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INDEPENDENT AUDITORS' REPORT

TO THE MANAGEMENT OF CITI BANK N.A. COLOMBO BRANCH

Report on the Financial Statements

We have audited the accompanying financial statements of Citi Bank N.A. Colombo Branch ("Branch"), which comprise the statement of financial position as at December 31, 2016, and the statement of profit or loss and other comprehensive income, Statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the - financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Branch as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
29 May 2017

CITIBANK N.A. COLOMBO BRANCH

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December	Note	2016 Rs. '000	2015 Rs. '000
Gross Income	5	4,195,037	3,600,663
Interest income	6(a)	2,317,947	1,766,995
Interest expenses	6(b)	(525,829)	(418,334)
Net interest income	6	1,792,118	1,348,661
Fee and commission income	7(a)	544,341	575,320
Fee and commission expenses		(13,604)	(74,041)
Net fee and commission income	7	530,737	501,279
Net Interest, fee and commission income		2,322,855	1,849,940
Net gain from trading	8	583,527	754,679
Other income (net)	9	749,222	503,669
Total operating income		3,655,604	3,108,288
Impairment reversal/(charge) for loans and other losses	10	27,408	(18,844)
Net operating income		3,683,012	3,089,444
Less : Expenses			
Personnel expenses	11	(603,620)	(558,022)
Depreciation	22	(68,412)	(28,703)
Other operating expenses	12	(679,635)	(698,379)
Total operating expenses		(1,351,667)	(1,285,104)
Operating profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on financial services		2,331,345	1,833,043
Value added tax (VAT) on financial services, and Nation Building Tax (NBT) on financial service		(302,912)	(252,977)
Profit before tax		2,028,433	1,580,066
Tax expenses	13	(653,057)	(514,287)
Profit for the year		1,375,376	1,065,779
Other comprehensive income			
Net actuarial gains / (loss) on defined benefit plans	28.4	38,988	38,977
Net change in fair value on available-for-sale financial assets	21 (a)	22,323	(102,955)
Foreign currency translation difference in foreign operations	32 (b)	101,679	210,233
Other comprehensive income for the year, net of tax		162,990	146,255
Total comprehensive income for the year		1,538,366	1,212,034

The annexed notes to the Financial Statements form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

CITIBANK N.A. COLOMBO BRANCH
STATEMENT OF FINANCIAL POSITION

As at 31st December	Note	2016 Rs. '000	2015 Rs. '000
Assets			
Cash and cash equivalents	15	2,178,872	3,473,498
Balances with Central Bank of Sri Lanka	16	309,317	473,558
Placements with banks	17	9,997,860	8,471,303
Derivative financial assets	18	442,108	841,739
Other financial assets held-for-trading	19	2,912,589	4,391,523
Securities Purchased under resale agreements		-	1,500,805
Loans and receivables to other customers	20	12,623,982	10,196,859
Financial investments – Available-for-sale	21	8,019,515	4,794,022
Property, plant and equipment	22	345,758	156,806
Deferred tax assets	23	24,222	53,011
Other assets	24	369,861	459,525
Total assets		**37,224,084**	**34,812,649**
Liabilities			
Due to banks	25	5,039,802	1,511,202
Derivative financial liabilities	26	205,973	619,807
Due to other customers	27	19,155,408	19,176,524
Securities sold under repurchase agreements		399,465	1,676,720
Current tax liabilities		588,001	490,027
Employee benefits	28	190,720	210,735
Other liabilities	29	544,030	500,409
Total liabilities		**26,123,399**	**24,185,424**
Equity			
Assigned capital	30	1,524,250	1,524,250
Statutory reserve fund	31	607,825	539,055
Retained earnings		8,134,970	7,854,282
Other reserves	32	833,640	709,638
Total equity		**11,100,685**	**10,627,225**
Total equity and liabilities		**37,224,084**	**34,812,649**
Contingent liabilities and commitments	33	**12,161,812**	**11,874,894**

The annexed notes to the Financial Statements form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

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

Approved and signed for and on behalf of the Management;

....
Ravin Basnayake
Country Head/Citi Country Officer

....
Asanga De Silva
Chief Financial Officer

29 May 2017.
Colombo.

CITIBANK N.A. COLOMBO BRANCH
STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2016

