,318,057	729,974
Government Securities – Bangladesh				
Treasury bills			12,839,210	1,722,637
Treasury bonds			1,451,651	351,680
Subtotal – Debt instruments at FVTPL			20,484,895	4,751,360
Equity instruments at FVTPL				
Rated AAA			22,374	21,958
Rated AA+ to AA-			20	12,798
Rated A+ to A			736,960	523,574
Rated BBB+			7,114	7,138
Unrated			216,670	203,339
Subtotal – Equity instruments at FVTPL			983,138	768,807
Total	32	192	21,468,033	5,520,167

Credit exposure arising from derivative transactions

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

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

As at December 31, 2019	Derivative type							
	Forward		SWAPS		Spot		Total	
	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000
Derivative financial assets (Note 1)	32,709,682	411,958	115,126,783	1,410,476	4,882,897	8,493	152,719,362	1,830,927
Derivative financial liabilities (Note 2)	15,832,082	(295,838)	73,646,091	(1,193,556)	4,202,423	(5,923)	93,680,596	(1,495,317)
Note 1								
Derivative financial assets by counterparty type								
With banks	18,185,745	231,682	110,022,152	1,194,014	2,713,575	1,631	130,921,472	1,427,327
Other customers	14,523,937	180,276	5,104,631	216,462	2,169,322	6,862	21,797,890	403,600
Total	32,709,682	411,958	115,126,783	1,410,476	4,882,897	8,493	152,719,362	1,830,927
Note 2								
Derivative financial liabilities by counterparty type								
With banks	10,359,497	(57,569)	72,964,528	(1,144,838)	2,246,011	(2,139)	85,570,036	(1,204,546)
Other customers	5,472,585	(238,269)	681,563	(48,718)	1,956,412	(3,784)	8,110,560	(290,771)
Total	15,832,082	(295,838)	73,646,091	(1,193,556)	4,202,423	(5,923)	93,680,596	(1,495,317)

As at December 31, 2018	Derivative type							
	Forward		SWAPS		Spot		Total	
	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000	Notional amount Rs. '000	Fair value Rs. '000
Derivative financial assets (Note 1)	53,846,072	3,340,657	97,890,850	4,567,868	4,189,939	1,437	155,926,861	7,909,962
Derivative financial liabilities (Note 2)	38,630,808	(2,069,807)	85,093,565	(5,946,484)	2,255,444	(5,492)	125,979,817	(8,021,783)
Note 1								
Derivative financial assets by counterparty type								
With banks	11,448,568	502,967	97,019,953	4,560,325	1,808,638	613	110,277,159	5,063,905
Other customers	42,397,504	2,837,690	870,897	7,543	2,381,301	824	45,649,702	2,846,057
Total	53,846,072	3,340,657	97,890,850	4,567,868	4,189,939	1,437	155,926,861	7,909,962
Note 2								
Derivative financial liabilities by counterparty type								
With banks	24,576,549	(1,219,725)	79,194,194	(5,308,624)	703,977	(474)	104,474,720	(6,528,823)
Other customers	14,054,259	(850,082)	5,899,371	(637,860)	1,551,467	(5,018)	21,505,097	(1,492,960)
Total	38,630,808	(2,069,807)	85,093,565	(5,946,484)	2,255,444	(5,492)	125,979,817	(8,021,783)

69.1.2 Credit-impaired financial assets

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

As at December 31,	**2019 Rs. '000**	2018 Rs. '000
Stage 3 loans and advances to other customers as at January 1,	**32,380,918**	18,332,717
Newly classified as impaired loans and advances during the year	**51,874,936**	23,569,470
Net change in already impaired loans and advances during the year	**(3,535,574)**	(1,055,006)
Net payment, write-off and recoveries and other movement during the year	**(8,936,477)**	(8,466,264)
Impaired loans and advances to customers as at December 31,	**71,783,803**	32,380,917

Refer Note 18 for methodology of impairment assessment, on "Impairment losses on loans and advances to other customers" on pages 176 to 179.

Details of provision for impairment for loans and advances to other customers, are detailed in Note 34 on pages 196 to 199.

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

As at December 31,	**2019**		2018	
	Gross carrying amount Rs. '000	**Net carrying amount Rs. '000**	Gross carrying amount Rs. '000	Net carrying amount Rs. '000
Rating 0-4: Investment grade	**22,457,037**	**21,337,995**	6,706,848	6,473,040
Rating 5-6: Moderate risk	**15,520,602**	**14,105,391**	7,365,316	7,093,268
Rating 7-8 : High risk	**8,317,443**	**7,549,750**	2,812,134	2,320,231
Rating 9: Extreme risk	**50,367,901**	**28,790,667**	36,093,261	16,494,378
Total	**96,662,983**	**71,783,803**	52,977,559	32,380,917

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

The Bank has estimated the impairment provision on loans and advances to other customers as at December 31, 2019, subject to various assumptions. The changes to such assumptions may lead to changes in the impairment provision recorded in the Statement of Financial Position.

The following table demonstrates the sensitivity of the impairment provision of the Bank as at December 31, 2019 to a feasible change in PDs, LGDs and forward looking information.

Sensitivity on ECL	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on Income Statement
	Stage 1 (Rs. '000)	Stage 2 (Rs. '000)	Stage 3 (Rs. '000)	Total (Rs. '000)	(Rs. '000)
PD 1% increase across all age buckets	1,673,097	292,910	–	1,966,007	(1,966,007)
PD 1% decrease across all age buckets (*)	(1,273,899)	(292,913)	–	(1,566,812)	1,566,812
LGD 5% increase	415,885	1,361,055	1,860,567	3,637,507	(3,637,507)
LGD 5% decrease (*)	(415,872)	(1,361,057)	(1,860,532)	(3,637,461)	3,637,461
Probability weighted forward looking Macro Economic Indicators (**)					
– Base case 10% increase, worst case 5% decrease and best case 5% decrease	(3,121)	(7,975)	–	(11,096)	11,096
– Base case 10% decrease, worst case 5% increase and best case 5% increase	3,119	7,964	–	11,083	(11,083)

(*) The PD/LGD decrease is capped to 0%, if applicable.
(**) Please refer Note 18 for explanation on forward looking Macro Economic Indicators.

