1. Corporate Information

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 was incorporated and with effect from that date, the National Development Bank of Sri Lanka Act No. 2 of 1979 was repealed except for certain provisions contained therein.

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

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

The principal activities of the Bank, its subsidiaries and associate companies, consist of the business of commercial banking, development financing, merchant banking, investment banking, leasing, housing finance, investment advisory and securities, wealth management, property investment and Bancassuarance.

The number of branches of the Bank as at 31 December 2013 was 78. (2012 - 69) and the number of staff employed as at 31 December 2013 was 1,583 (2012 - 1,389)

2. Significant Accounting Policies

2.1 Basis of Preparation

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

- Investment properties which are measured at fair value
- Available-for-sale Financial Assets which are measured at fair value
- Derivative financial instruments which are measured at fair value
- Other financial assets and liabilities held-for-trading which are measured at fair value
- Financial assets and liabilities designated at fair value through profit or loss which are measured at fair value
- Liabilities for defined benefit obligations which are recognized at the present value of the defined benefit obligations less the net totals of plan assets and unrecognized past service cost.

2.1.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank as at 31 December 2013 which comprise the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, Accounting Policies and Notes, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKASs) issued by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007. The presentation Financial Statements are also in compliance with the requirements of Banking Act No. 30 of 1988 and amendments thereto. These Financial Statements also provide appropriate disclosures as required by the listing rules of the Colombo Stock Exchange.

2.1.2 Functional and Presentation Currency

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

2.1.3 Presentation of Financial Statements

The Group and the Bank present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 45 to the Financial Statements.

2.1.4 Materiality and Aggregation

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

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

Income and expenses are not offset in the Consolidated Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Accounting Policies of the Bank.

2.1.5 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Bank and its subsidiaries for the year ended 31 December 2013. The Financial Statements of the Bank's subsidiaries are prepared for the same reporting year as Bank, using consistent Accounting Policies.

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

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

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

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

2.2 Significant Accounting Judgments, Estimates and Assumptions

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

The key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related Notes.

Fair Value of Financial Instruments

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

Financial Assets Held-for-Trading

Financial Assets held-for-trading consist of quoted equity securities and Government debt securities. Quoted equity securities are valued using the market prices published by the Colombo Stock Exchange. Government debt securities are valued using discounted cash flow techniques which incorporate market interest rates for similar investments.

Financial Derivatives

Financial derivatives are valued using valuation techniques which consider current market interest rates, forward interest rates and spot and forward exchange rates.

Determination of Value and Fair Value Hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Going Concern

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

Impairment Losses on Loans and Receivables

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

Loans and receivables that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio such as loan ownership types, levels of arrears, industries etc. and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, and exchange rates). The impairment loss on loans and receivables is disclosed in more detail in Note 19.

Impairment of Available-for-Sale Investments

The Group and Bank review their debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred Tax Assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which such items can be deducted in the future. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Defined Benefit Plans

The cost of the defined benefit plans (gratuity and pension plan) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation reported in Financial Statements are disclosed in Note 33.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

Distinction Between Investment Properties and Owner-Occupied Properties

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

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

Useful Life Time of Property, Plant & Equipment

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

Commitments and Contingencies

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

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 reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

2.3 Summary of Significant Accounting Policies

2.3.1 Business Combinations and Goodwill

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

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

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

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

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

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

2.3.2 Investment in an Associate

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

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

The Group's share of profit of an associate is shown on the face of the Income Statement. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

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

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in the Income Statement.

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

2.3.3 Foreign Currency Translation

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

Monetary assets and liabilities denominated in foreign currencies are re-translated at the middle exchange rate of the functional currency ruling at the date of the Statement of Financial Position. The resulting gains and losses are accounted for in the Income Statement.

(a) Non-monetary assets and liabilities that are measured on a historical cost basis in foreign currency are translated using the exchange rates prevailing at that date. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(b) Transactions of the Foreign Currency Banking Unit

These have been recorded in accordance with Note (a) above. Net gains and losses are dealt within the Income Statement.

(c) Forward exchange contracts are valued at the forward market rates prevailing at the date of the Statement of Financial Position. Profits and losses on such transactions are dealt within the Income Statement.

(d) Liabilities in respect of foreign currency borrowings guaranteed by the Government of Sri Lanka are not translated at rates of exchange prevailing at the date of the Statement of Financial Position, since the Government of Sri Lanka is required to bear any exchange risk that may arise at the time debt service payments are being made. The Bank pays a premium to the Government of Sri Lanka for bearing such risk.

(e) As at the reporting date, the assets and liabilities of overseas subsidiaries/associates are translated into the Bank's presentation currency at the rate of exchange ruling at the Statement of Financial Position date, and their Income Statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity.

(f) On disposal of a foreign subsidiary/associate, the deferred cumulative amount recognized in equity relating to that particular foreign subsidiary/associate is recognized in the Income Statement in 'Other operating expenses' or 'Other operating income', respectively.

2.3.4 Financial Instruments - Initial Recognition and Subsequent Measurement

(a) Date of Recognition

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

(b) Initial Measurement of Financial Instruments

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

(c) 'Day 1' Difference for Staff Loans

All staff loans granted at below market interest rates were recognized at fair value. The difference between the fair value and the amount disbursed were treated as Day 1 difference and amortized as staff cost over the loan period by using effective interest rate. The staff loans were subsequently measured at amortized costs.

(d) Derivatives Recorded at Fair Value through Profit or Loss

The Group uses derivatives such as currency Swaps, forward foreign exchange contracts and options on interest rates. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in 'Net trading income'.

Details of 'Derivative financial instruments' are given in Note 16 to the Financial Statements.

(e) Financial Assets Held-for-Trading

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are Investments in Unit Trusts, Debt Securities, Equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

Details of 'Financial assets held-for-trading' are given in Note 17 to the Financial Statements.

(f) Available-for-Sale Financial Investments

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

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

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

Unrealized gains and losses are recognized directly in equity (other comprehensive income) in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the Income Statement in 'other operating income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the Effective Interest Rate (EIR).

Dividends earned whilst holding available-for-sale financial investments are recognized in the Income Statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the Income Statement in 'Impairment losses on financial investments' and removed from the 'Available for sale reserve'.

Details of 'Financial assets - available-for-sale' are given in Note 21 to the Financial Statements.

(g) Held-to-Maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'interest and similar income' in the Income Statement.

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

Details of 'financial assets - held-to-maturity' are given in Note 22 to the Financial Statements.

(h) Loans and Receivables to Banks and Other Customers

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

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

After initial measurement, amounts 'Loans and receivables to banks' and 'loans and receivables to other customers' are subsequently measured at amortized cost using the EIR, less allowance 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 amortization is included in 'interest and similar income' in the Income Statement. The losses arising from impairment are recognized in the Income Statement in 'Impairment for loans and receivables and other losses'.

Details of 'Loans and receivables to banks' and Loans and receivables to other customers' are given in Note 18 and 19 to the Financial Statements.

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise of cash balances, placement with banks and balances with Central Bank of Sri Lanka. The cash flow statement has been prepared by using 'The Direct Method', whereby gross cash receipts and gross cash payments of operating activities, investing and financing activities have been recognized.

Details of 'Cash and cash equivalents' are given in Note 13 to the Financial Statements.

(j) Other Financial Liabilities

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

Other financial liabilities include, deposits from customers, amount due to banks, borrowings from banks and others and debentures.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

2.3.5 Derecognition of Financial Assets and Financial Liabilities

(a) Financial Assets

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

- The rights to receive cash flows from the asset have expired,
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
- The Group has transferred substantially all the risks and rewards of the asset, or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(b) Financial Liabilities

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

2.3.6 Securities Purchased Under Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Statement of Financial Position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'securities purchased under Repurchase Agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

2.3.7 Securities Sold Under Repurchase Agreements

Securities purchased under agreements to resell at a specified future date are not recognized in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'securities sold under Repurchase Agreements', reflecting the transaction's economic substance as a loan by the Bank. The difference between the repurchase and resale prices is recorded in 'Net Interest Income' and is accrued over the life of the agreement using the EIR.

2.3.8 Determination of Fair Value of Financial Instruments

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price without any deduction for transaction costs.

An analysis of fair values of financial instruments are provided in Note 43.

2.3.9 Impairment of Financial Assets

(a) Impairment of Financial Assets Carried at Amortized Cost

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Individually Assessed Financial Assets

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

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

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Collectively Assessed Loans and Receivables

Impairment is assessed on a collective basis in two circumstances:

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

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

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

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

See Note 7 for details of impairment for loans and receivables and other losses carried at amortized cost and Note 19 for an analysis of the impairment allowance on loans and receivables by class.

Write-off of Loans and Receivables

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

(b) Available-for-Sale Financial Investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a ‘significant’ or ‘prolonged’ decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the Income Statement is removed from equity and recognized in the Income Statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in Other Comprehensive Income.

The Group writes-off certain financial investments - Available-for-sale when they are determined to be uncollectible.

(c) Rescheduled Loan Facilities

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

(d) Collateral Valuation

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

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

2.3.10 Impairment of Non-Financial Assets Other than Goodwill

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Income Statement.

2.3.11 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

2.3.12 Property, Plant & Equipment

(a) Basis of Recognition

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

(b) Basis of Measurement

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

(c) Subsequent Cost

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

(d) Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use. The estimated useful lives of the assets are as follows:

Buildings/improvements	20 years - 40 years
Motor vehicles	4 years
Furniture and office equipment	5 years

Depreciation is provided proportionately for the completed number of months the asset is in use, if it is purchased or sold during the financial year.

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

(e) Derecognition

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

2.3.13 Intangible Assets

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

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

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives as given below:

Computer software 5 years

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

2.3.14 Leases

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

2.3.15 Investment Property

Properties held to earn rental income and properties held for capital appreciations have been classified as investment property. Investment properties are initially recognized at cost. Subsequent to the initial recognition, the investment properties are stated at fair values, which reflect market conditions at the date of the Statement of Financial Position. Gains or losses arising from changes in the fair values are included in the Income Statement in the year in which they arise.

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

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

An external, independent valuer, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property.

2.3.16 Taxes

(a) Current Tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(b) Deferred Tax

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

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

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

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

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

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

(c) Value Added Tax on Financial Services

The basis for the computation of Value Added Tax on financial services is the accounting profit before emoluments paid to employees and income tax attributable to financial services, which is adjusted for the depreciation computed on prescribed rates. The amount of Value Added Tax charged at 12% in determining the profit for the period is given in the Income Statement.

2.3.17 Financial Guarantees

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

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

The premium received is recognized in the Income Statement in 'Fees and Commission Income' on a straight line basis over the life of the guarantee.

2.3.18 Employee Benefits

Pension Fund

The Bank operates an approved employee non-contributory pension plan for the payment of pensions to members of its permanent staff who qualify for such payments when retiring. Employees who joined since 1999 are not covered under the said pension scheme. These employees are entitled to retirement gratuity as explained in Note 33 on page 228 Up to 31 December 2002, annual contributions to the pension plan was payable by the Bank based on a percentage of gross salaries, as stipulated in the pension deed. However, following the formulation of a revised pension deed, which has been approved by the Department of Inland Revenue, the contributions in subsequent years are determined on the basis of an actuarial valuation each year.

Gratuity

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit method. This item is stated under other liabilities in the Statement of Financial Position. Actuarial gains and losses are recognized as income or expense in other comprehensive income during the financial year in which it arise.

Employees' Provident Fund and Employees' Trust Fund

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

2.3.19 Provisions

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

2.3.20 Equity Linked Compensation Plan

On 1 July 2010, shareholders of the Bank approved an Equity Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. A total quantum of 2,455,661 shares of the Bank which is equivalent to a maximum of 3% of the present voting share capital of the Bank is to be issued to the ELCP. Half of such shares are to be awarded as share options and the other half as Share Grants in equal proportions. The issue of shares for the ELCP will take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

Details of the Share Options and the Share Grants are given in Note 41 to the Financial Statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully-entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

The Income Statement expense or credit for a period is recorded in 'Personnel expenses' and represents the movement in cumulative expense recognized as at the beginning and end of that period.

2.3.21 Dividends on Ordinary Shares

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

2.3.22 Recognition of Income and Expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

(a) Interest and Similar Income and Expense

For all financial instruments measured at amortized cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'interest and similar income' for financial assets and interest and similar expense for financial liabilities.

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

(b) Dividend Income

Dividend income from shares is recognized when the Group's right to receive the payment is established.

(c) Income from Fee-based Activities

Fees for underwriting, advisory work, loan syndication, management of funds and all other fees and commissions are recognized on accrual basis. Fees charged on guarantee/bid bonds are recognized on an accrual basis over the period the service is performed.

(d) Net Trading Income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

(e) Expenditure Recognition

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

2.3.23 Cash and Cash Equivalents

Cash and cash equivalents comprise of cash balances, short-term funds and balances with Central Bank of Sri Lanka. The cash flow statement has been prepared by using 'The Direct Method', whereby gross cash receipts and gross cash payments of operating activities, investing and financing activities have been recognized.

2.3.24 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the 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.

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

- Banking
- Capital Markets
- Property Investment
- Others

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. 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.

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2013 or 2012.

2.3.25 Changes in Accounting Policies and Disclosures

LKAS 19 - Employee Benefits (Revised 2013)

The Group applied LKAS 19 (Revised 2013) in the current period in accordance with the transitional provisions set out in the revised standard. Some of the key changes that impacted the Group include the following:

The Group previously recognized only the net cumulative unrecognized actuarial gains and losses of the previous period, which exceeded 10% of the greater of the defined benefit obligation and the fair value of the plan assets in accordance with LKAS 19.93 (previous).

As a consequence, the Group's Statement of Financial Position did not reflect a significant part of the unrecognized net actuarial gains and losses.

This method is no more allowed under revised LKAS 19 and hence Group changed its accounting policy to recognized actuarial gains and losses in the period in which they occur in total in Other Comprehensive Income Statements.

2.4 Standards Issued But Not Yet Effective

The following SLFRS have been issued by The Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those SLFRS will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements.

(i) SLFRS 9 - Financial Instruments: Classification and Measurement
SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

This Standard was originally effective for annual periods commencing on or after 1 January 2015. However, effective date has been deferred subsequently.

(ii) SLFRS 13 - Fair Value Measurement
SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements and provides guidance on all fair value measurements under SLFRS.

This Standard will be effective for the financial period beginning on or after 1 January 2014.

However, use of fair value measurement principles contained in this Standards are currently recommended.

In addition to the above, following Standards will also be effective for the annual periods commencing on or after 1 January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

The above parcel of three Standards will impact the recognition, measurement and disclosures aspects currently contained in LKAS 27 - Consolidated and Separate Financial Statements, LKAS 28 - Investments in Associates, LKAS 31 - Interest in Joint Ventures and SIC - 12 and SIC 13 which are on consolidation of Special Purpose Entities (SPEs) and jointly controlled entities respectively.

Establishing a single control model that applies to all entities including SPEs and removal of option to proportionate consolidation of jointly controlled entities are the significant changes introduced under SLFRS 10 and SLFRS 11 respectively.

SLFRS 12 - establishes a single standard on disclosures related to interests in other entities. This incorporates new disclosures as well as the ones previously captured in earlier versions of LKAS 27, LKAS 28 and LKAS 31.