			Other Reserves				
	Assigned capital	Statutory Reserve fund	Exchange Equalization Account	Available for sale reserve	Exchange Equalization Reserve	Retained earnings	Total equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January 2015	1,524,250	485,766	5,170	109,145	488,045	7,763,083	10,375,459
Total comprehensive income for the year							
Profit for the year 2015	-	-	-	-	-	1,065,779	1,065,779
Other comprehensive income (net of tax)	-	-	-	(102,955)	210,233	38,977	146,255
Total comprehensive income for the year	-	-	-	(102,955)	210,233	1,104,757	1,212,034
Transactions with equity holders, recognised directly in equity							
Transfers to reserves during the period	-	53,289	-	-	-	(53,289)	-
Profit transferred to head office	-	-	-	-	-	(960,269)	(960,269)
Total transactions with equity holders	-	53,289	-	-	-	(1,013,558)	(960,269)
Balance as at 31st December 2015	1,524,250	539,055	5,170	6,190	698,278	7,854,282	10,627,225
Balance as at 1st January 2016	1,524,250	539,055	5,170	6,190	698,278	7,854,282	10,627,225
Total comprehensive income for the year							
Profit for the year 2016	-	-	-	-	-	1,375,376	1,375,376
Other comprehensive income (net of tax)	-	-	-	22,323	101,679	38,988	162,990
Total comprehensive income for the year	-	-	-	22,323	101,679	1,414,364	1,538,366
Transactions with equity holders, recognised directly in equity							
Transfers to reserves during the period	-	68,770	-	-	-	(68,770)	-
Profit transferred to head office	-	-	-	-	-	(1,064,906)	(1,064,906)
Total transactions with equity holders	-	68,770	-	-	-	(1,133,676)	(1,064,906)
Balance as at 31st December 2016	1,524,250	607,825	5,170	28,513	799,957	8,134,970	11,100,685

The annexed notes to the Financial Statements form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

CITIBANK N.A. COLOMBO BRANCH

CASHFLOW STATEMENT

For the year ended 31st December	2016 Rs. '000	2015 Rs. '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest & commission receipts	2,810,754	2,380,761
Interest & commission payments	(477,138)	(487,697)
Receipts from other Operating Activities	1,445,311	497,331
Cash Payment to Employees	(603,620)	(565,695)
Other Overhead Expenses	(1,050,959)	(922,918)
Operating Profit before changes in Operating Assets & Liabilities	**2,124,348**	**901,782**
(Increase)/Decrease in Operating Assets		
Loans and receivables to other customers and banks	(874,783)	(602,357)
Deposits held for regulatory purposes	164,241	40,469
Placements with Bank	(1,526,557)	(1,450,043)
Other Assets	398,873	(8,032)
	(1,838,226)	**(2,019,963)**
Increase/(Decrease) in Operating Liabilities		
Deposits from Customers and Banks	3,445,190	192,229
Other Borrowings	(1,277,255)	(486,445)
Other Liabilities	(390,228)	5,772
Net Cash Generated from/(Used in) Operating Activities before income tax	**2,063,829**	**(1,406,625)**
Income Tax Paid	(459,716)	(498,228)
Net Cash Generated from/(Used in) Operating Activities	**1,604,113**	**(1,904,853)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from Sale, Maturity, and Purchases of Financial Investments	(1,746,560)	2,837,762
Purchase of Property, Plant & Equipment	(191,091)	(102,983)
Proceeds from Sale of Property, Plant & Equipment	2,139	873
Net Cash (Used in)/Generated from Investing Activities	**(1,935,512)**	**2,735,652**
CASH FLOWS FROM FINANCING ACTIVITIES		
Effect of Currency Translation	101,679	210,233
Profit remittance to Head office	(1,064,906)	**(960,269)**
Net Cash (Decrease)/Used in Financing Activities	**(963,227)**	**(750,036)**
Net Increase in Cash & Cash Equivalents	(1,294,626)	80,763
Cash & Cash Equivalents at the Beginning of the Year	3,473,498	3,392,735
Cash & Cash Equivalents at the End of the Year	**2,178,872**	**3,473,498**
Reconciliation of Cash & Cash Equivalents (Note 15)		
Cash in hand	806,921	475,728
Balances with banks	1,343,729	2,955,851
Money at call and short notice	28,222	41,919
	2,178,872	**3,473,498**

Figures in brackets indicate deductions.

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

1. REPORTING ENTITY

Citi Bank N.A. Colombo – Sri Lanka, (Branch) is a registered Brach of Citi Group, Inc., which is incorporated in the United States of America, which carries out banking activities in Sri Lanka through Citi Bank N.A. Colombo- Sri Lanka ("Branch").

The registered office of the Branch and the principal place of business are both located at 65C, Dharmapala Mawatha Colombo- 07, Sri Lanka.

1.1 Principal Activities and Nature of the Operations

The principal activities of the Branch continued to be banking and related activities such as accepting deposits, corporate banking, off shore banking, foreign currency operations, trade services, investment banking etc.