69.1.4 Collateral held

Loan-to-value ratio of residential mortgage lending

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

As at December 31,	**2019**		2018	
	Rs. '000	**Composition (%)**	Rs. '000	Composition (%)
LTV ratio				
Less than 50%	**15,557,191**	**30.28**	10,948,270	27.20
51% – 70%	**11,349,831**	**22.09**	8,888,518	22.08
71% – 90%	**13,776,666**	**26.81**	11,025,696	27.39
91% – 100%	**1,906,063**	**3.71**	1,807,976	4.49
More than 100% *	**8,792,924**	**17.11**	7,576,759	18.84
Total	**51,382,675**	**100.00**	40,247,219	100.00

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

The total amount mentioned above does not tally to the total of residential mortgage lending by the Bank, as some of the residential mortgage lending are not eligible to apply preferential risk weight in the Capital Adequacy Ratio.

Assets obtained by taking the possession of collaterals

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

69.1.5 Concentration of credit risk

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

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

69.1.5 (a) Industry wise distribution

As at December 31, 2019	Agriculture, Forestry and Fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transportation and storage Rs. '000	Construction Rs. '000
Financial assets					
Cash and cash equivalents	–	–	–	–	–
Balances with central banks	–	–	–	–	–
Placements with banks	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–
Derivative financial assets	7,615	25,238	–	34	101
Financial assets measured at FVTPL	2,179	53,480	6,163	–	28,000
Government securities	–	–	–	–	–
Quoted equity securities	2,179	53,480	6,163	–	28,000
Financial assets at AC – Loans and advances to banks	–	–	–	–	–
Financial assets at AC – Loans and advances to other customers (*)	64,700,883	114,177,649	59,561,360	11,299,849	39,599,580
Financial assets at AC – Debt and other financial instruments	–	–	–	–	–
Government securities	–	–	–	–	–
Other investments	–	–	–	–	–
Financial assets measured at FVOCI	–	10,570	–	–	154,157
Government securities	–	–	–	–	–
Equity securities	–	10,570	–	–	154,157
Total	64,710,677	114,266,937	59,567,523	11,299,883	39,781,838

As at December 31, 2018	Agriculture, Forestry and Fishing Rs. '000	Manufacturing Rs. '000	Tourism Rs. '000	Transportation and storage Rs. '000	Construction Rs. '000
Financial assets					
Cash and cash equivalents	–	–	–	–	–
Balances with central banks	–	–	–	–	–
Placements with banks	–	–	–	–	–
Securities purchased under resale agreements	–	–	–	–	–
Derivative financial assets	144,810	1,850,312	9,420	–	12
Financial assets measured at FVTPL	2,028	47,212	4,848	–	30,897
Government securities	–	–	–	–	–
Quoted equity securities	2,028	47,212	4,848	–	30,897
Financial assets at AC – Loans and advances to banks	–	–	–	–	–
Financial assets at AC – Loans and advances to other customers (*)	81,667,447	98,451,570	56,566,467	10,892,443	38,586,302
Financial assets at AC – Debt and other financial instruments	–	–	–	–	152,756
Government securities	–	–	–	–	–
Other investments	–	–	–	–	152,756
Financial assets measured at FVOCI	–	9,642	–	–	180,285
Government securities	–	–	–	–	–
Equity securities	–	9,642	–	–	180,285
Total	81,814,285	100,358,736	56,580,735	10,892,443	38,950,252

(*) Loans and advances to other customers referred above do not agree with the Note 34.1 (c) on page 197 due to impairment provisions.

	Infrastructure development Rs. '000	Wholesale and retail trade Rs. '000	Information technology and communication services Rs. '000	Financial services Rs. '000	Professional, scientific and technical activities Rs. '000	Arts, entertainment and recreation Rs. '000	Education Rs. '000	Healthcare, social services and support services Rs. '000	Consumption Rs. '000	Lending to overseas entities Rs. '000	Total Rs. '000
	–	–	–	**52,534,730**	–	–	–	–	–	–	**52,534,730**
	–	–		**39,461,127**	–	–	–	–	–	–	**39,461,127**
	–	–	–	**24,527,241**	–	–	–	–	–	–	**24,527,241**
	–	–	–	**13,147,534**	–	–	–	–	–	–	**13,147,534**
	956	**22,375**	**3,492**	**1,764,089**	–	–	–	**3,509**	**3,518**	–	**1,830,927**
	–	**103,749**	**11,675**	**21,221,129**	–	–	–	**41,658**	–	–	**21,468,033**
	–	–	–	**20,484,895**	–	–	–	–	–	–	**20,484,895**
	–	**103,749**	**11,675**	**736,234**	–	–	–	**41,658**	–	–	**983,138**
	–	–	–	**757,787**	–	–	–	–	–	–	**757,787**
	16,573,720	**187,378,381**	**10,962,266**	**37,625,681**	**23,098,483**	**1,055,882**	**2,838,314**	**17,915,228**	**194,885,712**	**102,972,756**	**884,645,744**
	–	**900,363**	–	**100,244,456**	–	–	–	–	–	–	**101,144,819**
	–	–	–	**97,997,976**	–	–	–	–	–	–	**97,997,976**
	–	**900,363**	–	**2,246,480**	–	–	–	–	–	–	**3,146,843**
	–	–	–	**197,394,983**	**8,620**	–	–	–	–	–	**197,568,330**
	–	–	–	**197,347,730**	–	–	–	–	–	–	**197,347,730**
	–	–	–	**47,253**	**8,620**	–	–	–	–	–	**220,600**
	16,574,676	**188,404,868**	**10,977,433**	**488,678,757**	**23,107,103**	**1,055,882**	**2,838,314**	**17,960,395**	**194,889,230**	**102,972,756**	**1,337,086,272**