The Group will adopt these Standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000

3. Net Interest Income

3.1 Interest Income

	BANK 2013 LKR '000	BANK 2012 LKR '000	GROUP 2013 LKR '000	GROUP 2012 LKR '000
Loans and receivables - to banks	68,735	105,400	68,735	105,400
Loans and receivables - to other customers	16,437,695	14,046,695	16,437,695	14,046,695
Placements with banks	683,723	309,346	686,785	309,346
Other financial investments - held-for-trading	821,202	304,261	821,202	304,610
Financial investments - held-to-maturity	1,636,638	1,712,458	1,652,929	1,712,458
Financial investments - available-for-sale	53,649	–	53,649	–
Financial investments - loans and receivables	790,575	314,175	926,606	450,722
Other interest income	111,393	191,302	118,241	220,636
Total Interest Income	20,603,610	16,983,637	20,765,842	17,149,867

3.2 Interest Income from Sri Lanka Government Securities

	BANK 2013 LKR '000	BANK 2012 LKR '000	GROUP 2013 LKR '000	GROUP 2012 LKR '000
Interest income	3,346,578	2,485,116	3,346,578	2,485,116

3.3 Interest Income on Impaired Financial Assets

	BANK 2013 LKR '000	BANK 2012 LKR '000	GROUP 2013 LKR '000	GROUP 2012 LKR '000
Interest income from impaired loans and receivables to other customers	147,702	107,694	147,702	107,694

3.4 Interest Expenses

	BANK 2013 LKR '000	BANK 2012 LKR '000	GROUP 2013 LKR '000	GROUP 2012 LKR '000
Due to banks	312,341	444,581	312,341	444,581
Due to other customers	10,462,783	7,853,381	10,462,783	7,853,381
Debt securities issued and other borrowed funds	2,697,330	2,814,344	2,660,091	2,758,611
Subordinated term debts	319,049	274,366	319,049	274,366
Total Interest Expenses	13,791,503	11,386,672	13,754,264	11,330,939
Net Interest Income	6,812,107	5,596,965	7,011,578	5,818,928

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
4. Fee and Commission Income				
Comprising of				
Cards	75,860	35,379	75,860	35,379
Due to other customers	142,707	73,364	142,707	73,364
Guarantees	270,596	182,712	270,596	182,712
Loans and receivables - to other customers	347,139	268,319	347,139	268,319
Remittances	173,329	112,017	173,329	112,017
Trade finance	543,888	493,121	543,888	493,121
Bancassuarance	44,638	14,398	44,638	14,398
Fees related to investment banking and wealth management	–	–	518,447	286,500
Brokerage	–	–	68,940	56,428
Rental income	9,160	8,103	209,673	164,645
Others	6,789	23,087	16,056	33,596
Total Fee and Commission Income	1,614,106	1,210,500	2,411,273	1,720,479

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
5. Net Trading Gains/(Losses)				
Income from foreign exchange	953,325	976,401	953,325	976,401
Equities	–	238	877	9,099
Debt securities	213,227	33,637	213,434	37,286
Unit Trusts	105,076	–	700,657	249,710
	1,271,628	1,010,276	1,868,293	1,272,496

a. 'Foreign Exchange' income includes gains and losses from spot and forward contracts and other currency derivatives.

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

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

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

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
6. Other Operating Income				
Dividend income from securities				
- Quoted investments	–	–	17,969	–
- Non-quoted investments	18,258	30,950	41,864	40,496
Dividend income from group investments				
- Quoted investments	659,136	54,632	–	–
- Non-quoted investments	41,067	41,067	–	–
Capital gains from sales of securities	9,685	91,122	43,194	91,122
Capital gains from sale of group investments	5,372,060	535,716	–	5,750,942
Foreign exchange gain	60,449	218,830	60,449	219,471
Gains on sale of property, plant & equipment	2,408	12,384	2,408	12,384
Gains on investment properties	–	–	88,000	–
Others	4,013	12,774	4,013	12,773
	6,167,076	997,475	257,897	6,127,188

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
7. Impairment for Loans & Receivables and Other Losses				
Loans and receivables				
- To banks	–	–	–	–
- To other customers	1,184,420	(9,157)	1,184,420	(9,157)
- Write offs	76,345	66,769	76,345	66,769
	1,260,765	57,612	1,260,765	57,612
Investments in subsidiaries	20,881	48,500	–	(6,233)
Investments in associates	(43,444)	–	–	–
	1,238,202	106,112	1,260,765	51,379

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
8. Personnel Expenses				
Salary and bonus	1,895,144	1,676,485	2,138,517	1,811,056
Contribution to Employees' Provident Fund	164,154	139,404	181,132	153,606
Contribution to Employees' Trust Fund	32,835	27,880	36,488	31,033
Contribution to defined benefit plan				
- Pension Fund (Note 33.3)	5,449	22,706	5,449	22,706
- Gratuity (Note 33.3)	40,990	40,960	42,370	48,619
Share-based payments	32,323	20,054	32,323	20,054
Others	218,249	245,251	224,002	246,251
Total	2,389,144	2,172,740	2,660,281	2,333,325

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
9. Other Expenses				
Directors' emoluments	28,586	25,397	32,191	26,367
Auditors' remuneration	8,019	7,188	10,008	8,987
Non-audit fees to auditors	18,176	5,746	18,176	5,746
Professional and legal expenses	21,061	12,051	42,716	13,908
Office administration and establishment expenses	953,413	876,351	999,135	1,015,955
Depreciation of property, plant & equipment	223,297	181,837	293,571	218,433
Amortization of intangible assets	78,807	82,783	91,068	95,786
Deposit insurance expenses	117,530	95,212	117,530	95,212
Crop Insurance Levy	77,373	–	77,373	–
Others	1,028,797	642,888	1,221,826	683,120
Total	2,555,059	1,929,453	2,903,594	2,163,514

Directors emoluments include fees paid to Non-Executive Directors. Remunerations paid to executive directors are included under salary and bonus in Note 8.

	GROUP		
	Percentage Holding 2013/2012	2013 LKR '000	2012 LKR '000
10. Share of Associate Companies' Profits/(Losses)			
Maldives Finance Leasing Co (Pvt) Ltd.	35.00%	49,220	(14,683)
AVIVA NDB Insurance PLC (Note 10.1)	41.14%	–	440,000
AVIVA NDB Finance Lanka (Pvt) Ltd.	41.42%	–	13,403
Total		49,220	438,720

10.1 On 27 September 2012, the Bank and NDB Capital Holdings PLC entered into a Share Sale and Purchase Agreement with American International Assurance Company Ltd. (AIA) of Hong Kong to divest the 41.56% shareholding in AVIVA NDB Holdings and 5% of AVIVA NDB Insurance PLC. Accordingly, on 5 December 2012, the divestment of these shares resulted in a capital gain of LKR 5.9 bn to the NDB Group.

11. Taxation

The components of the income tax expense for the years ended 31 December 2013 and 2012 are:

		BANK		GROUP	
	Note	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Income tax expense					
Current year		982,551	1,039,602	982,551	1,039,602
Adjustment in respect of current income tax of prior years		(128,223)	(16,935)	(128,223)	(16,935)
		854,328	1,022,667	854,328	1,022,667
Income tax of subsidiary companies		–	–	106,434	74,854
Income tax of associate companies		–	–	–	139,847
	a	854,328	1,022,667	960,762	1,237,368
Deferred tax expense					
Temporary differences	b	194,448	38,000	190,131	38,000
Total tax charged to the Income Statement		1,048,776	1,060,667	1,150,893	1,275,368
Effective tax rate (%)		11	23	24	12
Reconciliation of the total tax expense					
a. Income Tax					
Profit before tax		9,682,512	4,606,911	4,724,401	10,390,873
Income tax for the year (Accounting profit @ applicable tax rate)		2,711,103	1,289,935	1,318,486	3,342,895
Tax effect of exempt income		(1,881,884)	(269,649)	(392,927)	(2,107,123)
Adjustment in respect of current income tax of prior years		(128,223)	(16,935)	(127,691)	(16,935)
Add: Tax effect of expenses that are not deductible for tax purposes		1,210,519	606,963	1,235,509	612,837
(Less): Tax effect of expenses that are deductible for tax purposes		(1,049,995)	(625,679)	(1,065,423)	(632,338)
Tax effect of leasing/tax losses		(7,192)	38,032	(7,192)	38,032
Tax expenses for the year		854,328	1,022,667	960,762	1,237,368

b. Deferred Tax

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

	Deferred Tax Assets 2013 LKR '000	Deferred Tax Liabilities 2013 LKR '000	Income Statement 2013 LKR '000	Other Comprehensive Income 2013 LKR '000	Deferred Tax Assets 2012 LKR '000	Deferred Tax Liabilities 2012 LKR '000	Income Statement 2012 LKR '000	Other Comprehensive Income 2012 LKR '000
BANK								
Provisions	(41,443)	–	(34,452)	–	(6,991)	–	5,106	–
Gains on available-for-sale investments	–	41,482	–	41,482	–	–	–	–
Other temporary differences	(109,846)	422,239	228,900	(3,372)	(208,716)	295,581	32,894	–
Total	(151,289)	463,721	194,448	38,110	(215,707)	295,581	38,000	–
GROUP								
Provisions	(41,443)	–	(34,452)	–	(6,991)	–	5,106	–
Gains on available-for-sale investments	–	58,572	–	58,572	–	–	–	–
Other temporary differences	(116,749)	424,071	224,583	(3,372)	(209,792)	295,903	32,894	–
Total	(158,192)	482,643	190,131	55,200	(216,783)	295,903	38,000	–

12. Earnings Per Share

The basic earnings per share for 2013 and 2012 have been calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings Per Share':

	BANK		GROUP	
	2013	2012	2013	2012
Amount used as the numerator				
Profit attributed to ordinary shareholders (LKR '000)	7,723,236	2,923,958	2,641,925	8,853,821
Amount used as the denominator				
Ordinary shares in issue for basic EPS calculation	164,693,034	164,201,902	160,559,308	160,068,176
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,450,167	164,201,902	160,316,441	160,068,176
Weighted average basic Earnings Per Share (LKR)	46.96	17.81	16.48	55.31
Amount used as the numerator				
Profit attributed to ordinary shareholders (LKR '000) (excluding exceptional capital gain)	2,705,236	2,923,958	2,641,925	2,161,077
Amount used as the denominator				
Ordinary shares in issue for basic EPS calculation	164,693,034	164,201,902	160,559,308	160,068,176
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,450,167	164,201,902	160,316,441	160,068,176
Weighted average basic Earnings Per Share (excluding exceptional capital gain) (LKR)	16.45	17.81	16.48	13.50
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	164,450,167	164,201,902	160,316,441	160,068,176
Effect of outstanding share option scheme	49,684	55,479	54,847	55,479
Number of ordinary shares including share option	164,499,851	164,257,381	160,371,288	160,123,655
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for diluted EPS calculation	164,499,851	164,257,381	160,371,288	160,123,655
Weighted average diluted Earning Per Share (LKR)	46.95	17.80	16.47	55.29

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
13. Cash and Cash Equivalents				
Local currency in hand	1,737,799	1,448,690	1,794,986	1,448,766
Foreign currency in hand	125,169	98,098	125,169	98,098
Balances with banks	748,107	1,933,607	748,107	2,088,119
	2,611,075	3,480,395	2,668,262	3,634,983

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
14. Balances with Central Bank				
Statutory balances with Central Bank of Sri Lanka	5,339,000	6,074,792	5,339,000	6,074,792
	5,339,000	6,074,792	5,339,000	6,074,792

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

The minimum cash reserve requirement was 6.0% of the Rupee deposit liabilities as at 31 December 2013 (8.0% as at 31 December 2012). This reserve requirement is not applicable for the foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Foreign Currency Banking Unit.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
15. Placements with Banks				
Money Market Placements - in Sri Lanka	130,751	3,559,354	130,751	3,559,354
	130,751	3,559,354	130,751	3,559,354

	BANK & GROUP			
	Financial Assets 2013 LKR '000	Financial Liabilities 2013 LKR '000	Financial Assets 2012 LKR '000	Financial Liabilities 2012 LKR '000
16. Derivative Financial Instruments				
Currency options	5,895	5,895	–	–
Forward foreign exchange contracts	1,143,646	811,415	1,706,372	1,736,838
	1,149,541	817,310	1,706,372	1,736,838

17. Other Financial Assets Held-for-Trading

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Sri Lanka Government Securities - Treasury Bills	5,061,675	448,489	5,061,675	448,489
Sri Lanka Government Securities - Treasury Bonds	4,053,939	534,478	4,053,939	534,478
Equity Securities	–	–	336,293	123,717
Investment in Unit Trusts	1,605,075	–	4,742,234	10,287,941
	10,720,689	982,967	14,194,141	11,394,625

Financial assets held-for-trading pledged as collateral amounted to LKR 9,115 mn as at 31 December 2013 (2012 - LKR 983 mn).

18. Loans and Receivables to Banks

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Gross loans and receivables - Refinance loans in local currency	641,628	1,183,343	641,628	1,183,343
(Less): Allowance for impairment charges	–	–	–	–
Net Loans and Receivables - Refinance Loans in Local Currency	641,628	1,183,343	641,628	1,183,343

19. Loans and Receivables to Other Customers

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Gross loans and receivables	141,009,004	118,915,481	141,069,185	118,962,157
(Less): Allowance for impairment charges (Note 19.5)	4,187,472	2,923,122	4,187,472	2,923,122
Net Loans and Receivables to Other Customers	136,821,532	115,992,359	136,881,713	116,039,035
19.1 Loans and Receivables to Other Customers - By Product				
Long-term loans	25,231,706	21,235,303	25,231,706	21,235,303
Medium and short-term loans	33,566,630	20,325,610	33,566,630	20,325,610
Overdrafts	18,459,862	18,634,753	18,443,398	18,634,753
Trade finance loans	32,776,432	31,171,501	32,776,432	31,171,501
Consumer loans	14,620,469	11,341,513	14,620,469	11,341,513
Leasing (Note 19.6)	8,428,409	6,439,571	8,428,409	6,439,571
Housing loans	4,764,297	4,972,040	4,764,297	4,972,040
Pawning	2,232,748	4,011,455	2,232,748	4,011,455
Staff loans	928,451	783,735	1,005,096	830,411
Gross Loans and Receivables to Other Customers	141,009,004	118,915,481	141,069,185	118,962,157

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.2 Loans and Receivables to Other Customers - By Currency				
Sri Lanka Rupee	107,171,530	91,190,842	107,231,711	91,237,518
United States Dollar	32,632,514	26,548,524	32,632,514	26,548,524
Sterling Pound	264,378	56,792	264,378	56,792
Euro	918,679	1,090,473	918,679	1,090,473
Australian Dollar	1,921	–	1,921	–
Others	19,982	28,850	19,982	28,850
Total	141,009,004	118,915,481	141,069,185	118,962,157

	BANK			
	2013		2012	
	LKR '000	%	LKR '000	%
19.3 Loans and Receivables to Other Customers - By Industry				
Food, beverages and tobacco	6,147,979	4.4	3,867,971	3.4
Agriculture, agro-business and fisheries	23,822,627	16.9	16,611,353	14.8
Textiles and garments	15,762,846	11.2	15,137,000	10.5
Wood and paper products	1,411,804	1.0	1,608,146	1.4
Leather and plastic products	2,068,823	1.5	2,793,814	2.5
Metals, chemicals and engineering	10,464,249	7.4	9,782,592	8.7
Hotels and tourism	3,442,992	2.4	2,079,905	1.8
Utilities	4,968,585	3.5	2,590,607	2.3
Constructions and housing finance	11,500,264	8.2	12,752,024	8.6
Services	17,081,395	12.1	17,380,140	15.5
Transport	3,778,090	2.7	733,709	0.7
Trading	15,725,082	11.2	10,494,381	9.3
Consumer	24,792,450	17.6	22,227,027	19.8
Other	41,818	–	856,812	0.7
Total	141,009,004	100.0	118,915,481	100.0

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.4 Loans and Receivables to Other Customers - By Province				
Western Province	**124,579,549**	103,448,133	**124,639,731**	103,494,809
Southern Province	**3,632,923**	3,185,742	**3,632,923**	3,185,742
North-Western Province	**3,404,250**	2,910,290	**3,404,250**	2,910,290
Central Province	**2,932,843**	2,587,501	**2,932,843**	2,587,501
Sabaragamuwa Province	**2,113,614**	2,025,175	**2,113,614**	2,025,175
Eastern Province	**1,515,788**	1,864,716	**1,515,788**	1,864,716
North-Central Province	**1,195,847**	1,215,422	**1,195,847**	1,215,422
Northern Province	**906,496**	1,035,940	**906,496**	1,035,940
Uva Province	**727,694**	642,562	**727,693**	642,562
Total	**141,009,004**	118,915,481	**141,069,185**	118,962,157

The province wise disclosure is made based on the location of the branch from which the loan has been disbursed.