1.2 Number of Employees

The permanent staff of the Branch as at 31st December 2016 is 89. (2015- 89)

2. BASIS OF PREPERATIONS

2.1 Statement of Compliance

The Statement of Financial Position, Statement of profit or loss and Other Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with the Sri Lanka Accounting Standards (LKAS/ SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and Banking Act No. 30 of 1988 and amendments thereto.

2.2 Approval of Financial Statement by Management

These Financial Statements were authorized for issue by the Management on 29th May 2017.

2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently, with no adjustment being made for inflationary factors affecting the Financial Statements, except for the following;

- assets and liabilities held for trading are measured at fair value;
- financial instruments designated at fair value through profit or loss are measured at fair value;
- derivative financial instruments are measured at fair value;
- available for sale financial assets are measured at fair value;
- Liability for defined benefit obligation is recognized as the present value of the defined benefit obligation.

The Branch maintains separate books for Domestic Banking Unit (DBU) and Foreign Currency Banking Unit (FCBU). Accompanying financial statements have been prepared by consolidating the financial statements of Domestic Banking Unit and Foreign Currency Banking Unit.

2.4. Functional and Presentation Currency

Financial Statements are presented in Sri Lankan Rupees, which is the Branch's functional currency. Financial Statements of the branch are measured using the functional currency. There was no change in the branch's presentation and functional currency during the year under review.

2.5. Use of Estimate and Judgments

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (LKAS/ SLFRSs) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and the expenses. Judgments and estimates are based on the historical experience and other factors, including expectation that are believed to be reasonable under the circumstances. Hence actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgment in applying accounting estimates that have most significant effect on the amounts recognized in the financial statements is included in the following notes;

- Impairment losses on loans, advances and financing (Note 10)
- Current taxation (Note 13)
- Deferred taxation (Note 23)
- Employee benefits (Note 28)
- Recognition and measurement of financial instruments (Note 18, 19,21 and 26)

2.6. Materiality and Aggregation

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.

2.7. Going Concern

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Branch has consistently applied the accounting policies as set out below to all the periods presented in these amalgamated financial statements.

3.1 Foreign Currency

3.1.1 Foreign Currency Translation

Transaction in foreign currencies are translated to the respective functional currencies of the Branch at exchange rate at the date of transaction. Monitory assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest rate and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non- monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the translation of available for sale equity instrument, which are recognized in other comprehensive income. Non- monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

3.1.2 Translation of Measurement Currency

The Branch uses Sri Lankan Rupees as their measurement currency for Domestic Bank Unit and United States Dollars as their measurement currency for Foreign Currency Banking Unit books.

For amalgamation purposes accompanying Financial Statements have been prepared in Sri Lanka Rupees after converting the Foreign Currency Banking financial statements in to Sri Lanka Rupees.

The translation is performed based on the guidelines in LKAS 21 "The effect of changes in foreign exchange rates as stated below;

- All current assets and current liabilities (i.e. including comparatives) are translated at the closing rate of each reporting date.
- Income and expense items for all periods (i.e. including comparatives) are translated at the month end exchange rates pertaining to each period.
- Equity items other than the net profit or loss for the period are translated at the historical rate existing at the date of each transaction.

All exchange differences resulting from translation in accordance with the above are recognized in Other Comprehensive Income.

Income Statement

3.2 Interest

Interest income and expenses are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Branch estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate include all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expenses presented in the Statement of profit or loss include;

- Interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- Interest income on available for sale investment securities calculated on an effective interest basis is also included in interest income.

3.3 Fees and Commission

Fees and commission income and expense that are integral to the effective interest rate on financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including accounts servicing fees, Trade fees are recognized as the related services are performed. When a loan commitment is not expected to result in the drawn-down of a loan, the related loan commitment fees are recognized on a straight line basis over the commitment period.

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

3.4 Net Trading Income

Net Trading Income comprises gain less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

3.5 Profit/ (Loss) From Sale of Property, Plant and Equipment

Profit/ (loss) from sale of Property, plant and equipment is recognized in the period in which the sale occurred and is classified as other income.

3.6 Other Expenses

The expenditure incurred on personal cost, premises, equipment and establishment has been apportioned between the FCBU and the DBU based on the volume of transactions.

3.7 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

3.8 Tax Expense

The tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

3.8.1 Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3.8.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously

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

Assets and Liabilities and Basis of Valuation

3.9 Statutory Deposits With Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain reserves against all liabilities denominated in Sri Lankan Rupees.

The details of reserve requirements are given in Note 16 to the Financial Statements.

3.10 Financial Assets and Financial Liabilities

3.10.1 Initial Recognition and Measurement

The Branch initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Branch becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.10.2 Classification and Subsequent Measurement

3.10.2.1 Financial Assets

At inception, financial assets are classified in one of the following categories.