	Infrastructure development Rs. '000	Wholesale and retail trade Rs. '000	Information technology and communication services Rs. '000	Financial services Rs. '000	Professional, scientific and technical activities Rs. '000	Arts, entertainment and recreation Rs. '000	Education Rs. '000	Healthcare, social services and support services Rs. '000	Consumption Rs. '000	Lending to overseas entities Rs. '000	Total Rs. '000
	–	–	–	39,534,476	–	–	–	–	–	–	39,534,476
	–	–	–	54,384,590	–	–	–	–	–	–	54,384,590
	–	–	–	19,898,515	–	–	–	–	–	–	19,898,515
	–	–	–	9,513,512	–	–	–	–	–	–	9,513,512
	–	254,533	5	5,636,056	–	–	13,913	–	901	–	7,909,962
	–	103,084	9,587	5,290,863	–	–	–	31,648	–	–	5,520,167
	–	–	–	4,751,360	–	–	–	–	–	–	4,751,360
	–	103,084	9,587	539,503	–	–	–	31,648	–	–	768,807
	–	–	–	763,074	–	–	–	–	–	–	763,074
	18,888,958	208,633,620	13,204,339	39,550,148	22,979,537	917,964	2,573,713	18,134,481	164,968,496	85,084,830	861,100,315
	–	1,868,572	–	81,834,108	–	–	–	–	–	–	83,855,436
	–	–	–	77,226,928	–	–	–	–	–	–	77,226,928
	–	1,868,572	–	4,607,180	–	–	–	–	–	–	6,628,508
	–	–	–	176,308,182	8,620	–	–	–	–	–	176,506,729
	–	–	–	176,262,360	–	–	–	–	–	–	176,262,360
	–	–	–	45,822	8,620	–	–	–	–	–	244,369
	18,888,958	210,859,809	13,213,931	432,713,524	22,988,157	917,964	2,587,626	18,166,129	164,969,397	85,084,830	1,258,986,776

69.1.5 (b) Geographical distribution of loans and advances

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 77% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) as at December 31, 2019. Although, Western Province is attracted with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the branches and corporate banking division situated in the Western Province and thereby reflecting a diversified geographical concentration as given below:

As at December 31, 2019

Country/province	Loans and advances by product											
	Overdrafts Rs. '000	Trade finance Rs. '000	Lease receivables Rs. '000	Credit cards Rs. '000	Pawning Rs. '000	Staff loans Rs. '000	Housing loans Rs. '000	Personal loans Rs. '000	Long-term loans Rs. '000	Short-term loans Rs. '000	Bills of exchange Rs. '000	Total Rs. '000
Sri Lanka												
Central	10,049,902	284,646	1,616,704	766,640	144,333	–	3,617,224	2,049,482	20,126,857	3,839,193	202,364	42,697,345
Eastern	748,261	204,269	685,050	206,609	77,540	–	532,202	912,380	2,917,815	98,277	–	6,382,403
North Central	630,769	26,535	1,348,528	207,722	37,215	–	618,886	1,533,266	6,948,927	305,832	–	11,657,680
Northern	6,910,590	700,407	2,595,462	721,724	203,929	–	3,837,414	2,853,801	13,038,530	2,010,925	34,031	32,906,813
North Western	3,308,388	100,211	1,765,571	254,640	1,017,355	–	1,003,830	1,248,949	5,804,502	302,681	–	14,806,127
Sabaragamuwa	5,709,310	466,018	2,205,118	471,712	110,154	–	2,982,905	1,399,948	10,479,333	662,420	18,904	24,505,822
Southern	5,749,944	1,490,619	3,162,717	783,286	217,087	–	5,391,117	2,840,717	15,300,888	709,959	11,288	35,657,622
Uva	1,392,727	–	921,024	232,828	51,521	–	1,917,260	909,923	5,056,787	402,788	834	10,885,692
Western	87,970,695	61,370,750	18,370,920	10,264,794	1,082,599	10,427,419	41,414,923	23,701,281	246,676,120	95,927,470	5,026,119	602,233,090
Bangladesh	8,745,766	5,858,158	555,807	140,684	–	172,903	855,800	592,775	15,449,817	44,423,486	26,117,954	102,913,150
Total	**131,216,352**	**70,501,613**	**33,226,901**	**14,050,639**	**2,941,733**	**10,600,322**	**62,171,561**	**38,042,522**	**341,799,576**	**148,683,031**	**31,411,494**	**884,645,744**

As at December 31, 2018

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

Please refer Note 34 on page 196 for the gross carrying amount of the loans and advances to other customers.

69.2 Liquidity risk

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

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

Assets and Liability Management Committee (ALCO)

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

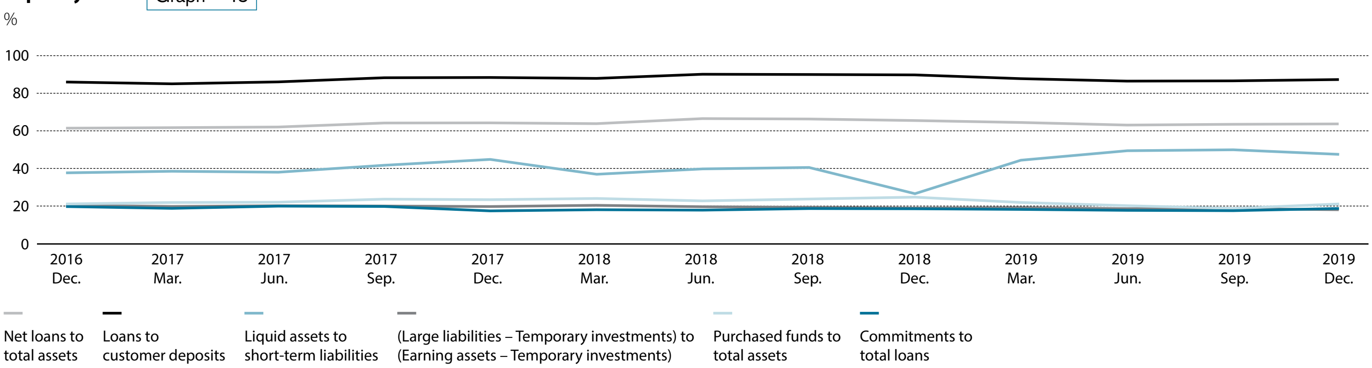
69.2.1 Exposure to liquidity risk

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

	Domestic Banking Unit		Off shore Banking Centre	
	2019 %	2018 %	**2019 %**	2018 %
As at December 31,	**30.42**	24.47	**25.25**	30.20
Average for the period	**29.27**	25.43	**28.28**	30.81
Maximum for the period	**31.10**	28.82	**34.27**	39.21
Minimum for the period	**25.01**	23.80	**25.25**	27.30
Statutory minimum requirement	**20.00**	20.00	**20.00**	20.00

The graph below depicts the trends in liquidity ratios of the Bank calculated on a quarterly basis during the period from December 2016 to December 2019:

Liquidity ratios Graph – 43



69.2.2 Maturity analysis of financial assets and financial liabilities

69.2.2 (a) Remaining contractual period to maturity – Bank

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

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs.'000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at December 31, 2019 Rs. '000**	Total as at December 31, 2018 Rs. '000
Interest earning financial assets:							
Cash and cash equivalents	21,770,015	–	–	–	–	**21,770,015**	8,959,135
Balances with central banks	2,348,047	408,274	8,825	–	–	**2,765,146**	7,977,591
Placements with banks	11,686,456	12,840,785	–	–	–	**24,527,241**	19,898,515
Securities purchased under resale agreements	8,125,007	5,022,527	–	–	–	**13,147,534**	9,513,512
Financial assets recognised – Measured at FVTPL	20,484,892	–	–	–	–	**20,484,892**	4,751,360
Financial assets at amortised cost – Loans and advances to other customers	323,651,589	220,150,964	200,465,425	97,174,333	43,203,434	**884,645,744**	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	7,432,594	9,452,605	58,194,601	24,940,848	1,124,171	**101,144,819**	83,855,436
Financial assets measured at FVOCI	12,312,029	9,271,385	87,850,068	61,164,958	26,749,291	**197,347,731**	176,262,360
Total interest earning assets as at December 31, 2019	**407,810,629**	**257,146,540**	**346,518,919**	**183,280,139**	**71,076,896**	**1,265,833,122**	
Total Interest earning assets as at December 31, 2018	393,194,108	265,266,803	279,332,389	184,649,577	49,875,347		1,172,318,224

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs.'000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at December 31, 2019 Rs. '000**	Total as at December 31, 2018 Rs. '000
Non-interest earning financial assets:							
Cash and cash equivalents	30,764,715	–	–	–	–	**30,764,715**	30,575,341
Balances with central banks	22,036,524	12,773,753	821,014	511,274	553,416	**36,695,981**	46,406,999
Derivative financial assets	1,128,833	553,047	149,047	–	–	**1,830,927**	7,909,962
Financial assets measured at FVTPL	983,141	–	–	–	–	**983,141**	768,807
Financial assets at amortised cost – Loans and advances to banks	–	–	–	–	757,787	**757,787**	763,074
Financial assets measured at FVOCI	–	–	–	20,267	200,332	**220,599**	244,369
Non-financial assets							
Investments in subsidiaries	–	–	–	–	5,011,284	**5,011,284**	4,263,631
Investments in associates	–	–	–	–	44,331	**44,331**	44,331
Property, plant and equipment and right-of-use assets	–	–	–	–	20,436,493	**20,436,493**	15,301,246
Intangible assets	–	–	–	–	1,080,010	**1,080,010**	906,112
Leasehold property	–	–	–	–	70,710	**70,710**	71,652
Deferred tax assets	–	–	294,059	–	–	**294,059**	–
Other assets	16,776,875	133,104	2,022,823	573,803	3,815,642	**23,322,247**	23,911,122
Total Non-interest earning assets as at December 31, 2019	**71,690,088**	**13,459,904**	**3,286,943**	**1,105,344**	**31,970,005**	**121,512,284**	
Total Non-interest earning assets as at December 31, 2018	79,702,578	20,513,461	4,479,819	1,360,329	25,110,459		131,166,646
Total assets – As at December 31, 2019	**479,500,717**	**270,606,444**	**349,805,862**	**184,385,483**	**103,046,901**	**1,387,345,406**	
Total assets – As at December 31, 2018	472,896,686	285,780,264	283,812,208	186,009,906	74,985,806		1,303,484,870
Percentage – As at December 31, 2019 (*)	**34.56**	**19.51**	**25.21**	**13.29**	**7.43**	**100.00**	
Percentage – As at December 31, 2018 (*)	36.29	21.92	21.77	14.27	5.75		100.00

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

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

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs.'000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at December 31, 2019 Rs. '000**	Total as at December 31, 2018 Rs. '000
Interest-bearing financial liabilities:							
Due to banks	17,444,085	18,720,500	9,087,500	4,543,749	–	**49,795,834**	28,274,470
Securities sold under repurchase agreements	41,970,123	9,244,191	5,709	–	–	**51,220,023**	49,104,462
Financial liabilities at amortised cost – Due to depositors	556,550,231	375,746,085	23,634,513	12,975,282	16,697,964	**985,604,075**	911,383,286
Financial liabilities at amortised cost – Other borrowings	1,414,641	3,414,344	8,484,475	5,310,021	4,625,412	**23,248,893**	25,361,912
Subordinated liabilities	739,330	363,741	9,477,720	22,022,547	5,283,451	**37,886,789**	37,992,457
Total interest-bearing liabilities as at December 31, 2019	**618,118,410**	**407,488,861**	**50,689,917**	**44,851,599**	**26,606,827**	**1,147,755,614**	
Total Interest-bearing liabilities as at December 31, 2018	555,595,433	377,694,645	46,105,839	44,724,254	27,996,416		1,052,116,587

As at December 31,	Up to 3 months Rs. '000	3 to 12 months Rs.'000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	**Total as at December 31, 2019 Rs. '000**	Total as at December 31, 2018 Rs. '000
Non-interest bearing financial liabilities:							
Due to banks	1,709,860	–	–	–	–	**1,709,860**	21,826,611
Derivative financial liabilities	1,106,950	330,515	4,557	–	53,295	**1,495,317**	8,021,783
Financial liabilities at amortised cost – Due to depositors	67,703,585	–	–	–	–	**67,703,585**	71,654,028
Non-financial liabilities							
Current tax liabilities	2,016,462	2,951,182	–	–	–	**4,967,644**	6,566,358
Deferred tax liabilities	–	–	–	–	–	**–**	646,248
Other liabilities	20,176,158	2,811,275	3,575,261	1,500,250	2,433,765	**30,496,709**	24,206,351
Due to subsidiaries	54,292	–	–	–	–	**54,292**	40,955
Equity							
Stated capital	**–**	**–**	**–**	**–**	40,916,958	**40,916,958**	39,147,882
Statutory reserves	**–**	**–**	**–**	**–**	8,205,391	**8,205,391**	7,354,143
Retained earnings	**–**	**–**	**–**	**–**	5,144,433	**5,144,433**	5,063,076
Other reserves	**–**	**–**	**–**	**–**	78,895,603	**78,895,603**	66,840,848
Total non-interest bearing liabilities and equity as at December 31, 2019	**92,767,307**	**6,092,972**	**3,579,818**	**1,500,250**	**135,649,445**	**239,589,792**	
Total non-Interest bearing liabilities and equity as at December 31, 2018	113,169,834	11,783,968	1,714,703	990,630	123,709,148		251,368,283
Total liabilities and equity – as at December 31, 2019	**710,885,717**	**413,581,833**	**54,269,735**	**46,351,849**	**162,256,272**	**1,387,345,406**	
Total liabilities and equity – as at December 31, 2018	668,765,267	389,478,613	47,820,542	45,714,884	151,705,564		1,303,484,870
Percentage – as at December 31, 2019 (*)	**51.24**	**29.81**	**3.91**	**3.34**	**11.70**	**100.00**	
Percentage – as at December 31, 2018 (*)	51.30	29.88	3.67	3.51	11.64		100.00