19.5 Allowance for Impairment Charges for Loans and Receivables to Other Customers

	BANK & GROUP									
	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing LKR '000	Housing Loans LKR '000	Pawning LKR '000	Staff Loans LKR '000	Total LKR '000
As at 1 January 2013	930,383	449,089	797,844	359,060	280,155	49,735	42,763	7,947	6,146	2,923,122
Charges/(reversals) for the year	204,151	464,482	433,534	261,002	79,433	34,706	(6,065)	120,741	3,422	1,595,406
Amounts written-off	(331,056)	–	–	–	–	–	–	–	–	(331,056)
As at 31 December 2013	803,478	913,571	1,231,378	620,062	359,588	84,441	36,698	128,688	9,568	4,187,472
Individual impairment	194,309	717,745	552,936	340,580	–	3,233	–	10,134	9,128	1,828,065
Collective impairment	609,169	195,826	678,442	279,482	359,590	81,208	36,698	118,554	440	2,359,407
	803,478	913,571	1,231,378	620,062	359,590	84,441	36,698	128,688	9,568	4,187,472
Gross amount of loan individually determined to be impaired, before deduction of individually assessed impairment allowance	2,356,833	2,635,835	1,049,859	1,780,766	–	178,814	–	14,886	–	8,016,993

	BANK & GROUP									
	Long-term Loans LKR '000	Medium and Short-term Loans LKR '000	Overdrafts LKR '000	Trade Finance Loans LKR '000	Consumer Loans LKR '000	Leasing LKR '000	Housing Loans LKR '000	Pawning LKR '000	Staff Loans LKR '000	Total LKR '000
As at January 2012	1,041,179	423,704	588,409	457,317	273,052	56,448	18,787	72	5,469	2,864,437
Charges/(reversals) for the year	(110,796)	25,385	209,435	(98,257)	7,103	(6,713)	23,976	7,875	677	58,685
As at 31 December 2012	930,383	449,089	797,844	359,060	280,155	49,735	42,763	7,947	6,146	2,923,122
Individual impairment	245,289	210,753	371,505	148,985	–	–	–	2,654	–	979,186
Collective impairment	685,094	238,336	426,339	210,075	280,155	49,735	42,763	5,293	6,146	1,943,936
	930,383	449,089	797,844	359,060	280,155	49,735	42,763	7,947	6,146	2,923,122
Gross amount of loan individually determined to be impaired, before deduction of individually assessed impairment allowance	1,620,989	571,330	500,925	345,773	–	19,697	–	47,869	–	3,106,583

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.5.(a) Movements in Individual and Collective Impairment during the year for Loans and Receivables to Other Customers				
Individual impairment				
As at 1 January	**979,186**	987,054	**979,186**	987,054
Charge/(reversals) to Income Statement	**1,179,935**	(7,868)	**1,179,935**	(7,868)
Write-off during the year	**(331,056)**	–	**(331,056)**	–
As at 31 December	**1,828,065**	979,186	**1,828,065**	979,186
Collective impairment				
As at 1 January	**1,943,936**	1,877,383	**1,943,936**	1,877,383
Charge/(reversals) to Income Statement	**415,471**	66,553	**415,471**	66,553
Write-off during the year	**–**	–	**–**	–
As at 31 December	**2,359,407**	1,943,936	**2,359,407**	1,943,936
Total impairment	**4,187,472**	2,923,122	**4,187,472**	2,923,122

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.6 Lease Rentals Receivable				
Gross lease rentals receivables	10,468,941	9,764,885	10,468,941	9,764,885
Less: Unearned income	2,040,532	3,325,314	2,040,532	3,325,314
Total lease receivables	8,428,409	6,439,571	8,428,409	6,439,571
(Less): Allowance for impairment charges [Note 19.6. (a)]	84,441	49,734	84,441	49,734
Net lease rentals receivables	8,343,968	6,389,837	8,343,968	6,389,837

	BANK & GROUP	
	2013 LKR '000	2012 LKR '000
19.6.(a) Allowance for Impairment Charges		
As at 1 January	49,735	56,448
Charges/(reversals) for the year	34,706	(6,713)
As at 31 December	84,441	49,735
Individual impairment	3,233	–
Collective impairment	81,208	49,735
	84,441	49,735
Gross amount of lease individually determined to be impaired, before deduction of the individually assessed impairment allowance	178,814	19,697

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.6.(b) Movements in Individual and Collective Impairment during the year for Lease Rentals Receivable				
Individual impairment				
As at 1 January	–	–	–	–
Charge to Income Statement	3,233	–	3,233	–
As at 31 December	3,233	–	3,233	–
Collective impairment				
As at 1 January	49,735	56,448	49,735	56,448
Charge/(write back) to Income Statement	31,473	(6,713)	31,473	(6,713)
As at 31 December	81,208	49,735	81,208	49,735
Total impairment	84,441	49,735	84,441	49,735

19.7 Maturity of Lease Rentals Receivable

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
19.7.(a) Gross Lease Rentals Receivable within One Year				
Total rental receivables	412,692	867,302	412,692	867,302
(Less): Allowance for impairment charges	(29,265)	(22,920)	(29,265)	(22,920)
Interest in suspense	(68,242)	(57,714)	(68,242)	(57,714)
Unearned income	(11,848)	(86,089)	(11,848)	(86,089)
Net Rentals Receivables	303,337	700,579	303,337	700,579
19.7.(b) Gross Lease Rentals Receivable after One Year				
Total rental receivables	10,164,395	8,960,201	10,164,395	8,960,201
(Less): Allowance for impairment charges	(55,176)	(26,815)	(55,176)	(26,815)
Interest in suspense	(39,933)	(4,903)	(39,933)	(4,903)
Unearned income	(2,028,655)	(3,239,225)	(2,028,655)	(3,239,225)
Net Rentals Receivables	8,040,631	5,689,258	8,040,631	5,689,258
Total Net Rentals Receivables	8,343,968	6,389,837	8,343,968	6,389,837

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
20. Financial Investments - Loans and Receivables				
Sri Lanka development bonds	10,781,368	2,981,123	10,781,369	2,981,123
Redeemable cumulative preference shares	136,262	140,040	136,262	140,040
Investment in securitizations	–	–	91,698	642,862
Investment in quoted debentures	–	–	854,943	–
Securities purchased under resale agreements	4,919,825	3,324,868	4,927,429	3,324,868
	15,837,455	6,446,031	16,791,701	7,088,893

The face value of securities purchased under resale agreements which are pledged as collateral for borrowings under repurchase agreements amounted to LKR 4.9 bn (2012 - LKR 3.3 bn).

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
21. Financial Investments - Available-for-Sale				
Sri Lanka Government Securities - Treasury Bills	4,889,272	–	4,889,272	–
Sri Lanka Government Securities - Treasury Bonds	582,449	–	582,449	–
Sovereign Bonds	505,939	–	505,939	–
Non-quoted ordinary shares	4,790	4,790	189,790	111,617
Investment Fund Account [Refer Note 21.(a)]	–	61,924	–	61,924
	5,982,450	66,714	6,167,450	173,541

Financial Investments available-for-sale, pledged as collateral amounted to LKR 2,657 mn as at 31 December 2013 (2012 - Nil).

	BANK & GROUP			
	Maturity Date	Rate of Interest %	2013 LKR '000	2012 LKR '000
21.(a) Investment Fund Account				
Sri Lanka Government Securities - Treasury Bills	Feb - Apr 2013	10.5 -13.5	–	61,924
			–	61,924

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
22. Financial Investments Held-to-Maturity				
Sri Lanka Government Securities - Treasury Bills	5,620,318	3,476,192	5,620,318	3,500,061
Sri Lanka Government Securities - Treasury Bonds	10,379,471	15,781,079	10,379,471	15,616,573
Debentures	1,602,460	–	2,460,802	106,594
	17,602,249	19,257,271	18,460,591	19,223,228

23. Investments in Subsidiary Companies

23.1 Bank

	Corporate Status	Percentage Holding %	2013 Cost LKR '000	2013 Directors' Valuation/ Market Value LKR '000	Percentage Holding %	2012 Cost LKR '000	2012 Directors' Valuation/ Market Value LKR '000
NDB Capital Holdings PLC	Quoted	99.62	1,748,142	16,062,148	99.62	2,330,855	19,063,550
Development Holdings (Pvt) Ltd.	Non-quoted	58.61	228,150	1,140,651	58.61	228,150	1,072,860
NDB Capital Ltd.	Non-quoted	77.80	130,673	61,293	77.80	130,673	82,216
Less: Allowance for impairment of investments (Note 23.2)			(69,380)	–		(48,500)	–
			2,037,585	17,264,092		2,641,178	20,218,626

23.2 Movement in the Impairment of Investments

	2013 LKR '000	2012 LKR '000
As at 1 January	48,500	–
Charge to Income Statement	20,880	48,500
As at 31 December	69,380	48,500

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

23.4 The Directors' valuation of investments in subsidiary companies has been carried out on a net assets basis except for investments in quoted companies, which are at the Market value as at the date of the Statement of Financial Position.

23.5 As explained in 23.3, NDB Capital Holdings PLC has been valued at the market price as at the Statement of Financial Position date. The Company's shares are traded and the market price is driven by the non-controlling shareholders of only 0.38%.

23.6 On 27 September 2012, the Bank and NDB Capital Holdings PLC (NCAP) entered into a Share Sale and Purchase Agreement with American International Assurance Company Ltd. (AIA) of Hong Kong to divest the 41.56% shareholding in AVIVA NDB Holdings and 5% of AVIVA NDB Insurance PLC. Accordingly on 5 December 2012 the divestment of these shares resulted in a capital gain of LKR 5.9 bn to the NDB Group during the fourth quarter of 2012. Pursuant to this divestment, the shareholders of NCAP approved a share repurchase plan in March 2013, which resulted in NCAP buying back 25% of its share capital equivalent to LKR 583 mn of cost of investment of the Bank, posting a capital gain of LKR 5.3 bn to the Bank during the first quarter of 2013.

	Corporate Status	Percentage Holding %	2013 Cost LKR '000	2013 Directors' Valuation LKR '000	Percentage Holding %	2012 Cost LKR '000	2012 Directors' Valuation LKR '000

24. Investments in Associate Companies

24.1 Bank

	Corporate Status	Percentage Holding %	2013 Cost LKR '000	2013 Directors' Valuation LKR '000	Percentage Holding %	2012 Cost LKR '000	2012 Directors' Valuation LKR '000
Maldives Finance Leasing Co. (Pvt) Ltd.	Non-quoted	35	165,462	43,443	35	165,462	–
Ayojana Fund (Pvt) Ltd.	Under liquidation	50	100	–	50	100	–
NDB Venture Investments (Pvt) Ltd.	Under liquidation	50	18,525	33,301	50	18,525	33,301
Less: Allowance for impairment of investments (Note 24.2)			(122,120)	–		(165,562)	–
			61,967	76,744		18,525	33,301

24.2 Movement in the Impairment of Investments

	2013 LKR '000	2012 LKR '000
As at 1 January	165,562	165,562
Reversal to Income Statement	(43,442)	–
As at 31 December	122,120	165,562

24.3 Group

	Corporate Status	Percentage Holding %	As at 01.01.2013 LKR '000	Exchange gain on Valuation LKR '000	Profit net of Dividend Received LKR '000	As at 31.12.2013 LKR '000
Maldives Finance Leasing Co. (Pvt) Ltd.	Non-Quoted	35	–	(5,777)	49,220	43,443
NDB Venture Investments (Pvt) Ltd.	Under Liquidation	50	33,301	–	–	33,301
			33,301	(5,777)	49,220	76,744

24.4 Summarized Financial Information of the NDB Group's Investment in its Associates

	2013 LKR '000	2012 LKR '000
Total assets	397,232	595,148
Total liabilities	206,497	546,359
Net assets	190,724	48,790
Revenue	116,204	134,213
Profits	49,220	438,720

	GROUP	
	2013 LKR '000	2012 LKR '000
25. Investment Property		
As at 1 January	1,295,693	1,295,693
Change in the fair value during the year	88,000	–
As at 31 December	1,383,693	1,295,693

Development Holdings (Pvt) Ltd., is a subsidiary of the Bank, whose principal activity is renting out premises for commercial use.

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

The income approach using the current market rent including passing rents has been used as the methodology by the valuer to value the Investment Property as recommended by LKAS 40 - Investment Property.