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held to maturity investments
- Available for sale financial assets or

3.10.2.2 Financial Liabilities

The Branch initially recognizes all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortized cost or fair value through profit or loss.

3.10.3 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

3.10.3.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered in to by the Branch that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Financial assets at fair value with changes in fair value recognized in profit or loss.

The branch has Sri Lanka Government Securities held for trading designated at fair value through profit or loss.

3.10.3.2 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Branch does not intend to sell immediately or in the near term.

Loans and receivables to other customers' include Loans & Advances, Bills of Exchange.

Loans and receivables to other customers classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Staff Loan – 'Day 1' Difference

All staff loans are granted at below market interest rates and were recognized at fair value. The difference between the fair value and the amount disbursed were treated as day one difference and amortized as staff cost in the statement of profit or loss over the loan period by using the effective interest rate. This amount is shown as interest income as well. Hence the net effect on the statement of financial position is zero.

3.10.3.3 Held-to-Maturity Investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Branch has the positive intent and ability to hold to maturity, and which were not designated as fair value through profit or loss or as available-for-sale.

Held to maturity investments are carried at amortized cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Branch from classifying investment securities as held-to-maturity for the current and the following two financial years. However sales and reclassifications in any of the following circumstances would not trigger a reclassification.

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- Sales or reclassifications after the Branch has collected substantially all of the asset's original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Branch's control that could not have been reasonably anticipated,

3.10.3.4 Available-for-Sale Financial Investments

Available-for-sale financial 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 as fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement and removed from available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using effective interest method and is recognized in profit or loss.

The Branch has Sri Lanka Government Securities designated as available for sale.

3.10.4 De- recognition of Financial Assets and Financial Liabilities

3.10.4.1Financial 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 Branch 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

a) The Branch has transferred substantially all the risks and rewards of the asset, or

b) The Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3.10.4.2 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 de- recognition 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 on profit or loss.

3.10.5 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

3.10.6 Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

3.10.7 Fair Value Measurement

'Fair Value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence the most advantageous market to which the Branch has access at that date. The fair value of a liability reflects its non-performance risk.
When available, the Branch measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no Quoted price in an active market, then the Branch uses valuation technique that maximize the use of relevant observation inputs and minimized the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price- i.e the fair value of the consideration given or received. If the Branch determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical assets or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Branch measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Branch on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustment are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

3.10.7.1 Determining Fair Values

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3.11.7. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of the market factors, pricing assumptions and other risks affecting the specific instrument. Bank measures fair values using the following fair value hierarchy that reflects the significance or the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. prices) or indirectly (i.e. derived from prices). This category includes instruments valued quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instrument that are valued based on quoted prices for similar instruments where significant unobservable adjustment or assumptions are required to reflect differences between the instruments.

Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like government securities, currency swap that use mostly observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for, government securities and simple over the counter derivatives like forward exchange contracts and swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and market and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the reporting period, by the level of the fair value hierarchy.

Determining Fair Values

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level of the fair value hierarchy.

31st December 2016	Level 1	Level 2	Level 3	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets				
Derivative financial instruments				
Currency swaps	-	372,054	-	**372,054**
Forward foreign exchange contracts	-	70,049	-	**70,049**
	-	**442,103**	-	**442,103**
Financial Investments available for sale				
Government of Sri Lanka treasury bills	-	8,019,515	-	**8,019,515**
	-	**8,019,515**	-	**8,019,515**
Financial Investments held-for-trading				
Government of Sri Lanka treasury bills	-	2,912,589	-	**2,912,589**
	-	**2,912,589**	-	**2,912,589**
Financial Liabilities				
Derivative financial instruments				
Currency swaps	-	19,799	-	**19,799**
Forward foreign exchange contracts	-	186,174	-	**186,174**
	-	**205,973**	-	**205,973**

31st December 2015	Level 1	Level 2	Level 3	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets				
Derivative financial instruments				
Currency swaps	-	653,444	-	653,444
Forward foreign exchange contracts	-	187,456	-	187,456
	-	**840,900**	-	**840,900**

Financial Investments available for sale				
Government of Sri Lanka treasury bills	-	4,794,022	-	4,794,022
	-	**4,794,022**	-	**4,794,022**
Financial Investments held-for-trading				
Government of Sri Lanka treasury bills	-	4,391,523	-	4,391,523
	-	**4,391,523**	-	**4,391,523**
Financial Liabilities				
Derivative financial instruments				
Currency swaps	-	388,947	-	388,947
Forward foreign exchange contracts	-	230,822	-	230,822
	-	**619,769**	-	**619,769**