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

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

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

As at December 31,	**2019 Rs. '000**	2018 Rs. '000
Financial assets		
Non-derivative financial assets		
Balances with central banks	**1,894,529**	2,919,770
Financial assets at amortised cost – Loans and advances to banks	**757,787**	763,074
Financial assets at amortised cost – Loans and advances to other customers	**340,843,192**	338,952,233
Financial assets at amortised cost – Debt and other financial instruments	**84,259,620**	64,193,017
Financial assets measured at fair value through other comprehensive income	**175,984,916**	110,887,882
Total	**603,740,044**	517,715,976

As at December 31,	2019 Rs. '000	2018 Rs. '000
Financial liabilities		
Non-derivative financial liabilities		
Securities sold under repurchase agreements	5,709	3,272,071
Financial liabilities at amortised cost – Due to depositors	53,307,759	55,093,510
Financial liabilities at amortised cost – Other borrowings	18,419,908	23,595,671
Subordinated liabilities	36,783,718	36,865,257
Total	108,517,094	118,826,509

69.2.3 Liquidity reserves

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

As at December 31,	2019		2018	
	Carrying amount Rs. '000	Fair value Rs. '000	Carrying amount Rs. '000	Fair value Rs. '000
Balances with central banks	39,461,127	39,461,127	54,384,590	54,384,590
Balances with other banks	26,446,325	26,446,325	15,266,105	15,266,105
Coins and notes held	26,094,112	26,094,112	24,272,784	24,272,784
Unencumbered debt securities issued by sovereigns	275,803,138	267,118,926	219,416,814	211,112,417
Total	367,804,702	359,120,490	313,340,293	305,035,896

69.2.4 Financial assets available to support future funding

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

As at December 31, 2019			Encumbered		Unencumbered		
	Note	Page No.	Pledged as collateral Rs. '000	Other Rs. '000	Available as collateral Rs. '000	Other Rs. '000	Total Rs. '000
Cash and cash equivalents	28	190	–	–	52,534,730	–	52,534,730
Balances with Central Banks	29	191	–	29,240,407	10,220,720	–	39,461,127
Placements with banks	30	191	–	–	24,527,241	–	24,527,241
Securities purchased under resale agreements			–	–	13,147,534	–	13,147,534
Derivative financial assets	31	192	–	–	1,830,927	–	1,830,927
Financial assets recognised through profit or loss – measured at fair value	32	192	–	–	21,468,033	–	21,468,033
Financial assets at amortised cost – Loans and advances to banks (*)	33	195	–	757,787	–	–	757,787
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	–	884,645,744	–	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	35	199	–	–	101,144,819	–	101,144,819
Financial assets measured at fair value through other comprehensive income (**)	36	201	57,104,657	–	140,463,673	–	197,568,330
Total			57,104,657	29,998,194	1,249,983,421	–	1,337,086,272

As at December 31, 2018	Note	Page No	Encumbered – Pledged as collateral Rs. '000	Encumbered – Other Rs. '000	Unencumbered – Available as collateral Rs. '000	Unencumbered – Other Rs. '000	Total Rs. '000
Cash and cash equivalents	28	190	–	–	39,534,476	–	39,534,476
Balances with central banks	29	191	–	39,412,442	14,972,148	–	54,384,590
Placements with banks	30	191	–	–	19,898,515	–	19,898,515
Securities purchased under resale agreements			–	–	9,513,512	–	9,513,512
Derivative financial assets	31	192	–	–	7,909,962	–	7,909,962
Financial assets recognised through profit or loss/ Held for trading – measured at fair value	32	192	–	–	5,520,167	–	5,520,167
Financial assets at amortised cost – Loans and advances to banks (*)	33	195	–	763,074	–	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	34	196	–	–	861,100,315	–	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	35	199	–	–	83,855,436	–	83,855,436
Financial assets measured at fair value through other comprehensive income (**)	36	201	49,267,013	–	127,239,716	–	176,506,729
Total			**49,267,013**	**40,175,516**	**1,169,544,247**	**–**	**1,258,986,776**

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

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

69.3 Market risk

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

69.3.1 Exposure to market risk - Trading and non-trading portfolio

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

As at December 31, 2019	Note	Page No.	Carrying amount Rs. '000	Market risk measurement – Trading portfolios Rs. '000	Market risk measurement – Non-trading portfolios Rs. '000
Assets subject to market risk					
Cash and cash equivalents	28	190	**29,904,195**	**–**	**29,904,195**
Balances with central banks	29	191	**8,247,155**	**–**	**8,247,155**
Placements with banks	30	191	**24,527,241**	**–**	**24,527,241**
Securities purchased under resale agreements			**13,147,534**	**–**	**13,147,534**
Derivative financial assets	31	192	**1,830,927**	**1,830,927**	**–**
Financial assets recognised through profit or loss – Measured at fair value	32	192	**21,468,033**	**21,468,033**	**–**
Financial assets at amortised cost – Loans and advances to banks	33	195	**757,787**	**–**	**757,787**
Financial assets at amortised cost – Loans and advances to other customers	34	196	**884,645,744**	**–**	**884,645,744**
Financial assets at amortised cost – Debt and other financial instruments	35	199	**101,144,819**	**–**	**101,144,819**
Financial assets measured at fair value through other comprehensive income	36	201	**197,568,330**	**–**	**197,568,330**
Total			**1,283,241,765**	**23,298,960**	**1,259,942,805**