Significant Assumptions Used for the Valuation

- Outgoing at 40% of estimated rent
- Capitalise YP at 6.35%

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
26. Intangible Assets				
26.1 Computer Software				
Cost/Valuation				
As at 1 January	485,769	598,196	548,728	641,457
Additions during the year	23,330	87,062	25,573	106,747
Disposals during the year	(1,755)	–	(1,894)	(199,476)
Transfers/Adjustments	–	(199,489)	–	–
As at 31 December	507,344	485,769	572,407	548,728
Depreciation/Amortization				
As at 1 January	213,455	329,984	230,004	333,530
Charge for the year	78,807	82,783	91,068	95,786
Disposals during the year	–	–	–	–
Transfers/Adjustments	(134)	(199,312)	(134)	(199,312)
As at 31 December	292,128	213,455	320,938	230,004
Net book Value as at 31 December	215,216	272,314	251,469	318,723

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
26.2 Software Under Development				
Cost/Valuation				
As at 1 January	–	10,421	–	10,421
Additions during the year	48,285	7,935	48,285	7,935
Transfers/Adjustments	(3,076)	(18,356)	(3,076)	(18,356)
As at 31 December	45,209	–	45,209	–
Net Book Value of Total Intangible Assets	260,425	272,314	296,678	318,723

27. Property, Plant & Equipment

27.1 Bank

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work-in-Progress LKR '000	Total LKR '000
(a) Cost							
As at 1 January 2013	165,016	618,746	540,223	172,492	453,446	–	1,949,923
Additions during the year	–	50,332	56,350	53,669	76,369	46,997	283,717
Disposals during the year	–	–	(4,827)	(22,095)	(235)	–	(27,157)
Transfers/Adjustments	–	(362)	(136)	–	2,384	(43,574)	(41,688)
As at 31 December 2013	165,016	668,716	591,610	204,066	531,964	3,423	2,164,795
(b) Depreciation/Amortization							
As at 1 January 2013	–	398,550	314,746	88,433	291,997	–	1,093,726
Charge for the year	–	49,062	76,172	38,059	60,004	–	223,297
On disposals	–	–	(5,434)	(20,417)	(209)	–	(26,060)
Transfers/Adjustments	–	(502)	(136)	–	1,580	–	942
As at 31 December 2013	–	447,110	385,348	106,075	353,372	–	1,291,905
Net book value as at 31 December 2013 (a) - (b)	165,016	221,606	206,262	97,991	178,592	3,423	872,890
Net book value as at 31 December 2012	165,016	220,196	225,477	84,058	161,448	–	856,195

Location	Extent (Perches)	Cost or Revaluation of Land LKR '000	Buildings (Square Feet)	Cost or Revaluation of Buildings LKR '000	Total Value LKR '000	Accumulated Depreciation LKR '000	Written down Value LKR '000	As a % of Total Cost
27.2 Freehold Land and Building								
Head Office - Dharmapala Mawatha - No. 103A, Dharmapala Mawatha, Colombo 7	20	164,857	3,766	38,145	203,002	4,636	198,366	64.5
Head Office - Navam Mawatha - No. 40, Navam Mawatha, Colombo 02	1.43	159	8,842	385,339	385,498	276,309	109,189	35.5
	21.43	165,016	12,608	423,484	588,500	280,945	307,555	100.0
Add: Improvement to buildings of the Bank branches					245,232	166,165	79,067	
Net book value as at 31 December 2013					833,732	447,110	386,622	

	Freehold Land LKR '000	Freehold Buildings LKR '000	Computer Equipment LKR '000	Motor Vehicles LKR '000	Office Equipment & Furniture LKR '000	Capital Work-in-Progress LKR '000	Total LKR '000
27.3 Group							
(a) Cost							
As at 1 January 2013	469,323	618,746	581,802	233,305	590,109	–	2,493,285
Additions during the year	–	50,525	61,360	54,120	77,426	46,997	290,428
Disposals during the year	–	–	(4,827)	(22,095)	(235)	–	(27,157)
Transfers/adjustments	–	(362)	(136)	–	2,375	(43,574)	(41,697)
As at 31 December 2013	469,323	668,909	638,199	265,330	669,675	3,423	2,714,859
(b) Depreciation/Amortization							
As at 1 January 2013	–	398,550	347,887	117,220	407,128	–	1,270,785
Charge for the year	–	50,115	81,971	47,976	113,509	–	293,571
On disposals	–	(1,372)	(5,434)	(20,417)	(209)	–	(27,432)
Transfers/adjustments	–	–	(136)	–	1,580	–	1,444
As at 31 December 2013	–	447,293	424,288	144,779	522,008	–	1,538,368
Net book value as at 31 December 2013 (a) - (b)	469,323	221,616	213,911	120,551	147,667	3,423	1,176,491
Net book value as at 31 December 2012	469,323	220,196	233,915	116,085	182,981	–	1,222,500

27.4 Fully Depreciated Property Plant & Equipment - Bank

The initial cost of fully depreciated property, plant & equipment as at 31 December 2013, which are still in use as at the reporting date is as follows:

	BANK	
	2013 LKR '000	2012 LKR '000
Computer equipment	209,304	528,840
Buildings	195,573	189,614
Motor vehicles	33,758	57,449
Office equipment & furniture	224,555	264,143
	791,778	1,314,740

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
28. Other Assets				
Sundry receivables	333,580	151,517	591,601	414,280
Deposits and prepayments	243,892	257,820	301,886	273,846
Unamortised staff cost (Note 28.1)	541,525	445,842	565,249	466,562
Employees Share Ownership Plan (ESOP)	68,747	80,205	–	–
Group balance receivable	1,647	1,101	–	–
	1,189,391	936,485	1,458,737	1,154,688

The ESOP represents the written down value of the Bank's shares issued to a trust for the benefit of the employees. The total cost of LKR 229 mn is being amortized over a period of 20 years with effect from 1 January 2000.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
28.1 Unamortized Staff Cost				
As at 1 January 2013	445,842	386,366	466,562	403,248
Add: Adjustment for new grants and settlements	168,727	115,941	178,289	124,570
Less: Charged to personnel cost	(73,045)	(56,464)	(79,603)	(61,256)
As at 31 December 2013	541,525	445,842	565,249	466,562

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
29. Due to Banks				
Borrowings from local banks	9,053,574	2,187,539	9,053,574	2,187,539
Due to foreign banks	1,399,512	132,445	1,399,512	132,445
	10,453,086	2,319,984	10,453,086	2,319,984

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
29.1 Due to Banks - By Currency				
Local Currency	505,918	1,551,026	505,918	1,551,026
Foreign Currency	9,947,168	768,958	9,947,168	768,958
Total	10,453,086	2,319,984	10,453,086	2,319,984

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
30. Due to Other Customers				
30.1 Due to Other Customers - By Products				
Savings deposits	20,737,295	18,023,160	20,329,079	18,023,160
Time deposits	97,457,473	81,648,029	97,457,473	81,441,312
Demand deposits	11,099,605	7,742,146	11,099,605	7,742,146
Margins	489,251	143,600	489,251	143,600
Other deposits	46,405	43,648	46,405	43,648
	129,830,029	107,600,583	129,421,813	107,393,866

	BANK				GROUP			
	2013 LKR '000	%	2012 LKR '000	%	2013 LKR '000	%	2012 LKR '000	%

30.2 Due to Other Customers - By Currency

	2013 LKR '000	%	2012 LKR '000	%	2013 LKR '000	%	2012 LKR '000	%
Local Currency Deposits								
Savings deposits	14,419,607	11	10,726,145	10	14,011,391	11	10,726,145	10
Time deposits	76,149,198	59	62,509,647	58	76,149,198	59	62,302,930	58
Demand deposits	9,081,419	7	6,194,524	6	9,081,419	7	6,194,524	6
Margins	462,539	–	105,440	–	462,539	–	105,440	–
Other deposits	16,681	–	30,372	–	16,681	–	30,372	–
	100,129,444	77	79,566,128	74	99,721,228	77	79,359,411	74
Foreign Currency Deposits								
Savings deposits	6,317,688	5	7,297,015	7	6,317,688	5	7,297,015	7
Time deposits	21,308,275	16	19,138,382	18	21,308,275	16	19,138,382	18
Demand deposits	2,018,186	2	1,547,622	1	2,018,186	2	1,547,622	1
Margins	26,712	–	38,160	–	26,712	–	38,160	–
Other deposits	29,724	–	13,276	–	29,724	–	13,276	–
	29,700,585	23	28,034,455	26	29,700,585	23	28,034,455	26
Total	129,830,029	100	107,600,583	100	129,421,813	100	107,393,866	100

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000

30.3 Due to Other Customers - By Province

	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Western Province	118,274,186	97,238,538	117,865,971	97,031,821
North Western Province	2,819,643	2,612,774	2,819,643	2,612,774
Southern Province	2,104,254	1,960,352	2,104,254	1,960,352
Central Province	2,374,189	1,780,424	2,374,189	1,780,424
Sabaragamuwa Province	1,926,321	1,654,511	1,926,321	1,654,510
Eastern Province	617,021	723,384	617,021	723,384
Northern Province	657,371	662,464	657,371	662,465
North Central Province	544,081	500,278	544,081	500,278
Uva Province	512,963	467,858	512,962	467,858
	129,830,029	107,600,583	129,421,813	107,393,866

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000

31. Debt Securities Issued and Other Borrowed Funds

(a) Bank

	BANK 2013 LKR '000	BANK 2012 LKR '000	GROUP 2013 LKR '000	GROUP 2012 LKR '000
Concessionary credit lines	**3,553,877**	7,762,298	**3,553,877**	7,762,298
Refinance borrowings	**3,460,599**	885,011	**3,460,599**	885,011
Foreign borrowings	**5,207,343**	2,690,692	**5,207,343**	2,690,692
Reverse repurchase agreements	**11,771,598**	12,515,861	**11,771,598**	12,515,861
Local borrowings	**27,290**	5,579,551	**27,290**	5,569,626
Non-quoted debentures - (Note 31.1)	**400,111**	924,411	**370,111**	894,411
	24,420,818	30,357,824	**24,390,818**	30,317,899

31.1 Non-quoted Debentures

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

	Interest Payable Frequency	Issue Date	Maturity Date	BANK 2013 LKR '000	BANK 2012 LKR '000	GROUP 2013 LKR '000	GROUP 2012 LKR '000
Floating Rate Debenture							
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	30.06.2011	30.06.2016	**110,000**	110,000	**110,000**	110,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	18.07.2011	30.06.2016	**50,000**	50,000	**50,000**	50,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	19.07.2011	30.06.2016	**40,000**	40,000	**40,000**	40,000
2011-2016 - 3 month TB rate (Gross) +1% p.a.	Quarterly	21.07.2011	30.06.2016	**200,111**	200,140	**170,111**	170,140
				400,111	400,140	**370,111**	370,140
Fixed Rate Debenture							
2005/2013 -10.13 % p.a.	Semi annually	23.03.2005	24.01.2013	–	524,271	–	524,271
				400,111	924,411	**370,111**	894,411
Due within one year				–	524,271	–	524,271
Due after one year				**400,111**	400,140	**370,111**	370,140
				400,111	924,411	**370,111**	894,411

32. Deferred Taxation

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Deferred tax liabilities				
Accelerated depreciation for tax purposes	71,502	57,013	73,334	57,335
Finance leases	350,737	238,568	350,737	238,568
Gains on available-for-sale investments	41,482	–	58,572	–
	463,721	295,581	482,643	295,903
Deferred tax assets				
Defined benefit plans	47,603	34,214	46,915	35,290
Carry forward loss on leasing business	62,243	104,269	62,243	104,269
Loss on other operations	–	70,233	7,591	70,233
Provision for bad and doubtful debts	41,443	6,991	41,443	6,991
	151,289	215,707	158,192	216,783
Net deferred tax liability	312,432	79,874	324,451	79,120

	INCOME STATEMENT				OTHER COMPREHENSIVE INCOME			
	BANK		GROUP		BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Deferred tax liabilities								
Accelerated depreciation for tax purposes	14,489	16,905	15,999	16,048	–	–	–	–
Finance leases	112,169	65,758	112,169	65,758	–	–	–	–
Gains on available-for-sale investments	–	–	–	–	41,482	–	58,572	–
	126,658	82,663	128,168	81,806	41,482	–	58,572	–
Deferred tax assets								
Defined benefit plans	(10,017)	(7,864)	(8,253)	(7,008)	(3,372)	–	(3,372)	–
Carry forward loss on leasing business	42,026	(41,905)	42,026	(41,905)	–	–	–	–
Loss on other operations	70,233	–	62,642	–	–	–	–	–
Provision for bad and doubtful debts	(34,452)	5,106	(34,452)	5,107	–	–	–	–
	67,790	(44,663)	61,963	(43,806)	(3,372)	–	(3,372)	–
Net impact	194,448	38,000	190,131	38,000	38,110	–	55,200	–

		BANK		GROUP	
	Note	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
33. Employee Benefit Liability					
33.1 Provision for Retirement Gratuity					
As at 1 January		122,191	94,107	165,633	129,889
Provision made during the year					
Income Statement		40,990	40,960	42,370	48,619
Other comprehensive income		12,042	–	12,042	–
Contribution made for gratuity liability	33.3	53,032	40,960	54,412	48,619
Benefits paid by the plan		(5,215)	(12,875)	(5,215)	(12,875)
As at 31 December		170,008	122,192	214,830	165,633

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

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

	31 December 2013	31 December 2012
Actuarial Assumptions		
Discount rate	11%	12%
Salary increment rate	8%	10%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age or age on valuation date, if greater	Normal retirement age or age on valuation date, if greater

Sensitivity of Assumptions Used in the Actuarial Valuation

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

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

		BANK			
		2013		2012	
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment rate	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year LKR mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR mn	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year LKR mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR mn
1%		15.47	(15.47)	14.10	(14.10)
(-1%)		(17.93)	17.93	(16.40)	16.40
	1%	(17.75)	17.75	(16.10)	16.10
	(-1%)	15.58	(15.58)	14.10	(14.10)

The expected Benefit Payout in the future years to the defined benefit plan obligation:

	2013 LKR '000
Within the next 12 months	15,108
Between 2 and 5 years	132,492
Beyond 5 years	278,448

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

The average duration of the defined benefit obligation is 12.5 years.

33.2 Pension Fund Receivable

The amounts recognized in the Statement of Financial Position are as follows:

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Present value of funded obligations as at 31 December	533,685	473,224	533,685	473,224
Fair value of plan assets as at 31 December	(634,172)	(597,075)	(634,172)	(597,075)
	(100,487)	(123,851)	(100,487)	(123,851)
Present value of unfunded obligations	–		–	–
Unrecognized actuarial gains/losses	–	(11,857)	–	(11,857)
Retirement Benefit (Asset)/Liability	(100,487)	(135,708)	(100,487)	(135,708)

This over payment is recognized as pre-paid expenses in other assets.

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

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

	2013	2012
Actuarial Assumptions		
Discount rate	11%	12%
Salary increment	8%	10%
Annual return on assets rate	10%	12%
Mortality	UP 1984 Mortality Table	UP 1984 Mortality Table
Retirement age	Normal retirement age	Normal retirement age

Sensitivity of Assumptions Employed in Actuarial Valuation

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

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

		BANK			
		2013		2012	
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year LKR mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR mn	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year LKR mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR mn
1%		47.87	(47.87)	42.30	(42.30)
(-1%)		(56.13)	56.13	(49.60)	49.60
	1%	(20.31)	20.31	(19.70)	19.70
	(-1%)	18.77	(18.77)	18.10	(18.10)

	2013	
Increase/(Decrease) in Life Expectancy	Sensitivity Effect on Income Statement Increase/(Reduction) in Results for the Year LKR mn	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability LKR mn
+ 1 year	(6.19)	6.19
-1 Year	6.43	(6.43)

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

	2013 LKR '000	2012 LKR '000
Investments in unquoted investments		
Investments in Government Securities	515,276	572,083
Investment in fixed deposit	112,893	–
	628,169	572,083

The expected Benefit Payout in the future years to the defined benefit plan obligation:

	2013 LKR '000
Within the next 12 months	33,958
Between 2 and 5 years	156,983
Beyond 5 years	321,421

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

The average duration of the defined benefit obligation is 26.6 years.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
33.3 Contribution Made for Employee Benefits				
Contribution made for Gratuity Liability				
Current service & interest cost (Note 8)	40,990	35,415	42,370	43,074
Expected return on assets and recognition of actuarial loss/(gain)	–	–	–	–
Recognition of actuarial gain/(loss)	–	1,704	–	1,704
Recognition of transitional liability/(asset)	25,672	3,841	25,672	3,841
Liability experience loss/(gain)	3,942	–	3,942	–
Liability loss/(gain) due to changes in assumptions	(17,572)	–	(17,572)	–
Income Statement and Other Comprehensive Income	53,032	40,960	54,412	48,619
Contribution made to the Pension Fund				
Current service & interest cost (Note 8)	5,449	70,350	5,449	70,350
Expected return on assets & recognition of actuarial loss/(gain)	–	(52,964)	–	(52,964)
Recognition of actuarial gain/(loss)	5,928	5,320	5,928	5,320
Liability experience loss/(gain)	6,313	–	6,313	–
Liability loss/(gain) due to changes in assumptions	11,160	–	11,160	–
Income Statement and Other Comprehensive Income	28,850	22,706	28,850	22,706