Fair value of Financial Assets and Liabilities

Fair value of financial instruments not carried at fair value

	Carrying Value Rs'000	Fair Value Rs'000
Assets		
Cash and Cash Equivalents	2,178,872	2,178,872
Balances with Central Bank of Sri Lanka	309,317	309,317
Placements with banks	9,997,860	9,997,860
Loans and receivables to other customers	12,623,982	12,623,982
Liabilities		
Due to banks	5,039,802	5,039,802
Due to other customers	19,155,408	19,155,408
Securities sold under repurchase agreements	399,465	399,465

Assets	Carrying Value	Level 1 Rs'000	Level 2 Rs'000	Level 3 Rs'000
Cash and Cash Equivalents	2,178,872	2,178,872	-	-
Balances with Central Bank of Sri Lanka	309,317	309,317	-	-
Placements with banks	9,997,860	9,997,860	-	-
Loans and receivables to other customers	12,623,982	-	-	12,623,982
Liabilities				
Due to banks	5,039,802	-	-	5,039,802
Due to other customers	19,155,408	-	-	19,155,408
Securities sold under repurchase agreements	399,465	-	399,465	-

3.10.8 Impairment of Financial Assets

The branch assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or a group of financial asset is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more vents that has occurred after the initial recognition of the asset (an occurred 'loss event') and that loss even: (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.

Evidence of impairment may include indications that the borrower or a group of borrower is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and when observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.10.8.1 Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost (such as amounts due from branches, loans and advances to customers as well as held-to-maturity investments), the branch first assesses individually whether objective evidence of impairment exists for financial assets that individually significant, or collectively for financial assets that are not individually significant. If the branch determines that no objective evidence of impairment exists for an individually assessed financial; it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not include in a collective assessment of impairment.

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 losses is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate 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'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the branch. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increases or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the branch has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. 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 based on the nature and type of the asset. It also considers credit risk characteristics such as asset collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets are collectively evaluated for impairment is 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 regulatory to reduce any differences between loss estimates and actual loss experience.

3.10.8.2 Available- For- Sale Financial Investments

For available- for- sale financial investments, the Branch assesses at each Statement of Financial Position date whether there is objective evidence that an investment is impaired.

In the Case of debt instrument classified as available-for-sale, the Branch assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss. Future interest income is based on the reduced carrying amount and is accrued 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". If, in a subsequent period, the fair value of a debt instrument increased and the increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed profit or loss.

In the case of equity investment classified as available –for-sale, objective evidences would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost.

3.11 Cash and cash equivalents

Cash and cash equivalent include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments.

3.12 Property, Plant & Equipment

3.12.1 Recognition and measurement

Items of Property, Plant & Equipment are measured at cost less accumulated depreciation and accumulated impairment losses if any.
Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restring the site on which they are located, and capitalized borrowing costs. Cost also may include transfer from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with carrying amount of the item of property and equipment, and is recognized in other operating income/other overhead expenses in the income statement.

3.12.2 Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the branch and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment are recognized in the income statement as incurred.

3.12.3 Depreciation

Depreciation is recognized in the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative years are as follows:

Installations to the Building	10%-20%
Furniture & Equipment- steel	10%
Other	20%
Computer Hardware	20%
Personal Computer*	33 1/3%
Motor Vehicles	25%
Software	20%

*Includes Mainframes, LAN systems, servers and system software, computer (standalone PCs/ Laptops/ Monitors), printers, printer servers, scanners.

**Software up to an amount of US$ 100,000 is expensed out immediately. Any software cost over US$ 100,000 is amortized over a five year period.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognized.

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

3.12.4 Restoration Reserve

The cost of property, plant and equipment includes the initial estimate of the cost of restoration to the extent that such cost is recognized as a similar liability.

The IFRIC Interpretation 01 changes in existing decommissioning, restoration and similar liabilities is applied for:

i. The recognition as part of the cost of an item of property, plant and equipment in accordance with LKAS 16; and
ii. The recognition of liability in accordance with LKAS 37.

The depreciation of property, plant and equipment is recognized to the profit or loss on a straight line basis over the estimated useful lives.

The recognized similar liability should be unwounded as a borrowing cost to the profit or loss throughout the remaining lease rental period.

3.13 Impairment of Non-Financial Assets

The branch assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the branch estimates the asset's recoverable amount is the higher of an asset's or cash generating units

(CGU) fair values less cost to sell and its value in use. Where the carrying amount of an asset or CGU 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 assets. In determining fair value less cost 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.

3.14 Financial Guarantees

Financial guarantees are contracts that require the branch to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debit instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

3.15 Deposits From Customers

Deposits from customers include non-interest bearing deposits, term deposits, and deposits payable at call and certificate of deposits. They are stated in the statement of financial position at amounts payable. Interest paid/payable on these deposits is charged to the profit or loss.

Details of the deposits from customers are given in the Note 27 to the financial statements.