As at December 31, 2019				**Market risk measurement**	
			Carrying amount	**Trading portfolios**	**Non-trading portfolios**
	Note	Page No.	**Rs. '000**	**Rs. '000**	**Rs. '000**
Liabilities subject to market risk					
Due to banks	45	225	**51,505,694**	**–**	**51,505,694**
Derivative financial liabilities	46	225	**1,495,317**	**1,495,317**	**–**
Securities sold under repurchase agreements			**51,220,023**	**–**	**51,220,023**
Financial liabilities at amortised cost – Due to depositors	47	226	**1,009,298,153**	**–**	**1,009,298,153**
Financial liabilities at amortised cost – Other borrowings	48	227	**23,248,893**	**–**	**23,248,893**
Subordinated liabilities	52	235	**37,886,789**	**–**	**37,886,789**
Total			**1,174,654,869**	**1,495,317**	**1,173,159,552**

As at December 31, 2018				Market risk measurement	
			Carrying amount	Trading portfolios	Non-trading portfolios
	Note	Page No.	Rs. '000	Rs. '000	Rs. '000
Assets subject to market risk					
Cash and cash equivalents	28	190	20,050,789	–	20,050,789
Balances with central banks	29	191	14,517,678	–	14,517,678
Placements with banks	30	191	19,898,515	–	19,898,515
Securities purchased under resale agreements			9,513,512	–	9,513,512
Derivative financial assets	31	192	7,909,962	7,909,962	–
Financial assets recognised through profit or loss – Measured at fair value	32	192	5,520,167	5,520,167	–
Financial assets at amortised cost – Loans and advances to banks	33	195	763,074	–	763,074
Financial assets at amortised cost – Loans and advances to other customers	34	196	861,100,315	–	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	35	199	83,855,436	–	83,855,436
Financial assets measured at fair value through other comprehensive income	36	201	176,506,729	–	176,506,729
Total			1,199,636,177	13,430,129	1,186,206,048
Liabilities subject to market risk					
Due to banks	45	225	50,101,081	–	50,101,081
Derivative financial liabilities	46	225	8,021,783	8,021,783	–
Securities sold under repurchase agreements			49,104,462	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	47	226	937,860,201	–	937,860,201
Financial liabilities at amortised cost – Other borrowings	48	227	25,361,912	–	25,361,912
Subordinated liabilities	52	235	37,992,457	–	37,992,457
Total			1,108,441,896	8,021,783	1,100,420,113

69.3.2 Exposure to interest rate risk – Sensitivity analysis

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

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

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

As at December 31, 2019	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Non-sensitive Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	9,215,666	12,554,349	–	–	–	30,764,715	52,534,730
Balances with central banks	2,765,146	–	–	–	–	36,695,981	39,461,127
Placements with banks	3,261,491	21,265,750	–	–	–	–	24,527,241
Securities purchased under resale agreements	8,125,007	5,022,527	–	–	–	–	13,147,534
Financial assets at amortised cost – Loans and advances to Banks	–	–	–	–	–	757,787	757,787
Financial assets at amortised cost – Loans and advances to other customers	527,618,048	158,915,759	93,319,369	48,269,822	43,013,693	13,509,053	884,645,744
Financial assets at amortised cost – Debt and other financial instruments	5,291,577	9,518,320	59,585,280	25,605,926	1,143,716	–	101,144,819
Financial assets measured at FVOCI	66,890,389	8,088,259	48,416,303	46,581,213	27,371,567	220,599	197,568,330
Total financial assets	623,167,324	215,364,964	201,320,952	120,456,961	71,528,976	81,948,135	1,313,787,312
Financial liabilities							
Due to banks	11,128,331	38,667,503	–	–	–	1,709,860	51,505,694
Securities sold under repurchased agreements	42,163,827	9,056,196	–	–	–	–	51,220,023
Financial liabilities at amortised cost – Due to depositors	562,780,000	374,502,486	22,665,149	11,978,066	13,648,530	67,733,429	1,053,307,660
Financial liabilities at amortised cost – Other borrowings	16,503,973	618,815	1,101,040	797,397	4,227,668	–	23,248,893
Subordinated liabilities	14,707,359	–	9,502,140	8,393,840	5,283,450	–	37,886,789
Total financial liabilities	647,283,490	422,845,000	33,268,329	21,169,303	23,159,648	69,443,289	1,217,169,059
Interest rate sensitivity gap	(24,116,166)	(207,480,036)	168,052,623	99,287,658	48,369,328	12,504,846	96,618,253
Cumulative gap	(24,116,166)	(231,596,202)	(63,543,579)	35,744,079	84,113,407	96,618,253	

As at December 31, 2018	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Non-sensitive Rs. '000	Total Rs. '000
Financial assets							
Cash and cash equivalents	7,899,330	–	–	–	–	31,635,146	39,534,476
Balances with central banks	7,977,591	–	–	–	–	46,406,999	54,384,590
Placements with banks	19,898,515	–	–	–	–	–	19,898,515
Securities purchased under resale agreements	9,513,512	–	–	–	–	–	9,513,512
Loans and receivables to banks	–	–	–	–	–	763,074	763,074
Financial assets at amortised cost – Loans and advances to other customers	533,135,000	150,322,969	84,367,436	45,455,860	39,873,228	7,945,822	861,100,315
Financial assets at amortised cost – Debt and other financial instruments	6,809,951	11,418,870	25,792,972	36,441,801	3,391,842	–	83,855,436
Financial assets measured at FVOCI	71,642,547	50,504,487	48,380,556	4,477,494	1,257,276	244,369	176,506,729
Total financial assets	656,876,446	212,246,326	158,540,964	86,375,155	44,522,346	86,995,410	1,245,556,647

As at December 31, 2018	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Non-sensitive Rs. '000	Total Rs. '000
Financial liabilities							
Due to banks	26,297,708	4,574,999	7,320,000	7,320,000	–	4,588,374	50,101,081
Securities sold under repurchase agreements	39,075,611	6,771,810	3,257,041	–	–	–	49,104,462
Financial liabilities at amortised cost – Due to depositors	512,016,994	351,834,901	23,818,232	13,279,035	13,153,783	68,934,369	983,037,314
Financial liabilities at amortised cost – Other borrowings	19,559,972	514,797	1,005,084	737,950	3,544,109	–	25,361,912
Subordinated liabilities	14,566,489	–	9,748,678	8,393,840	5,283,450	–	37,992,457
Total financial liabilities	611,516,774	363,696,507	45,149,035	29,730,825	21,981,342	73,522,743	1,145,597,226
Interest rate sensitivity gap	45,359,672	(151,450,181)	113,391,929	56,644,330	22,541,004	13,472,667	99,959,421
Cumulative gap	45,359,672	(106,090,509)	7,301,420	63,945,750	86,486,754	99,959,421	