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
34. Other Liabilities				
Accrued expenses	575,079	421,203	631,942	436,911
Provision for deposit insurance	34,500	28,650	34,500	28,650
Dividend payable (Note 34.1)	40,656	249,201	40,656	249,201
Other liabilities	3,035,430	2,704,636	3,143,191	2,776,980
	3,685,665	3,403,690	3,850,289	3,491,742

	BANK & GROUP	
	2013 LKR '000	2012 LKR '000
34.1 Dividend Payable		
As at 1 January	249,201	755,381
Interim dividend declared for the prior year	821,010	–
Final dividend declared for the prior year	1,642,019	656,696
Interim dividend declared for the current year	823,465	–
Reversal of dividends declared in prior years (34.2)	(64,560)	–
Dividend paid	(3,430,479)	(1,162,876)
As at 31 December	40,656	249,201

34.2 Reversal of Dividends Declared in Prior Years

Certain persons/entities who invested in the ordinary shares of the Bank were not registered as shareholders in the registers of the Bank to ensure compliance with certain provisions of the Banking Act. As such, no dividends were paid to unregistered shareholders. These persons/entities subsequently sold their shares on the trading floor of the Colombo Stock Exchange. As persons/entities who dispose of shares while they are not registered as shareholders are no longer entitled to any past dividend on such shares, the dividends accrued against such persons/entities amounting to LKR 64.56 mn have been credited to retained earnings during the year and presented in the Statement of Changes in Equity.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
35. Subordinated Term Debts				
As at 1 January	2,188,350	2,373,300	2,188,350	2,373,300
Additions during the year	9,954,542	–	9,954,542	–
Redemptions during the year	(511,650)	(184,950)	(511,650)	(184,950)
Balance before adjusting for amortized interest	11,631,242	2,188,350	11,631,242	2,188,350
Net effect on amortized interest payable	51,432	66,349	51,432	66,349
As at 31 December (Note 35.1)	11,682,674	2,254,699	11,682,674	2,254,699

	Repayment Terms	Issued Date	Maturity Date	Rate of Interest %	Amount FCY	BANK 2013 LKR '000	BANK 2012 LKR '000	GROUP 2013 LKR '000	GROUP 2012 LKR '000
35.1 Subordinated Term Debts - by Products									
35.1 (a) Term Loans									
Nederland's Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO)									
FMO Loan 1	Semi annually	20 Jan. 2006	1 Oct. 2015	AWDR +5%	EUR 7,500,000	384,467	573,879	384,467	573,879
FMO Loan 11	Semi annually	18 Dec. 2007	15 Oct. 2017	Avg (6 months AWDR, 6 months T Bill rate) + 3%	USD 15,000,000	1,343,665	1,680,820	1,343,665	1,680,820
						1,728,132	2,254,699	1,728,132	2,254,699

	Interest Payable Frequency	Issued Date	Maturity Date	BANK 2013 LKR '000	BANK 2012 LKR '000	GROUP 2013 LKR '000	GROUP 2012 LKR '000
35.1 (b) Debentures							
Fixed Rate Debenture							
Type A - 13.0% - (60 Months)	Semi annually	19 December 2013	18 December 2018	1,237,065	–	1,237,065	–
Type B - 13.40% - (60 Months)	Annually	19 December 2013	18 December 2018	1,521,968	–	1,521,968	–
Type C - 13.90% - (120 Months)	Annually	19 December 2013	18 December 2023	3,620,995	–	3,620,995	–
Type D - 14.00% - (144 Months)	Annually	19 December 2013	18 December 2025	3,574,514	–	3,574,514	–
				9,954,542	–	9,954,542	–
Total subordinated debts				11,682,674	2,254,699	11,682,674	2,254,699
Due within one year				511,650	511,650	511,650	511,650
Due after one year				11,171,024	1,743,049	11,171,024	1,743,049
				11,682,674	2,254,699	11,682,674	2,254,699

	BANK				GROUP			
	Number	2013 LKR '000	Number	2012 LKR '000	Number	2013 LKR '000	Number	2012 LKR '000
36. Capital								
Capital Comprises of								
Issued and fully paid	164,201,902	1,093,095	164,201,902	1,093,095	164,201,902	1,093,095	164,201,902	1,093,095
Adjustment on consolidation of Employee Share Ownership Plan	–	–	–	–	(4,133,726)	(229,158)	(4,133,726)	(229,158)
Issue of shares under the Equity Linked Compensation Plan (Note 36.2)	491,132	79,809	–	–	491,132	79,809	–	–
	164,693,034	1,172,904	164,201,902	1,093,095	160,559,308	943,746	160,068,176	863,937

	BANK & GROUP			
	2013 Number	2013 LKR '000	2012 Number	2012 LKR '000
36.1 Stated Capital	164,693,034	1,172,904	164,201,902	1,093,095

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

Accordingly on 1 July 2013 , 491,132 ordinary shares were issued to the eligible members of the staff as per the Equity Linked Compensation Plan (ELCP) of the Bank at a price of LKR 162.50 per share. This share issue resulted in the increase of the Stated Capital of the Bank from LKR 1,093.1 mn to LKR 1,172.9 mn, and the number of shares in issue from 164,201,902 to 164,693,034.

37. Statutory Reserve Fund

The Statutory Reserve Fund was created out of revenue reserves to comply with a Direction issued to Licensed Banks by the Monetary Board of the Central Bank of Sri Lanka under Section 76 J (1) and is maintained under Section 20 of the Banking Act No. 30 of 1988.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
As at 1 January	878,718	878,718	878,718	878,718
Transferred from retained earnings (Note 40)	79,809	–	79,809	–
As at 31 December	958,527	878,718	958,527	878,718

38. Investment Fund Account

Transfers to Investment Fund Account

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

(i) 8% of the profit calculated for the payment of Value Added Tax (VAT) on Financial Services on dates as specified in the VAT Act for payment of VAT.

(ii) 5% of the profit before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self-assessment payment of tax.

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
As at 1 January	924,332	386,825	924,332	386,825
Transferred from retained earnings	782,419	537,507	782,419	537,507
As at 31 December	1,706,751	924,332	1,706,751	924,332

Loans Granted by Utilizing the Funds in the Investment Fund Account

The long-term loans include LKR 1,677 mn of loans disbursed by utilizing the Investment Fund Account balance (refer Note 19.1).

	BANK & GROUP							
	Interest Rates %	Tenure Years	Number of Loans Granted	2013 Total LKR '000	Interest Rates %	Tenure Years	Number of Loans Granted	2012 Total LKR '000
Sector								
a. Cultivation of agriculture/ plantation crops			29	124,039			23	101,927
b. Factory/mills modernization			39	215,022			40	217,966
c. Small and medium enterprises	11.0 - 18.0	5 - 7	253	1,226,571	11.0 - 18.0	5 - 6	72	369,092
d. Information technology and BPO			1	1,514			1	2,093
e. Infrastructure development			2	3,125			–	–
f. Education			1	3,295			1	4,250
i. Construction of hotels			15	103,255			14	104,042
			340	1,676,821			151	799,370

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
39. Available-for-Sale Reserve				
As at 1 January	–	–	–	–
Net gain on financial investments available-for-sale	106,669	–	150,614	–
As at 31 December	106,669	–	150,614	–

	2013			2012		
	General Reserve LKR '000	Retained Profit LKR '000	Total LKR '000	General Reserve LKR '000	Retained Profit LKR '000	Total LKR '000
40. Retained Earnings						
(a) Bank						
As at 1 January	5,805,707	6,240,549	12,046,256	5,805,707	4,510,794	10,316,501
Profit for the year	–	7,691,165	7,691,165	–	2,923,958	2,923,958
Transferred to investment fund	–	(782,419)	(782,419)	–	(537,507)	(537,507)
Transferred to statutory reserve fund	–	(79,809)	(79,809)	–	–	–
Dividends to equity holders	–	(3,221,933)	(3,221,933)	–	(656,696)	(656,696)
As at 31 December	5,805,707	9,847,553	15,653,260	5,805,707	6,240,549	12,046,256

	2013			2012		
	General Reserve LKR '000	Retained Profit LKR '000	Total LKR '000	General Reserve LKR '000	Retained Profit LKR '000	Total LKR '000
(b) Group						
As at 1 January	5,805,707	16,410,347	22,216,054	5,805,707	8,989,942	14,795,649
Profit for the year		2,641,925	2,641,925	–	8,853,821	8,853,821
Exchange differences on translation of foreign operations	–	(42,017)	(42,017)	–	18,824	18,824
Transferred to investment fund	–	(782,419)	(782,419)	–	(537,507)	(537,507)
Effect of change in holding in a group company	–	–	–	–	(258,037)	(258,037)
Transferred to statutory reserve fund	–	(79,809)	(79,809)	–	–	–
Dividends to equity holders	–	(3,221,933)	(3,221,933)	–	(656,696)	(656,696)
As at 31 December	5,805,707	14,926,094	20,731,801	5,805,707	16,410,347	22,216,054

41. Share Based Payment Reserve

a. Equity Linked Compensation Plan

On 1 July 2010, shareholders of the Bank approved an Equity Linked Compensation Plan (ELCP), to enable the management staff in the rank of Assistant Vice-President and above of the Bank to take part in the voting ordinary share capital of the Bank, subject to certain limits, terms and conditions. A total quantum of 2,455,661 shares of the Bank which is equivalent to a maximum of 3% of the present voting share capital of the Bank is to be issued to the ELCP. Half of such shares are to be awarded as share options and the other half as Share Grants in equal proportions. The issue of shares for the ELCP will take place over five years commencing July 2010. Each of the five tranches would amount to a maximum of 0.6% of the voting shares.

b. The details of the share grant and the share options made available to the relevant staff members are given below:

	2013	2012
Share Grant		
Award 01 - (01 July 2010) - vested on 30 June 2013		
Numbers of ordinary shares awarded	491,132	491,132
Award 04 - (01 July 2013) - to be vested on 30 June 2016		
Numbers of ordinary shares awarded	491,132	–
Total number of shares granted under share grant scheme	982,264	491,132
Share Option		
Award 01 - (01 July 2010) - exercisable from 1 July 2011 to 30 June 2014	491,132	491,132
Number of shares allocated at a price of LKR 124.21		
Award 04 - (01 July 2013)- exercisable from 1 July 2014 to 30 June 2017	491,132	
Total number of shares allocated under the share option scheme	982,264	491,132

c. Awards 2 and 3 were not granted as the Bank did not meet the necessary criteria for entitlement.

d. At the Annual General Meeting held on 30 March 2011, the shareholders of the Bank approved to increase the number of existing ordinary shares amounting to 82,100,951 by sub dividing the said existing ordinary shares in the proportion of one share for every ordinary share in issue. Accordingly, the number of shares of the share grant and the share option as per award 01, increased by two folds as at 31 December 2011.

e. The share grant of 491,132 shares as per award 04, resulted in the increase of the stated capital of the Bank from LKR 1,093.1 mn as at 31 December 2012 to LKR 1,172.9 mn as at 31 December 2013.

e. Share-based Payment Reserve

The expense recognized for employee services received during the year is shown in the following table:

	2013 LKR '000	2012 LKR '000
Expense arising from equity-settled share-based payment transactions	54,690	20,055
Total expense arising from share-based payment transactions	54,690	20,055

There were no cancellations or modifications to the awards in 2013 or 2012.

Movements During the Year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2013 Number	2013 LKR	2012 Number	2012 LKR
Outstanding at 1 January	491,132	124.21	491,132	124.21
Granted during the year	491,132	222.02	–	–
Outstanding at 31 December	982,264	173.12	491,132	124.21
Exercisable at 31 December	491,132			

The following table lists the inputs to the models used for the two plans for the years ended 31 December 2013 and 2012, respectively:

	2013	2012
Expected volatility (%)	10	10
Risk free interest rate (%)	7.55	7.55
Expected life of share options (years)	3	3
Weighted average share price (LKR)	160.50	137.90

42. Measurement of Financial Instruments

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivable LKR '000	Available-for-Sale LKR '000	Others LKR '000	Total LKR '000
(a) Bank - Current Year (2013)						
Assets						
Cash and cash equivalents	–	–	2,611,075	–	–	2,611,075
Balances with Central Bank	–	–	5,339,000	–	–	5,339,000
Placements with banks	–	–	130,751	–	–	130,751
Derivative financial instruments	1,149,541	–	–	–	–	1,149,541
Other financial assets held-for-trading	10,720,689	–	–	–	–	10,720,689
Loans and receivables to banks		–	641,628	–	–	641,628
Loans and receivables to other customers	–	–	136,821,532	–	–	136,821,532
Financial Investments - Loans and receivables	–	–	15,837,455	–	–	15,837,455
Financial investments - Available- for-sale	–	–	–	5,982,450	–	5,982,450
Financial investments - Held-to-maturity	–	17,602,249	–	–	–	17,602,249
Total Financial Assets	11,870,230	17,602,249	161,381,441	5,982,450	–	196,836,370
Investments in subsidiary companies	–	–	–	–	2,037,585	2,037,585
Investments in associate companies	–	–	–	–	61,967	61,967
Investment property	–	–	–	–	–	–
Intangible assets	–	–	–	–	260,425	260,425
Property, plant & equipment	–	–	–	–	872,890	872,890
Other assets	–	–	–	–	1,189,391	1,189,391
Total Assets	11,870,230	17,602,249	161,381,441	5,982,450	4,422,258	201,258,628

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Others LKR '000	Total LKR '000
Liabilities				
Due to banks	–	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	–	817,310
Due to other customers	–	129,830,029	–	129,830,029
Debt Securities issued and other borrowed funds	–	24,420,818	–	24,420,818
Subordinated term debts	–	11,682,674	–	11,682,674
Total Financial Liabilities	817,310	176,386,607	–	177,203,917
Tax liabilities	–	–	266,128	266,128
Deferred tax liabilities	–	–	312,432	312,432
Employee benefit liability	–	–	170,008	170,008
Other liabilities	–	–	3,685,665	3,685,665
Total Liabilities	817,310	176,386,607	4,434,233	181,638,150

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivable LKR '000	Available-for-Sale LKR '000	Others LKR '000	Total LKR '000
(b) Group - Current Year (2013)						
Assets						
Cash and cash equivalents	–	–	2,668,262	–	–	2,668,262
Balances with Central Bank	–	–	5,339,000	–	–	5,339,000
Placements with banks	–	–	130,751	–	–	130,751
Derivative financial instruments	1,149,541	–	–	–	–	1,149,541
Other financial assets held-for-trading	14,194,141	–	–	–	–	14,194,141
Loans and receivables to banks	–	–	641,628	–	–	641,628
Loans and receivables to other customers	–	–	136,881,713	–	–	136,881,713
Financial Investments - Loans and receivables	–	–	16,791,701	–	–	16,791,701
Financial investments - Available-for-sale	–	–	–	6,167,450	–	6,167,450
Financial investments - Held-to-maturity	–	18,460,591	–		–	18,460,591
Total Financial Assets	15,343,682	18,460,591	162,453,055	6,167,450	–	202,424,778
Investments in subsidiary companies	–	–	–	–	–	–
Investments in associate companies	–	–	–	–	76,744	76,744
Investment property	–	–	–	–	1,383,693	1,383,693
Intangible assets	–	–	–	–	296,678	296,678
Property, plant & equipment	–	–	–	–	1,176,491	1,176,491
Other assets	–	–	–	–	1,458,737	1,458,737
Total Assets	15,343,682	18,460,591	162,453,055	6,167,450	4,392,343	206,817,121