3.16 Borrowings

Borrowings include refinance borrowings, call money borrowings and borrowings from financial institutions and are shown at the gross value of the outstanding balance. Interest paid/payable on these deposits is charged to the profit or loss.

Details are given in the Note 25 to the financial statements.

3.17 Employee Benefits

3.17.1 Defined Benefit Plan

The branch is liable to pay retirement benefits under Gratuity Act No 12 of 1983. The liability recognized in the financial statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date in respect of employees. The defined benefit obligation is calculated by a qualified actuary as at the reporting date using the projected unit credit (PUC) method as recommended by Sri Lanka Accounting standard (LKAS 19), Employee benefits. Such actuarial valuations will be carried out every year. The liability is not externally funded. The branch recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in statement of profit or loss.

However, according to the Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continuous service.

The branch measured the present value of promised retirement benefits of gratuity using the actuarial valuation method as recommended by LKAS 19 Employee Benefits with the advice of a consultant Actuary (Kulin Patel, Fellow, Institute and Faculty of Actuaries of UK.)

3.17.2 Defined Contribution Plan

The branch also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the branch by the employees and is recorded as an expense under 'personnel expense'. Unpaid contributions are recorded as a liability.

3.18 Provisions

Provisions are recognized when the branch has a present obligation (legal or constructive) as a result of a past event, and 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 obligation. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

3.19 Capital Commitments and Contingencies

Contingent liabilities are possible whose existence will be confirmed only by occurrence or non-occurrence uncertain future events not wholly within the control of the branch or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not accounted in the statement of financial position but are disclosed unless they are remote.

Capital commitments and contingent liabilities of the branch are disclosed in the respective notes to the financial statements.

3.20 Events Occurring After the Reporting Date

All material events after the reporting date have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

3.21 Cash Flow Statement

The cash flow statement has been prepared using the "Direct method" of preparing cash flows in accordance with the Sri Lanka Accounting Standards (LKAS 7) "statement of cash flows". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in vale. The cash and cash equivalent include cash in hand, balances with banks and money at call and short notice.

3.22 Comparative Figures

Where necessary comparative figures have been reclassified to conform to the current year's presentation.

3.23 Deposit insurance scheme

In terms of the banking act Direction No5 of 2010 "insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to, all licensed commercial banks are required insure their deposit liabilities in the deposit insurance scheme operated by the monetary board in terms of Sri Lanka deposit insurance scheme Regulations No 1 of 2010 issued under section 32 A to 32E of the Monetary Law Act with effect from 1st October 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following,

- Deposit liabilities to member institutions
- Deposit liabilities to Government of Sri Lanka
- Deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- Deposit liabilities held as collateral against any accommodation granted
- Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the bank maintains a capital adequacy ratio (CAR) of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks (with CAR below 14%) calculated on the total amount of eligible deposits as at the end of the quarter payable within a period of 15 days from the end of the quarter.

4. ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS REPORTING DATE

A number of new standards and amendments to standards, which have been issued but not yet effective as at the Reporting date, have not been applied in preparing these Financial Statements. Accordingly, the following Accounting Standards have not been applied in preparing these Financial Statements and the Branch plans to apply these standards on the respective.

Accounting Standards	Summary of the requirements	Possible impact on financial statements
SLFRS 9 - Financial Instruments	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39. Effective date of SLFRS 9 has been deferred till January 01, 2018.	The Branch is assessing the potential impact on its financial statements resulting from the application of SLFRS 9. Given the nature of the Branch's operations, this standard is expected to have a pervasive impact on the financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.
SLFRS 15 - Revenue from Contracts with Customers	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 on Revenue, and LKAS 11 on Construction Contracts. SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018.	No significant impact is expected by applying this standard.
SLFRS 16 - Leases	SLFRS 16 is effective from annual reporting period beginning on or after 01 January 2019. Early adoption is permitted for entities that adopt SLFRS 15. SLFRS 16 supersedes LKAS 17 - Leases, IFRIC 4 - determining whether an arrangement contains leases, SIC 15 - operating leases incentives, SIC 27 -evaluating the substance of transaction involving the legal form a lease.	The Branch is currently assessing the potential impact on its financial statements resulting from the application of SLFRS.