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

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

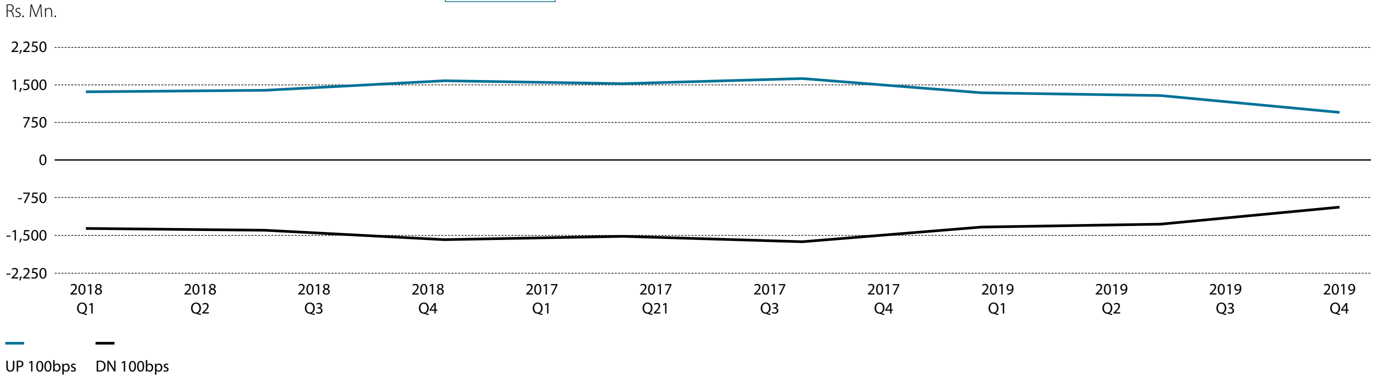
The following table demonstrates the sensitivity of the Bank's Income Statement (net impact) due to change in interest rates by 100 bps on rupee denominated assets and liabilities and 25bps on FCY denominated assets and liabilities with all other variables held constant as at the reporting date.

Sensitivity of projected net interest income

	2019		2018	
Net Interest Income (NII)	**Parallel increase Rs. '000**	**Parallel decrease Rs. '000**	Parallel increase Rs. '000	Parallel decrease Rs. '000
At at December 31,	**932,750**	**(911,553)**	1,560,756	(1,557,263)
Average for the period	**1,425,767**	**(1,413,235)**	1,493,675	(1,490,832)
Maximum for the period	**1,646,844**	**(1,643,315)**	1,646,558	(1,639,199)
Minimum for the period	**932,750**	**(911,553)**	1,269,334	(1,267,132)

The impact of changes in interest rates on NII is measured applying interest rate shocks on static balance sheet. In line with the industry practices, interest rate shocks of 100 bps is applied on LKR denominated assets and liabilities and 25 bps is applied on FCY denominated assets and liabilities. The potential impact on the Bank's profitability due to changes in rupee and foreign currency interest rates is evaluated to ensure that the volatilities are prudently managed within the internal tolerance limits.

Impact of a rate shock on the net interest income Graph – 44



69.3.3 Exposure to currency risk – Non-trading portfolio

Currency risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Bank has established limits on position by currency and these positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposures as at December 31, 2019 and 2018 and the exposure as a percentage of the total capital funds:

Foreign exchange position as at December 31, 2019

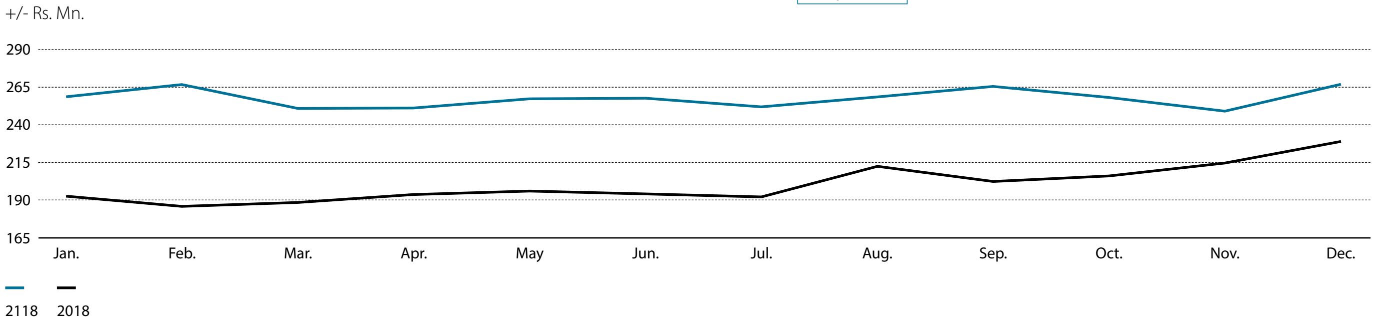
Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in
	Assets	Liabilities	Net	Assets	Liabilities	Net				Rs.
	2	3	4=2-3	5	6	7=5-6	8	9	10=4+7+8	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	42,226	16,831	25,395	5,161	30,147	(24,986)	4,076	–	4,485	815,099
Great Britain Pound	280	139	141	–	100	(100)	62	–	102	24,242
Euro	1,344	1,194	150	1,100	1,109	(9)	6	–	147	29,926
Japanese Yen	27,545	516,294	(488,749)	494,703	–	494,703	(2,657)	–	3,297	5,515
Australian Dollar	235	159	76	–	125	(125)	72	–	23	2,883
Canadian Dollar	109	147	(38)	–	–	–	82	–	44	6,169
Other currencies in USD	429	149	280	100	21	79	267	–	626	113,826
Total exposure							**USD 4,519**		**USD 5,489**	**997,660**
Total capital funds (capital base) as per the audited Basel III computation – Bank										**157,045,547**
Total exposure as a percentage of total capital funds (%)										**0.64**