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Others LKR '000	Total LKR '000
Liabilities				
Due to banks	–	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	–	817,310
Due to other customers	–	129,421,813	–	129,421,813
Debt Securities issued and other borrowed funds	–	24,390,819	–	24,390,819
Subordinated Term debts	–	11,682,674	–	11,682,674
Total Financial Liabilities	817,310	175,948,392	–	176,765,702
Tax liabilities	–	–	300,196	300,196
Deferred tax liabilities	–	–	324,451	324,451
Employee benefit liability	–	–	214,830	214,830
Other liabilities	–	–	3,850,288	3,850,288
Total Liabilities	817,310	175,948,392	4,689,765	181,455,467

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivable LKR '000	Available-for-Sale LKR '000	Others LKR '000	Total LKR '000
(a) Bank - Previous Year (2012)						
Assets						
Cash and cash equivalents	–	–	3,480,395	–	–	3,480,395
Balances with Central Bank	–	–	6,074,792	–	–	6,074,792
Placements with banks	–	–	3,559,354	–	–	3,559,354
Derivative financial instruments	1,706,372	–	–	–	–	1,706,372
Other financial assets held-for-trading	982,967	–	–	–	–	982,967
Loans and receivables to banks	–	–	1,183,343	–	–	1,183,343
Loans and receivables to other customers	–	–	115,992,359	–	–	115,992,359
Financial Investments - Loans and receivables	–	–	6,446,031	–	–	6,446,031
Financial investments - Available-for-sale	–	–	–	66,714	–	66,714
Financial investments - Held-to-maturity	–	19,257,271	–	–	–	19,257,271
Total Financial Assets	2,689,339	19,257,271	136,736,274	66,714	–	158,749,598
Investments in subsidiary companies	–	–	–	–	2,641,178	2,641,178
Investments in associate companies	–	–	–	–	18,525	18,525
Investments property	–	–	–	–	–	–
Intangible assets	–	–	–	–	272,314	272,314
Property, plant & equipment	–	–	–	–	856,195	856,195
Other assets	–	–	–	–	936,486	936,486
Total Assets	2,689,339	136,736,274	136,736,274	66,714	4,724,698	163,474,296

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Others LKR '000	Total LKR '000
Liabilities				
Due to banks	–	2,319,984	–	2,319,984
Derivative financial instruments	1,736,838	–	–	1,736,838
Due to other customers	–	107,600,583	–	107,600,583
Debt Securities issued and other borrowed funds	–	30,357,824	–	30,357,824
Subordinated term debts	–	2,254,699	–	2,254,699
Total Financial Liabilities	1,736,838	142,533,090	–	144,269,928
Tax liabilities	–	–	656,211	656,211
Deferred tax liabilities	–	–	79,874	79,874
Employee benefit liability	–	–	122,192	122,192
Other liabilities	–	–	3,403,690	3,403,690
Total Liabilities	1,736,838	142,533,090	4,261,967	148,531,895

	Held-for-Trading LKR '000	Held-to-Maturity LKR '000	Loans and Receivable LKR '000	Available-for-Sale LKR '000	Others LKR '000	Total LKR '000
(b) Group - Previous Year (2012)						
Assets						
Cash and cash equivalents	–	–	3,634,983	–	–	3,634,983
Balances with Central Bank	–	–	6,074,792	–	–	6,074,792
Placements with banks	–	–	3,559,354	–	–	3,559,354
Derivative financial instruments	1,706,372	–	–	–	–	1,706,372
Other financial assets held-for-trading	11,394,625	–	–	–	–	11,394,625
Loans and receivables to banks	–	–	1,183,343	–	–	1,183,343
Loans and receivables to other customers	–	–	116,039,035	–	–	116,039,035
Financial Investments - Loans and receivables	–	–	7,088,893	–	–	7,088,893
Financial investments - Available-for-sale	–	–	–	173,541	–	173,541
Financial investments - Held-to-maturity	–	19,223,228	–	–	–	19,223,228
Total Financial Assets	13,100,997	19,223,228	137,580,400	173,541	–	170,078,166
Investments in subsidiary companies	–	–	–	–	–	–
Investments in associate companies	–	–	–	–	33,301	33,301
Investment property	–	–	–	–	1,295,693	1,295,693
Intangible assets	–	–	–	–	318,723	318,723
Property, plant & equipment	–	–	–	–	1,222,500	1,222,500
Other assets	–	–	–	–	1,154,688	1,154,688
Total Assets	13,100,997	19,223,228	137,580,400	173,541	4,024,905	174,103,071

	Held-for-Trading LKR '000	Amortized Cost LKR '000	Others LKR '000	Total LKR '000
Liabilities				
Due to banks	–	2,319,984	–	2,319,984
Derivative financial instruments	1,736,838	–	–	1,736,838
Due to other customers	–	107,393,866	–	107,393,866
Debt Securities issued and other borrowed funds	–	30,317,899	–	30,317,899
Subordinated term debts	–	2,254,699	–	2,254,699
Total Financial Liabilities	1,736,838	142,286,448	–	144,023,286
Tax liabilities	–	–	633,838	633,838
Deferred tax liabilities	–	–	79,120	79,120
Employee benefit liability	–	–	165,633	165,633
Other liabilities	–	–	3,491,742	3,491,742
Total Liabilities	1,736,838	142,286,448	4,370,333	148,393,619

43. Fair Value of Financial Instruments

a. Determination of Fair Value of Financial Instruments by Hierarchy

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

	BANK			
31 December 2013	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Other financial assets held-for-trading				
Sri Lanka Government Securities - Treasury Bills	5,061,675	–	–	5,061,675
Sri Lanka Government Securities - Treasury Bonds	4,053,939	–	–	4,053,939
Investment in unit trusts	1,605,075	–	–	1,605,075
Financial Investments - Available-for-sale				
Sri Lanka Government Securities - Treasury Bills	4,889,272	–	–	4,889,272
Sri Lanka Government Securities - Treasury Bonds	582,449	–	–	582,449
Sovereign Bonds	505,939	–	–	505,939
Non-quoted ordinary shares	–	4,790	–	4,790
Derivative Financial Instruments				
Currency options	–	5,895	–	5,895
Forward foreign exchange contracts	–	1,143,646	–	1,143,646
Total Financial Assets	**16,698,350**	**1,154,331**	**–**	**17,852,680**
Derivative financial instruments				
Currency options	–	5,895	–	5,895
Forward foreign exchange contracts	–	811,415	–	811,415
Total Financial Liabilities	**–**	**817,310**	**–**	**817,310**

	BANK			
31 December 2012	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Other financial assets held-for-trading				
Sri Lanka Government Securities - Treasury Bills	448,489	–	–	448,489
Sri Lanka Government Securities - Treasury Bonds	534,478	–	–	534,478
Financial Investments - Available-for-Sale				
Non-quoted ordinary shares	–	4,790	–	4,790
Investment fund account	**61,924**	**–**	**–**	**61,924**
Derivative Financial Instruments				–
Forward foreign exchange contracts	–	1,706,372	–	1,706,372
Total Financial Assets	**1,044,891**	**1,711,162**	**–**	**2,756,053**
Derivative financial instruments				
Forward foreign exchange contracts	–	1,736,838	–	1,736,838
Total Financial Liabilities	**–**	**1,736,838**	**–**	**1,736,838**

31 December 2013	GROUP Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Other financial assets held-for-trading				
Sri Lanka Government Securities - Treasury Bills	5,061,675	–	–	5,061,675
Sri Lanka Government Securities - Treasury Bonds	4,053,939	–	–	4,053,939
Equity Securities	336,293	–	–	336,293
Investment in Unit Trusts	4,742,234	–	–	4,742,234
Financial investments - Available-for-sale				–
Sri Lanka Government Securities - Treasury Bills	4,889,272	–	–	4,889,272
Sri Lanka Government Securities - Treasury Bonds	582,449	–	–	582,449
Sovereign Bonds	505,939	–	–	505,939
Non-quoted ordinary shares	–	4,790	185,000	189,790
Derivative financial instruments				
Currency options	–	5,895	–	5,895
Forward foreign exchange contracts	–	1,143,646	–	1,143,646
Total Financial Assets	20,171,801	1,154,331	185,000	21,511,132
Derivative financial instruments				
Currency options	–	5,895	–	5,895
Forward foreign exchange contracts	–	811,415	–	811,415
Total Financial Liabilities	–	817,310	–	817,310

	GROUP			
31 December 2012	Level 1 LKR '000	Level 2 LKR '000	Level 3 LKR '000	Total LKR '000
Financial Assets				
Other financial assets held-for-trading				
Sri Lanka Government Securities - Treasury Bills	448,489	–	–	448,489
Sri Lanka Government Securities - Treasury Bonds	534,478	–	–	534,478
Equity Securities	123,717	–	–	123,717
Investment in Unit Trusts	10,287,941	–	–	10,287,941
Financial Investments - Available-for-Sale				
Non-quoted ordinary shares	–	4,790	106,827	111,617
Investment fund account	61,924	–	–	61,924
Derivative financial instruments				
Forward foreign exchange contracts	–	1,706,372	–	1,706,372
Total Financial Assets	**11,456,549**	**1,711,162**	**106,827**	**13,274,538**
Derivative financial instruments				
Forward foreign exchange contracts	–	1,736,838	–	1,736,838
Total Financial Liabilities	**–**	**1,736,838**	**–**	**1,736,838**

b. Movements in Level 3 Financial Instruments Measured at Fair Value

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

	GROUP			
31 December 2013	At 1 January 2013 LKR '000	Total Gains/ (Losses) Recorded in Income Statement LKR '000	Total Gains/ (Losses) Recorded in Equity LKR '000	At 31 December 2013 LKR '000
Financial investments available-for-sale				
Non-quoted equity securities	106,827	17,138	61,035	185,000
Total Financial Assets	**106,827**	**17,138**	**61,035**	**185,000**

31 December 2012	GROUP At 1 January 2012 LKR '000	Total Gains/ (Losses) Recorded in Income Statement LKR '000	Total Gains/ (Losses) Recorded in Equity LKR '000	At 31 December 2012 LKR '000
Financial investments available-for-sale				
Non-quoted equity securities	106,827	–	–	106,827
Total Financial Assets	106,827	–	–	106,827

c. Determination of Fair Value of the Financial Assets and Financial Liabilities

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

	BANK			
	2013		2012	
	Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets				
Cash and cash equivalents	2,611,075	2,611,075	3,480,395	3,480,395
Balances with Central Bank	5,339,000	5,339,000	6,074,792	6,074,792
Placements with banks	130,751	130,751	3,559,354	3,559,354
Loans and receivable to banks	641,628	650,235	1,183,343	1,029,596
Loans and receivable to other customers	136,821,532	140,694,797	115,992,359	111,102,276
Financial investments - Loans and receivable	15,837,455	15,837,455	6,446,031	6,446,031
Financial investments - Held-to-maturity	17,602,249	17,440,886	19,257,271	17,346,778
Total Financial Assets	178,983,690	182,704,199	155,993,545	149,039,222
Financial Liabilities				
Due to banks	10,453,086	10,453,086	2,319,984	2,319,984
Due to other customers	129,830,029	130,000,256	107,600,583	104,231,973
Debt securities issued and other borrowed funds	24,420,818	24,420,818	30,357,824	30,357,824
Subordinated term debts	11,682,674	11,682,674	2,254,699	2,254,699
Total Financial Liabilities	177,203,917	177,374,144	144,269,928	140,901,318

c. Determination of Fair Value of the Financial Assets and Financial Liabilities (Contd.)

	GROUP			
	2013		2012	
	Carrying Amount LKR '000	Fair Value LKR '000	Carrying Amount LKR '000	Fair Value LKR '000
Financial Assets				
Cash and cash equivalents	2,668,262	2,668,262	3,634,983	3,634,983
Balances with Central Bank	5,339,000	5,339,000	6,074,792	6,074,792
Placements with banks	130,751	130,751	3,559,354	3,559,354
Loans and receivable to banks	641,628	650,235	1,183,343	1,191,950
Loans and receivable to other customers	136,881,713	140,694,797	116,039,035	111,148,952
Financial investments - Loans and receivable	16,791,701	16,791,701	7,088,893	7,088,893
Financial investments - Held-to-maturity	18,460,591	18,421,094	19,223,228	19,223,228
Total Financial Assets	180,913,646	184,695,840	156,803,628	154,621,837
Financial Liabilities				
Due to banks	10,453,086	10,453,086	2,319,984	2,319,984
Due to customers	129,421,813	130,000,256	107,393,866	108,179,026
Debt securities issued and other borrowed funds	24,390,818	24,390,819	30,317,899	30,317,899
Subordinated term debts	11,682,674	11,682,674	633,838	633,838
Total Financial Liabilities	175,948,392	176,526,835	140,665,587	141,450,747

Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

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

Assets for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

44. Risk Management

Introduction

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

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

Risk Management Framework

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

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

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

The Credit and Market Risk Policy Committee and Operational Risk Policy Committee are in operation to formulate policies and to focus more clearly on defined risk areas. The membership of these committees comprises the CEO, CFO, COO, the Heads of Business Units, Treasury and representatives of the Group Risk Management. The Committees meet regularly to review the Bank's risk policy framework, overall performance and the potential risks faced by specific lines of business and support functions.

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

Risk Measurement and Reporting

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

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

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

Risk Mitigation

As part of its overall risk management, the Bank obtains various types of collateral. Details such as nature of the collateral that could be accepted, required collateral cover are clearly defined in the Credit Policy Manual.

44.1 Credit Risk

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

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

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

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

Impairment Assessment

Impairment of Financial Assets

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

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

Individually Assessed Allowances

The Bank determines the allowances appropriate for each individually significant loans or receivables on an individual basis if there is any objective evidence of a loss based on the above. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy arise, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively-Assessed Allowances

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

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

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

Credit Related Commitments Risks

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

Collateral and Other Credit Enhancements

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

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

Credit Quality

Analysis of Gross Exposure on Credit Risk and Impairment

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

The Bank considers that any amount uncollected one day or more beyond their contractual due date is 'past due'.