For the year ended 31st December		2016 Rs. ' 000	2015 Rs. ' 000
5	**Gross Income**		
	Interest income [Refer Note 6 (a)]	2,317,947	1,766,995
	Fee and Commission Income [Refer Note 7 (a)]	544,341	575,320
	Net Gain from Trading [Refer Note 8]	583,527	754,679
	Other operating income [Refer Note 9]	749,222	503,669
	Total Gross Income	4,195,037	3,600,663
6	**Net Interest Income**		
6(a)	**Interest income**		
	Placements with banks	342,314	205,243
	Loans and receivables to other customers	987,319	477,676
	Other financial assets - Held for trading	322,912	480,671
	Financial investments - Available-for-sale	638,241	361,382
	Financial investments - Loans and Receivables	27,161	242,023
	Total interest income	2,317,947	1,766,995
6(b)	**Interest expenses**		
	Deposits from customers	(463,520)	(334,953)
	Other borrowings	(62,309)	(83,381)
	Total interest expenses	(525,829)	(418,334)
	Net interest income	1,792,118	1,348,661
7	**Net Fee and Commission Income**		
	Fee and commission income [Refer Note 7(a)]	544,341	575,320
	Less : Fee and commission expenses	(13,604)	(74,041)
	Net fee and commission income	530,737	501,279
7(a)	**Comprising**		
	Trade and remittances	287,894	228,699
	Deposits	15,093	13,518
	Guarantees	53,930	59,098
	Others	187,424	274,005
	Fee and commission income	544,341	575,320
8	**Net Gain/(Loss) from Trading**		
	Foreign exchange		
	From Banks	(311,928)	350,979
	From other customers	317,174	(192,350)
	Fixed Income	578,281	596,050
	Net Trading Income	583,527	754,679
9	**Other Income (net)**		
	Gains / (loss) on sale of property, plant and equipment	(4,077)	873
	Gain on revaluation of foreign exchange	753,299	502,796
	Other Operating Income (net)	749,222	503,669
10	**Impairment for Loans and Other Losses**		
	Loans and receivables [Refer Note 20(d)]	27,408	(18,844)

For the year ended 31st December	2016 Rs. ' 000	2015 Rs. ' 000
11 Personnel Expenses		
Salary and bonus	525,522	482,401
Contributions to defined contribution/benefit plans	37,267	41,749
Provision charge for Employee Benefits	40,831	33,872
Total Personnel Expenses	603,620	558,022
12 Other Operating Expenses		
Auditors' remuneration	1,917	1,727
Non-audit fees to auditors	6,024	6,110
Professional and legal expenses	6,828	2,528
Office administration and establishment expenses	142,889	119,710
Other operating and overhead expenses	521,977	539,866
Total Other Expenses	679,635	698,379
13 Tax Expenses		
Current tax expense		
Income tax on current year profits	648,111	545,899
Under / (over) provision in respect of prior years	-	(24,358)
Reversal / (origination) of deferred tax expense [Refer Note 23(b)]	4,946	(7,254)
Total Income Tax Expense	653,057	514,287

13(a) Reconciliation between Current Tax Expenses and the Accounting Profit

	2016 Rs. ' 000	2015 Rs. ' 000
Accounting Profit before tax	2,028,433	1,580,066
Aggregate Disallowed Items	466,035	486,805
Aggregate Allowable Expenses	(179,788)	(117,237)
Taxable Income	2,314,680	1,949,634
Income Tax Expense @ 28%	648,111	545,899

13(b) Reconciliation of effective tax rate

	2016 %	2016 Rs '000	2015 %	2015 Rs '000
Profit for the Year		1,375,376		1,065,779
Income Tax Expenses		653,057		514,287
Profit before taxation		2,028,433		1,580,066
Tax using the domestic corporation tax rate 28%	28%	567,961	28%	442,418
Non-deductible expenses	6%	130,491	9%	136,305
Tax exempt income/ deductible expenses	-2%	(50,341)	-2%	(32,826)
Adjustments for prior years	0%	-	-2%	(24,358)
Origination and reversal of temporary differences	0%	4,946	0%	(7,254)
Total tax expense	32%	653,057	33%	514,287

14 Analysis of Financial Instruments by Measurement Basis

a. As at 31 December 2016

	HFT/ FVPL	Loans And Receivables/A mortised cost	AFS	Total
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
ASSETS				
Cash and cash equivalents	-	2,178,872	-	2,178,872
Balances with central banks	-	309,317	-	309,317
Placements with banks	-	9,997,860	-	9,997,860
Derivative financial assets	442,108	-	-	442,108
Other financial assets held-for-trading	2,912,589	-	-	2,912,589
Loans and receivables to other customers	-	12,623,982	-	12,623,982
Financial investments – Available-for-sale	-	-	8,019,515	8,019,515
Total financial assets	**3,354,697**	**25,110,031**	**8,019,515**	**36,484,243**