Foreign exchange position as at December 31, 2018

Currency	Spot			Forward			Net open position	Net position in other exchange contracts	Overall exposure in respective foreign currency	Overall exposure in
	Assets	Liabilities	Net	Assets	Liabilities	Net				Rs.
	2	3	4=2-3	5	6	7=5-6	8	9	10=4+7+8	11
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
United States Dollar	18,716	20,365	(1,649)	2,829	6,225	(3,396)	10,854	–	5,809	1,063,097
Great Britain Pound	666	101	566	30	604	(574)	(7)	–	(15)	(3,466)
Euro	3,522	2,435	1,087	461	1,550	(1,089)	(8)	–	(11)	(2,308)
Japanese Yen	14,126	3,320	10,806	38,645	47,696	(9,051)	(968)	–	787	1,304
Australian Dollar	468	79	389	150	534	(384)	–	–	6	747
Canadian Dollar	50	42	8	–	–	–	(7)	–	1	177
Other currencies in USD	300	189	111	17	63	(46)	73	–	138	25,243
Total exposure							USD 10,896		USD 5,928	1,084,794
Total capital funds (capital base) as per the audited Basel III computation – Bank										147,398,341
Total exposure as a percentage of total capital funds (%)										0.74

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

Sensitivity of Fx Position – Impact of 1% change in Exchange Rate (Sri Lankan Operation) Graph – 45



69.3.4 Exposure to equity price risk

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

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

	2019			2018		
	Financial assets recognised through profit or loss Rs. '000	Financial assets fair value through other comprehensive income Rs. '000	Total Rs. '000	Financial assets recognised through profit or loss Rs. '000	Financial assets fair value through other comprehensive income Rs. '000	Total Rs. '000
Market value of equity securities as at December 31,	983,138	169,013	1,152,151	768,807	195,149	963,956
Stress Level	Impact on Income Statement	Impact on OCI	Impact on equity	Impact on Income Statement	Impact on OCI	Impact on equity
Shock of 10% on equity prices (upward)	98,314	16,901	115,215	76,881	19,515	96,396
Shock of 10% on equity prices (downward)	(98,314)	(16,901)	(115,215)	(76,881)	(19,515)	(96,396)

69.4 Operational risk

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

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

69.5 Capital management and Pillar III disclosures as per Basel III

Objective

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

69.5.1 Regulatory capital

Capital adequacy ratio (CAR) is calculated based on the CBSL directions stemming from Basel III accord. These guidelines require the Bank to maintain a CAR not less than 10.00% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 14.00% in relation to total risk weighted assets.

As at December 31,	2019 Rs. '000	2018 Rs. '000
Common equity Tier 1 (CET1) capital after adjustments	**119,622,141**	107,110,518
Total common equity Tier 1 (CET1) capital	**123,941,618**	110,822,797
Equity capital (stated capital)/assigned capital	**40,916,957**	39,147,882
Reserve fund	**8,205,391**	7,354,143
Published retained earnings/(accumulated retained losses)	**4,714,691**	5,726,294
Published accumulated other comprehensive income (OCI)	**2,516,082**	352,491
General and other disclosed reserves	**67,588,497**	58,241,987
Unpublished current year's profit/(losses) and gains reflected in OCI	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total adjustments to CET1 capital	**4,319,477**	3,712,279
Goodwill (net)	–	
Other intangible assets (net)	**1,080,011**	906,114
Revaluation losses of property, plant and equipment	**3,813**	3,813
Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity	**2,941,594**	2,802,352
Deferred tax assets (net)	**294,059**	–
Additional Tier 1 (AT1) capital after adjustments	–	–
Total additional Tier 1 (ATI) capital	–	–
Qualifying additional Tier 1 capital instruments	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total adjustments to AT1 capital	–	–
Investment in own shares	–	–
Others (Specify)	–	–
Tier 2 Capital after adjustments	**37,423,406**	40,287,823
Total Tier 2 Capital	**37,423,406**	40,287,823
Qualifying Tier 2 capital instruments	**26,704,378**	33,103,574
Revaluation gains	**3,087,658**	3,087,658
General provisions/Eligible impairment	**7,631,370**	4,096,591
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–
Total adjustments to Tier 2 capital	–	–
Investment in own shares	–	–
Others (specify)	–	–
CET1 capital	**119,622,141**	107,110,518
Total Tier 1 capital	**119,622,141**	107,110,518
Total capital	**157,045,547**	147,398,341

69.5.2 Capital allocation

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

69.5.3 Pillar III disclosures as per Basel III

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

70. Events after the reporting period

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

70.1 Interim dividend – 2019

The Bank declared a second interim dividend of Rs. 3.00 per share on January 31, 2020 to both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2019 and this dividend will be paid on February 24, 2020.

In accordance with the Sri Lanka Accounting Standard – LKAS 10 on "Events after the Reporting Period", this second interim dividend has not been recognised as a liability as at December 31, 2019. As per the Notice published by the Inland Revenue Department dated February 18, 2020, withholding tax will not be deducted from dividend declared.

70.2 Final dividend – 2019

The Board of Directors of the Bank has recommended the payment of a final dividend of Rs. 2.00 per share which will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2019.

This final dividend is yet to be approved at the Annual General Meeting to be held on March 30, 2020. In accordance with the Sri Lanka Accounting Standard – LKAS 10 on "Events after the reporting period", this proposed final dividend has not been recognised as a liability as at December 31, 2019. As per the Notice published by the Inland Revenue Department dated February 18, 2020, withholding tax will not be deducted from dividend declared.

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

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with the Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 20, 2020 has been audited by Messrs Ernst & Young.

70.3

Following proposals were announced as per the Notice dated February 18, 2020 issued by the Inland Revenue Department on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017" (pending formal amendments to the Act).

(i) Income Tax rate of Corporates has been revised to 24% from 28% and dividend income will be taxed at 14% effective from January 1, 2020.

However, the Bank continued to apply the Income Tax rate of 28% in calculating the deferred tax liabilities/assets as at December 31, 2019 as the legislature has not been substantively enacted as at the reporting date. The Bank recorded a net deferred tax asset of Rs. 294.059 Mn. as at December 31, 2019. If the Income Tax rate was revised to 24% from 28%, the deferred tax impact to the Bank's Income Statement and Statement of Profit or Loss and Other Comprehensive Income would have been an expense of Rs. 381.785 Mn. and a reversal of Rs. 387.840 Mn., respectively.

Entities in the Group also continued to apply the prevailing Income Tax rates for calculation of the net deferred tax asset/liability.

(ii) Income tax exemption on Interest Income from Sri Lanka Development Bonds (SLDB), effective from April 1, 2018.

The income tax liability recognised as at December 31, 2018 was without considering interest income from SLDB as an exempt source. Accordingly, the over provision made o/a of income tax liability in 2018 was reversed to the Income Statement of the current year. Further, Income Tax liability for the year ended December 31, 2019 too was calculated by considering the interest income from SLDB as an exempt source of income.