Bank

	As at 31st December 2013 - LKR '000						
	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total
Products		Special Mention (3-6 months)	Sub Standard (6-12 months)	Doubtful (12-18 months)	Loss (more than 18 months)		
Cash and cash equivalents	2,611,075	–	–	–	–	–	2,611,075
Balances with Central Bank	5,339,000	–	–	–	–	–	5,339,000
Placements with banks	130,751	–	–	–	–	–	130,751
Derivative financial instruments	1,149,541	–	–	–	–	–	1,149,541
Other financial assets held-for-trading	10,720,689	–	–	–	–	–	10,720,689
Financial investments - loans and receivable	15,837,455	–	–	–	–	–	15,837,455
Loans and receivables to banks	641,628	–	–	–	–	–	641,628
Loans and receivables to other customers	131,770,586	921,357	280,821	90,329	501,225	3,257,214	136,821,532
Financial investments - held-to-maturity	17,602,249	–	–	–	–	–	17,602,249
Financial investments - available-for-sale	5,982,450	–	–	–	–	–	5,982,450

	As at 31st December 2012 LKR '000						
	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total
Products		Special Mention (3-6 months)	Sub Standard (6-12 months)	Doubtful (12-18 months)	Loss (more than 18 months)		
Cash and cash equivalents	3,480,395	–	–	–	–	–	3,480,395
Balances with Central Bank	6,074,792	–	–	–	–	–	6,074,792
Placements with banks	3,559,354	–	–	–	–	–	3,559,354
Derivative financial instruments	1,706,372	–	–	–	–	–	1,706,372
Other financial assets held-for-trading	982,967	–	–	–	–	–	982,967
Financial Investments - loans and receivable	6,446,031	–	–	–	–	–	6,446,031
Loans and receivables to banks	1,183,343	–	–	–	–	–	1,183,343
Loans and receivables to other customers	108,609,750	655,720	2,900,695	832,079	1,645,519	1,348,596	115,992,359
Financial investments - held-to-maturity	19,257,271	–	–	–	–	–	19,257,271
Financial investments - available-for-sale	66,714	–	–	–	–	–	66,714

Group

Products	As at 31 December 2013 LKR '000						
	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total
		Special Mention (3-6 Months)	Sub Standard (6-12 Months)	Doubtful (12-18 Months)	Loss (More Than 18 Months)		
Cash and cash equivalents	2,668,262	–	–	–	–	–	2,668,262
Balances with Central Bank	5,339,000	–	–	–	–	–	5,339,000
Placements with banks	130,751	–	–	–	–	–	130,751
Derivative financial instruments	1,149,541	–	–	–	–	–	1,149,541
Other financial assets held-for-trading	14,194,141	–	–	–	–	–	14,194,141
Financial investments - loans and receivable	16,791,701	–	–	–	–	–	16,791,701
Loans and receivables to banks	641,628	–	–	–	–	–	641,628
Loans and receivables to other customers	131,830,767	921,357	280,821	90,329	501,225	3,257,214	136,881,713
Financial investments - held-to-maturity	18,460,591	–	–	–	–	–	18,460,591
Financial investments - available-for-sale	6,167,450	–	–	–	–	–	6,167,450

Products	As at 31 December 2012 LKR '000						
	Neither Past Due nor Impaired	Past Due but not Impaired				Individually Impaired	Total
		Special Mention (3-6 Months)	Sub Standard (6-12 Months)	Doubtful (12-18 Months)	Loss (More Than 18 Months)		
Cash and cash equivalents	3,634,983	–	–	–	–	–	3,634,983
Balances with Central Bank	6,074,792	–	–	–	–	–	6,074,792
Placements with banks	3,559,354	–	–	–	–	–	3,559,354
Derivative financial instruments	1,706,372	–	–	–	–	–	1,706,372
Other financial assets held-for-trading	11,394,625	–	–	–	–	–	11,394,625
Financial investments - loans and receivable	7,088,893	–	–	–	–	–	7,088,893
Loans and receivables to banks	1,183,343	–	–	–	–	–	1,183,343
Loans and receivables to other customers	108,656,425	655,720	2,900,695	832,079	1,645,519	1,348,597	116,039,035
Financial investments - held-to-maturity	19,223,228	–	–	–	–	–	19,223,228
Financial investments - available-for-sale	173,541	–	–	–	–	–	173,541

Types of Collateral

Bank

Products	Maximum Exposure to Credit Risk	Gross Collateral	Net Exposure
	As at 31st December 2013 - LKR '000		
Cash and cash equivalents	2,611,075	–	2,611,075
Balances with Central Bank	5,339,000	–	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Other financial assets held-for-trading	10,720,689	–	10,720,689
Financial Investments - loans and receivable	15,837,455	–	15,837,455
Loans and receivables to banks	641,628	–	641,628
Loans and receivables to other customers			
Corporate lending	88,178,349	48,185,498	39,992,851
Branch lending	17,630,781	14,721,676	2,909,105
Consumer lending	25,542,828	12,787,959	12,754,869
Residential mortgages	4,708,688	4,708,688	–
Others	760,886	583,740	177,146
	136,821,532	80,987,561	55,833,971
Financial investments - held-to-maturity	17,602,249	–	17,602,249
Financial investments - available-for-sale	5,982,450	–	5,982,450

Concentrations of Credit Risk

Concentration by Sector

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

Bank

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

**Government refers to the investments held with Central Bank of Sri Lanka.*

Group

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

Commitments and Guarantees

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

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

LKR '000	2013	2012
Guarantees & bonds	15,529,639	9,119,636
Shipping guarantees	2,162,432	3,668,525
Advance docs endorsed	1,961,540	1,571,227
Letters of credit	7,287,156	7,167,961
Acceptances	6,415,082	5,865,916
Undrawn ODs & credit cards	7,004,968	5,838,596
Commitments	56,994,606	43,598,669
Options	–	–
Forex	79,844,817	81,910,290
Total	177,200,240	158,740,820

44.2 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates equity and Commodity prices. The Bank 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 managed and monitored based on a mark to market computation and duration analysis that reflects the portfolio volatility and the market sensitivity. Non-trading positions are managed and monitored using other sensitivity analyses.

Mark to Market Exercise – Trading

Trading portfolios of Government Securities (Treasury Bills/Bonds) and Foreign Currency Options are subject to mark to market exercise on a daily basis and are monitored against the set stop loss limits. Prompt management action taken where necessary ensuring minimum loss situations to the portfolios.

Mark to Market results are being monitored against the Board approved stop-loss limit on a daily basis and reviewed at monthly ALCO and the Integrated Risk Management committee on a quarterly basis to assess the portfolio performance and investment decisions.

Interest Rate Risk

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of Treasury Bills & Bonds trading and available-for-sale portfolios, with all other variables held constant of the Bank's Income Statement.

	Increase/ Decrease in Basis Points	Sensitivity of Profit or Loss LKR '000	Sensitivity of Equity LKR '000
Trading & AFS Portfolio	+100/(100)	(216,307)/216,307	(216,307)/216,307

The sensitivity of the Income Statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the interest rate sensitive assets and liabilities as at 31 December 2013.

Report on Non-Trading Financial Assets and Liabilities

As at 31 December 2013	On Demand LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Carrying Amount LKR '000
Assets						
Cash and balances with Central Bank	7,830,399	–	–	–	119,676	7,950,075
Placements with banks	–	130,751	–	–	–	130,751
Loans and receivables to banks	13,617	111,837	263,486	252,643	45	641,628
Loans and receivables to other customers	34,798,115	47,022,378	17,091,779	34,870,695	7,226,038	141,009,004
Financial investments - loans & receivables	–	5,502,693	130,750	10,067,750	136,262	15,837,455
Financial investments - Held-to-maturity	–	4,992,124	4,251,454	8,358,671	–	17,602,248
Financial investments - Available-for-sale	–	641,634	1,305,810	485,103	3,549,903	5,982,450
Total Financial Assets	42,642,131	58,401,417	23,043,279	54,034,862	11,031,924	189,153,613
Financial Liabilities						
Due to Banks	–	8,472,014	1,961,250	–	–	10,433,264
Due to Customers	42,950,979	39,212,301	44,975,018	2,691,731	–	129,830,021
Debt Securities issued and other borrowed funds	5,202,125	4,524,708	3,981,776	9,180,630	1,531,579	24,420,818
Subordinated term debts	–	–	–	4,435,734	7,195,509	11,631,243
Total Financial Liabilities	48,153,104	52,228,845	50,918,044	16,359,526	8,727,088	176,386,607
Total Interest Sensitivity Gap	5,510,973	6,172,572	(27,874,765)	37,675,336	2,304,836	12,767,006

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the bank's policy positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The table below indicates the currencies to which the bank had significant exposure at 31st December 2013 & 2012 on its currency exposures. The analysis calculates the sensitivity of each currency position to the increase in exchange rate against the LKR with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity while a positive amount reflects a net potential increase depending on the side of the currency position.

An equivalent decrease in below currencies against the LKR would have resulted in an equivalent but opposite impact.

Change in Currency Rate in %

Currency	Spot Rate Shock %	Effect on Profit 2013 LKR '000	Effect on Equity 2013 LKR '000	Effect on Profit 2012 LKR '000	Effect on Equity 2012 LKR '000
USD	2.50	6,493	6,493	(15,327)	(15,327)
GBP	2.50	(825)	(825)	(144)	(144)
EUR	2.50	(544)	(544)	1,100	1,100
JPY	2.50	127	127	229	229
AUD	2.50	(1,700)	(1,700)	521	521

Prepayment Risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected such as fixed rate mortgages when interest rates fall.

Equity Price Risk

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

The Bank was insensitive to the equity price changes since the Bank did not carry any equity portfolio as at 31 December 2013.

Country Risk

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

Concentration by Country

Geographical Analysis - Bank

31 December 2013	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,904,820	178,290	241,868	278,833	583	6,681	2,611,075
Balances with Central Bank	5,339,000	–	–	–	–	–	5,339,000
Placements with banks	130,751	–	–	–	–	–	130,751
Derivative financial instruments	1,149,541	–	–	–	–	–	1,149,541
Other financial assets held-for-trading	10,720,689	–	–	–	–	–	10,720,689
Loans and Receivables to banks	641,628	–	–	–	–	–	641,628
Loans and Receivables to other customer	136,821,532	–	–	–	–	–	136,821,532
Financial Investments - From Loans and receivables	15,837,455	–	–	–	–	–	15,837,455
Financial Investments - Available-for-sale	5,982,450	–	–	–	–	–	5,982,450
Financial Investments - Held-to-maturity	17,602,249	–	–	–	–	–	17,602,249
Total Financial Assets	196,130,115	178,290	241,868	278,833	583	6,681	196,836,370
Contingent Assets	169,254,240	5,156,000	2,422,000	368,000	–	–	177,200,240

Geographical Analysis - Group

31 December 2013	Sri Lanka LKR '000	Europe LKR '000	America LKR '000	Asia LKR '000	Middle East LKR '000	New Zealand LKR '000	Total LKR '000
Cash and cash equivalents	1,969,271	178,290	241,868	278,833	583	6,681	2,668,262
Balances with Central Bank	5,339,000	–	–	–	–	–	5,339,000
Placements with banks	130,751	–	–	–	–	–	130,751
Derivative financial instruments	1,149,541	–	–	–	–	–	1,149,541
Other financial assets held for trading	14,194,141	–	–	–	–	–	14,194,141
Loans and Receivables to banks	641,628	–	–	–	–	–	641,628
Loans and Receivables to other customer	136,881,713	–	–	–	–	–	136,881,713
Financial Investments - Loans and receivables	16,791,701	–	–	–	–	–	16,791,701
Financial Investments - Available-for-sale	6,167,450	–	–	–	–	–	6,167,450
Financial Investments - Held-to-maturity	18,460,591	–	–	–	–	–	18,460,591
Total Financial Assets	201,725,787	178,290	241,868	278,833	583	6,681	202,424,778
Contingent Assets	169,254,240	5,156,000	2,422,000	368,000	–	–	177,200,240

44.3 Liquidity Risk and Funding Management

Liquidity risk is defined as 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 is equipped with a comprehensive Liquidity Contingency Funding Plan (LCFP) linked to the Business Continuity Plan which is in line with the regulatory guidelines. The LCFP clearly defines the responsibilities of the Liquidity Management Team and ensures the business continuity through close monitoring of the Bank's liquidity position against the pre-defined liquidity risk trigger points. Trigger points have been defined taking into consideration the Bank specific and systemic triggers which would cause a liquidity crisis. Action plans are set out under each level of liquidity crisis (Mild, Moderate, Severe) with responsibilities assigned to a Liquidity Management Team nominated from all areas of business to ensure that all stakeholders of the Bank are safeguarded.

The Bank maintains a portfolio of marketable and diverse assets that are assumed to be liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition the bank maintains a statutory deposit with the Central Bank of 6% of customer deposits.

In accordance with the Bank's policy the liquidity position is assessed/ stressed and managed under a variety of scenarios giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities to reflect market conditions. Net liquid assets consist of cash short-term bank deposits and liquid debt securities available for immediate sale.

Liquidity Ratios

Liquid Asset Ratio

The Bank defines liquid assets for the purposes of the liquidity ratio as cash balances short-term interbank deposits and highly rated debt securities available for immediate sale and for which a liquid market exists. The Bank is expected to maintain a minimum liquid asset ratio of 20% on a daily basis.

An internally set prudential liquid asset ratios on top of the regulatory requirement level ensures that the Bank is maintaining adequate liquidity buffer throughout the year.

Year end	2013 %	2012 %
Year - end	**27.33**	24.92
Maximum	**31.32**	27.67
Minimum	**24.40**	23.17
Average	**26.86**	24.35

Advances to Deposit Ratio (ADR)

The Bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the ADR, which compares loans and receivables to customers as a percentage of core customer current and savings accounts, together with term funding with a remaining term to maturity in excess of one year. Loans to customers that are part of reverse repurchase arrangements, and where the Bank receives securities which are deemed to be liquid are excluded from the advances to deposits ratio.

Year end	2013 %	2012 %
Year-end	**105.87**	108.90
Maximum	**106.20**	114.29
Minimum	**103.60**	108.90
Average	**105.00**	112.10

Liquidity Risk and Funding Management

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

Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities

As at 31 December 2013	On Demand LKR '000	Trading Derivatives LKR '000	Less than 3 Months LKR '000	3 -12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Assets							
Cash and Bank balances with Central Bank	7,950,075	–	–	–	–	–	7,950,075
Less: Restricted balance	(5,554,021)	–	–	–	–	–	(5,554,021)
Placements with banks	–	–	130,751	–	–	–	130,751
Financial assets held-for-trading	–	–	3,627,615	7,492,096	–	–	11,119,711
Derivative financial instruments	–	1,149,541	–	–	–	–	1,149,541
Loans and receivables to banks	–	–	135,990	284,635	272,450	45	693,120
Loans and receivables to other customers	33,889,211	–	46,016,531	20,745,936	47,905,028	11,736,540	160,293,246
Other financial assets classified as loans and receivables	–	–	5,326,689	133,103	10,248,955	136,262	15,845,010
Financial assets - Held-to-maturity	–	–	5,147,025	4,782,287	9,032,200	–	18,961,512
Financial assets - Available-for-sale	–	–	774,888	1,459,526	1,699,655	4,685,905	8,619,974
Total Undiscounted Financial Assets	36,285,265	1,149,541	61,159,488	34,897,583	69,158,288	16,558,752	219,208,917
Financial Liabilities							
Due to banks	2,891,711	–	8,492,120	1,987,691	–	–	13,371,521
Derivative financial instruments	–	817,310	–	–	–	–	817,310
Due to customers	39,879,905	–	41,028,338	49,014,929	3,772,088	–	133,695,260
Debt Securities issued and other borrowed funds	–	–	9,837,505	4,083,836	9,180,630	1,531,579	24,633,551
Subordinated term debts	–	–	123,029	1,901,570	10,191,683	13,215,124	25,431,408
Total Undiscounted Financial Liabilities	42,771,615	817,310	59,480,993	56,988,026	23,144,402	14,746,704	197,949,049
Net Undiscounted Financial Assets and Liabilities	(6,486,351)	332,231	1,678,495	(22,090,443)	46,013,887	1,812,048	21,259,868

Contractual Maturities for Contingencies

The table below summarizes the maturity profile of the Bank's Contingent Liabilities as at 31 December 2013.

	On Demand LKR '000	Less than 3 Months LKR '000	3-12 Months LKR '000	1-5 Years LKR '000	Over 5 Years LKR '000	Total LKR '000
Undisbursed financing commitments	63,999,574	–	–	–	–	63,999,574
Guarantees	944,260	3,845,894	6,814,099	3,921,125	4,128,232	19,653,611
Commitments on account of Letters of Credit	736,312	5,589,470	961,374	–	–	7,287,156
Forward exchange contracts	9,331,461	38,813,787	31,699,570	–	–	79,844,817
Acceptances	230,023	4,096,632	2,088,427	–	–	6,415,082
	75,241,630	52,345,783	41,563,470	3,921,125	4,128,233	177,200,240

45. Maturity Analysis

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

Bank	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	2,611,075	–	2,611,075
Balance with Central Bank	5,226,954	112,046	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Other financial assets held-for-trading	10,720,689	–	10,720,689
Loans and receivables to banks	388,941	252,687	641,628
Loans and receivables to other customers	95,959,296	40,862,236	136,821,532
Financial investments - loans and receivables	5,633,443	10,204,012	15,837,455
Financial investments - available-for-sale	5,982,450	–	5,982,450
Financial investments - held-to-maturity	9,243,577	8,358,672	17,602,249
Investments in subsidiary companies	–	2,037,585	2,037,585
Investments in associate companies	–	61,967	61,967
Intangible assets	–	260,425	260,425
Property, plant & equipment	–	872,890	872,890
Other assets	328,865	860,526	1,189,391
Total Assets	137,375,581	63,883,047	201,258,628
Liabilities			
Due to banks	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	126,919,836	2,910,193	129,830,029
Debt securities issued and other borrowed funds	13,762,024	10,658,794	24,420,818
Tax liabilities	266,128	–	266,128
Deferred tax liabilities	288,532	23,900	312,432
Employee benefit liability	–	170,008	170,008
Other liabilities	1,981,974	1,703,691	3,685,665
Subordinated term debts	563,082	11,119,592	11,682,674
Total Liabilities	155,051,973	26,586,178	181,638,150
Equity			
Capital	–	1,172,904	1,172,904
Statutory reserve fund	–	958,527	958,527
Investment fund account	–	1,706,751	1,706,751
Available-for-sale reserve	106,669	–	106,669
Share based payment reserve	–	22,367	22,367
Retained earnings	–	15,653,260	15,653,260
Total Equity to Equity owners of the Bank	106,669	19,513,809	19,620,478
Total Liabilities and Equity as at 31 December 2013	155,158,641	46,099,987	201,258,628

Maturity Analysis

Group	Within 12 Months LKR '000	After 12 Months LKR '000	Total LKR '000
Assets			
Cash and cash equivalents	2,668,262	–	2,668,262
Balance with Central Bank	5,226,954	112,046	5,339,000
Placements with banks	130,751	–	130,751
Derivative financial instruments	1,149,541	–	1,149,541
Other financial assets held-for-trading	14,194,141	–	14,194,141
Loans and receivables to banks	388,941	252,687	641,628
Loans and receivables to other customers	96,019,476	40,862,237	136,881,713
Financial investments - loans and receivables	6,496,565	10,295,136	16,791,701
Financial investments - available-for-sale	6,167,450	–	6,167,450
Financial investments - held-to-maturity	9,261,070	9,199,521	18,460,591
Investments in subsidiary companies	–	–	–
Investments in associate companies	–	76,744	76,744
Investment property	–	1,383,693	1,383,693
Intangible assets	–	296,678	296,678
Property, plant & equipment	–	1,176,491	1,176,491
Other assets	598,210	860,527	1,458,737
Total Assets	142,301,361	64,515,760	206,817,121
Liabilities			
Due to banks	10,453,086	–	10,453,086
Derivative financial instruments	817,310	–	817,310
Due to other customers	126,601,031	2,820,782	129,421,813
Debt securities issued and other borrowed funds	13,762,025	10,628,793	24,390,818
Tax liabilities	300,196	–	300,196
Deferred tax	298,033	26,418	324,451
Provision	–	214,830	214,830
Other liabilities	2,146,599	1,703,690	3,850,289
Subordinated term debts	563,082	11,119,592	11,682,674
Total Liabilities	154,941,360	26,514,107	181,455,467
Equity			
Capital	–	943,746	943,746
Statutory reserve fund	–	958,527	958,527
Investment fund account	–	1,706,751	1,706,751
Available-for-sale reserve	150,614	–	150,614
Share-based payment reserve	–	22,367	22,367
Retained earnings	–	20,731,801	20,731,801
Minority interests		847,848	847,848
Total equity	150,614	25,211,040	25,361,654
Total Liabilities equity as at 31 December 2013	154,941,364	51,725,147	206,817,121

46. Commitments and Contingencies

46.1 Business Commitments

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities some of which give rise to legal recourse to its customers. No material losses are anticipated as a result of these transactions. These commitments are quantified below:

	BANK		GROUP	
	2013 LKR '000	2012 LKR '000	2013 LKR '000	2012 LKR '000
Undisbursed financing commitments	63,999,574	49,437,265	63,999,574	49,437,265
Guarantees	15,723,292	11,555,442	15,723,292	11,555,442
Performance bonds and bid bonds	3,930,319	2,803,947	3,930,319	2,803,947
Letters of credit	7,287,156	7,167,960	7,287,156	7,167,960
Forward exchange contracts	79,844,817	81,910,290	79,844,817	81,910,290
Acceptances	6,415,082	5,865,916	6,415,082	5,865,916
	177,200,240	158,740,820	177,200,240	158,740,820

46.2 Litigation Against the Bank

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

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

47.1 The Board of Directors of DFCC Bank (DFCC) and National Development Bank (the Bank), in pursuance of the policies announced by the Government encouraging the consolidation of certain banking businesses, are about to commence preliminary discussion with a view to achieving such consolidation. The consolidation of the two entities will be dependent on relevant approvals and possibly, passage of facilitative legislation.

47.2 On 13 February 2014, the Board of Directors of the Bank authorized and approved a final dividend of LKR 5.00 per share for the financial year 2013. (2012 - final dividend of LKR 10.00 per share).

This will be paid out of dividend income received by the Bank and from the operational profits, the latter portion being liable to a dividend tax at 10%. (Rs. 4.36 per share will be out of Dividend Income - Net of Tax, and the balance cents 64 will be subject to 10% Withholding Tax).

48. Comparative Information

The classification of following items in the Statement of Financial Position were amended to ensure proper presentation in the Financial Statements.

			BANK 2013 LKR '000	GROUP 2013 LKR '000	BANK 2012 LKR '000	GROUP 2012 LKR '000
Assets						
As reported Previously:	Current Presentation:					
Securities purchased under resale agreements	Financial Investments - Loans and Receivables	(Refer Note 20)	4,919,825	4,927,429	3,324,868	3,324,868
Financial Assets held-for-trading	Other Financial Assets held-for-trading	(Refer Note 17)	9,115,614	9,115,614	982,967	982,967
Lease rentals receivables	Loans and Receivables to other customers	(Refer Note 19)	8,428,409	8,428,409	6,439,571	6,439,571
Liabilities						
Securities sold under repurchase agreements	Debt Securities issued and other borrowed funds	(Refer Note 31)	11,771,598	11,771,598	12,515,861	12,515,861

49. Segmental Analysis - Group

For the year ended 31 December	Banking 2013 LKR '000	Banking 2012 LKR '000	Capital Markets 2013 LKR '000	Capital Markets 2012 LKR '000	Property Investment 2013 LKR '000	Property Investment 2012 LKR '000	Others 2013 LKR '000	Others 2012 LKR '000	Consolidated 2013 LKR '000	Consolidated 2012 LKR '000
Revenue										
External income	24,559,508	19,468,265	469,772	5,897,725	194,756	123,646	–	610,059	25,224,037	26,099,695
Inter-segment income	–	–	23,319	51,794	55,949	41,001	–	–	79,268	92,795
Total Income	24,559,508	19,468,265	493,091	5,949,519	250,705	164,647	–	610,059	25,303,305	26,192,490
Segment Expenses	(19,959,230)	(15,413,846)	(496,230)	(332,705)	(123,442)	(61,300)	–	6,234	(20,578,903)	(15,801,617)
Segment Results	4,600,278	4,054,419	(3,141)	5,616,814	127,264	103,347	–	616,293	4,724,401	10,390,873
Share of associate companies profit before taxation	–	–	–	–	–	–	49,220	438,719	49,220	438,720
Taxation									(1,150,893)	(1,275,368)
VAT on financial services									(910,500)	(622,286)
Profit after taxation									2,712,228	8,931,939
Other information										
Segment assets	201,189,884	163,474,297	4,091,993	8,921,190	1,458,500	1,674,283	–	–	206,740,377	174,069,770
Investment in associates	–	–	–	–	–	–	76,744	33,301	76,744	33,301
Consolidated total assets									206,817,121	174,103,071
Segment liabilities	181,192,251	148,283,244	207,262	73,581	55,956	36,794	–	–	181,455,467	148,393,619
Consolidated total liabilities									181,455,467	148,393,619
Segmental cash flows										
Cash Flows from Operating Activities	4,512,522	12,235,016	(309,949)	(95,356)	96,878	(712)	83,333	260,351	4,382,784	12,399,299
Cash Flows from Investing Activities	(17,739,826)	(154,163)	271,196	196,967	(60,097)	37,493	(81,895)	(1,412,701)	(17,610,622)	(1,332,406)
Cash Flows from Financing Activities	8,193,589	(6,493,464)	(60,087)	(111,907)	(36,779)	(36,781)	–	(1,193,545)	8,096,722	(5,448,607)

50. Related Party Disclosures

50.1 Parent and Ultimate Control Party

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

50.2 Transactions with Key Management Personnel and their Close Family Members

Related parties include Key Management Personnel defined as persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries. Key Management Personnel include the members of the Board of Directors of the Bank, key employees who are holding directorships in subsidiary companies and other key employees who meet the criteria mentioned above. The Bank carries out transactions with key management and their related concerns in the ordinary course of its business on an arms length basis at commercial rates except the loans that the key management have availed under the loan schemes uniformly applicable to all the staff.

	2013 LKR '000	2012 LKR '000
50.2.1 Compensation to Key Management Personnel of the Bank		
Short-term employee benefits	248,754	193,331
Post-employment benefits (defined benefit plan)	4,072	7,258
Share-based payment transactions	12,828	10,080
	265,654	210,669

The amounts disclosed above are the amounts recognized as an expense during the reporting period related to Key Management Personnel.

In addition to the remuneration, the Bank has also provided non-cash benefits such as Vehicle, Insurance for Key Management Personnel in line with the approved benefit plan of the Bank.

	2013	2012
50.2.1.1 Share-Based Payments to Key Management Personnel		
Share Grant		
Award 01 (1 July 2010)		
No. of ordinary shares held	261,916	246,867
No. of cumulative grants allocated under the Equity-Linked Compensation Plan (ELCP) Tranche 1 (1 July 2010)	261,916	246,867
Award 04 (1 July 2013)		
No. of ordinary shares held	276,212	–
No. of cumulative grants allocated under the Equity-Linked Compensation Plan (ELCP) Tranche 4 (1 July 2013)	276,212	–

Share Options

Share options held by Key Management Personnel under the Equity-Linked Compensation Plan (ELCP) to purchase ordinary shares have the following expiry dates and exercise prices.

	Issue date	Expiry date	Exercise Price LKR	2013 Number Outstanding	2012 Number Outstanding
Award 01	1 July 2010	30 June 2014	124.21	261,916	246,867
Award 04	1 July 2013	30 June 2017	222.02	276,212	–

50.2.2 Key Management of the Bank and their close family members had the following facilities with the Bank as at 31 December:

As at	31.12.2013 LKR '000	31.12.2012 LKR '000
Deposits	312,116	228,488
Loans and Receivables	76,693	64,308
Credit cards	1,759	1,042
Investment in debentures	14,700	–
For the year		
- Interest income	6,766	5,322
- Interest expenses	32,860	23,074

50.2.3 Transactions involving entities which are controlled/significantly influenced by Key Management Personnel and their close family members.

As at	31.12.2013 LKR '000	31.12.2012 LKR '000
Loans and Receivables	1,967,742	2,767,736
Commitments and contingencies	549,317	130,830
Forex transactions	1,307,500	–
Deposits	685,903	2,139,049
For the year		
- Interest income	234,578	361,382
- Interest expenses	60,989	42,053
- Fee and commission Income	19,134	10,536
- Capital expenditure and services rendered	79,104	12,478

	31.12.2013	31.12.2012
50.2.4 Direct and Indirect Accommodation to Key Management Personnel and their close family members & Entities that have Significant Influence		
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	9.54	19.82

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

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

50.3.1 The Bank enters into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The significant financial dealings during the year and as of the date of the Statement of Financial Position are as follows:

As at	31.12.2013 LKR '000	31.12.2012 LKR '000
Loans and Receivables	2,546,153	2,579,503
Investments	–	3,224,905
Deposits	57,534	23,275
Repo borrowings	2,294,000	1,064,215
Borrowings	1,546,000	700,000
Debentures	2,455,890	–
Concessionary credit lines	6,946,460	8,555,805
Guarantees	67,066	68,468
Forex transactions	4,214,929	9,065,250
For the year		
- Interest income	1,164,400	367,228
- Interest expenses	1,014,397	979,404
- Fee and commission income	5,466	826

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

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

	31.12.2013 %	31.12.2012 %
50.3.3 Direct and Indirect Accommodation to Government of Sri Lanka and its Related Entities		
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	9.60	17.71

50.4 Transactions with Related Entities

50.4.1 The Bank had the under mentioned financial dealings during the year with the following subsidiaries and associates of the Bank:

	Subsidiaries of the Group*		Associates of the Group*	
	2013 LKR '000	2012 LKR '000	**2013 LKR '000**	2012 LKR '000
Loans and Receivables	**1**	4	**–**	–
Group company receivables	**1,646**	1,100	**–**	–
Deposit	**289,937**	228,502	**–**	1
Other payables	**204**	2,862	**–**	–
Investment in ordinary shares net of provisions for impairment	**2,037,585**	2,641,178	**61,968**	18,525
Disposal of investments	**582,714**	80,862	**–**	268,373

	2013 LKR '000	2012 LKR '000	**2013 LKR '000**	2012 LKR '000
Income Statement				
Interest received/(paid) - Net	**(44,476)**	(48,282)	**–**	(22,060)
Rent and utilities received	**20,136**	15,477	**–**	2,590
Rent and utilities paid	**18,305**	18,937	**–**	–
Management fees received/(paid) - Net	**(23,120)**	5,788	**–**	–
Front end fees received	**–**	952	**–**	–
Bancassurance income	**–**	–	**–**	9,251
Insurance paid	**–**	–	**–**	119,947
Insurance claims received	**–**	–	**–**	25,813
Share Brokerage fees paid	**7,436**	1,240	**–**	–
Dividends received	**700,203**	95,698	**–**	–
Capital gains	**5,372,060**	501,759	**–**	33,958

** Refer Note 23 and Note 24 for details of Subsidiary and Associate Companies.*

50.4.2 The Bank had the under mentioned financial dealings during the year with NDB Provident Fund:

	2013 LKR '000	2012 LKR '000
Deposits	**51,661**	22,908
Interest paid on deposits during the year	**2,585**	2,618
Contribution made by the Bank	**163,732**	138,864

50.4.3 NDB Wealth Management Ltd., a subsidiary of the Bank had the under-mentioned financial dealings with the NDB Provident Fund:

	2013 LKR '000	2012 LKR '000
Portfolio under management	**1,340,823**	933,491

50.4.4 The Bank had the under mentioned financial dealings with the NDB Pension Fund during the year.

	2013 LKR '000	2012 LKR '000
Deposits	**112,893**	–
Contribution made by the Bank	**28,850**	22,706

50.4.5 The Bank had the under mentioned financial dealings with the NDB Employee Share Ownership Plan during the year.

	2013	2012
No. of ordinary shares held	**4,133,726**	4,133,726
Dividends paid by the Bank (LKR '000)	**82,675**	16,535

	31.12.2013 %	31.12.2012 %
50.4.6 Direct and Indirect Accommodation of Related Companies		
Direct and indirect accommodation as a percentage of the Bank's regulatory capital	**–**	–