	HFT	Amortised cost	Total
	Rs. ' 000	Rs. ' 000	Rs. ' 000
LIABILITIES			
Due to banks	-	5,039,802	5,039,802
Derivative financial liabilities	205,973	-	205,973
Due to other customers	-	19,155,408	19,155,408
Securities sold under repurchase agreements	-	399,465	399,465
Total financial liabilities	**205,973**	**24,594,675**	**24,800,648**

b. As at 31 December 2015

	HFT/ FVPL	Loans And Receivables/A mortised cost	AFS	Total
	Rs. ' 000	Rs. ' 000	Rs. ' 000	Rs. ' 000
ASSETS				
Cash and cash equivalents	-	3,473,498	-	3,473,498
Balances with central banks	-	473,558	-	473,558
Placements with banks	-	8,471,303	-	8,471,303
Derivative financial assets	841,739	-	-	841,739
Other financial assets held-for-trading	4,391,523	-	-	4,391,523
Securities Purchased under resale agreements	-	1,500,805	-	1,500,805
Loans and receivables to other customers	-	10,196,859	-	10,196,859
Financial investments – Available-for-sale	-	-	4,794,022	4,794,022
Total financial assets	**5,233,262**	**24,116,023**	**4,794,022**	**34,143,307**

	HFT	Amortised cost	Total
	Rs. ' 000	Rs. ' 000	Rs. ' 000
LIABILITIES			
Due to banks	-	1,511,202	1,511,202
Derivative financial liabilities	619,807	-	619,807
Due to other customers	-	19,176,524	19,176,524
Securities sold under repurchase agreements	-	1,676,720	1,676,720
Total financial liabilities	**619,807**	**22,364,446**	**22,984,253**

As at 31st December		2016 Rs. '000	2015 Rs. '000
15	**Cash and Cash Equivalents**		
	Cash in hand	806,921	475,728
	Balances with banks	1,343,729	2,955,851
	Money at call and short notice	28,222	41,919
	Total Cash and Cash Equivalents	2,178,872	3,473,498
16	**Balances with Central Bank of Sri Lanka**		
	Statutory balances with central bank of Sri Lanka	309,317	473,558
	Total balances with central bank of Sri Lanka	309,317	473,558

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at 31st December 2016, the minimum cash reserve requirement is 7.5% (6% as at 31st December 2015) of the rupee deposit liabilities. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

As at 31st December		2016 Rs. '000	2015 Rs. '000
17	**Placements with Banks**		
	Placements with Banks	9,997,860	8,471,303
	Total Placements with Banks	9,997,860	8,471,303
18	**Derivative Financial Instruments**		
	Foreign currency derivatives		
	Forward foreign exchange contracts	442,108	841,739
	Total Derivative Financial Instruments	442,108	841,739
19	**Other Financial Assets Held for Trading**		
	Held for trading		
	Sri Lanka Government Securities	2,912,589	4,391,523
	Total Other Financial Assets Held for Trading	2,912,589	4,391,523
20	**Loans and Receivables to Other Customers**		
	Gross loans and receivables	12,678,771	10,279,056
	Collective impairment [Refer Note 20 (d)]	(54,789)	(82,197)
	Net loans and receivables	12,623,982	10,196,859
20 (a)	**Product wise analysis of loans and receivables**		
	Loans and advances		
	Overdrafts	4,152,617	4,846,574
	Bills of Exchange	972	643
	Staff loans	145,070	153,083
	Short-term	8,380,112	5,278,756
	Gross total	12,678,771	10,279,056

As at 31st December	2016 Rs. '000	2015 Rs. '000
20 (b) Currency wise analysis of loans and receivables		
Sri Lankan Rupee	10,956,183	7,224,964
United States Dollar	1,722,588	3,054,092
Gross total	**12,678,771**	**10,279,056**
20 (c) Industry wise analysis of loans and receivables		
Agriculture and fishing	1,625,558	1,683,775
Manufacturing	1,126,915	1,765,569
Transport	2,358	187,447
Traders	568,109	637,903
Financial and Business Services	577,987	1,229,190
Infrastructure	3,731,259	2,053,945
Other Services	2,642,160	1,528,590
Other Customers	2,404,425	1,192,637
Gross total	**12,678,771**	**10,279,056**

20 (d) **Movements in Individual and Collective Impairment during the Year**	**2016** **Rs. '000**	**2015** **Rs. '000**
Collective impairment		
Balance as at 1st January	82,197	63,353
Charge/(Write back) to profit or loss [Refer Note 10]	(27,408)	18,844
Balance as at 31st December	**54,789**	**82,197**
21 **Financial Investments-Available-for-Sale**		
Sri Lanka Government Securities	8,019,515	4,794,022
Total Available-for-sale Investments	**8,019,515**	**4,794,022**

21 (a) **Movements in Impairment during the Year**	**2016** **Rs. '000**	**2015** **Rs. '000**
Balance as at 1st January	6,190	109,145
Charge/(Write back) to other comprehensive income [Refer Note 21 (b)]	22,323	(102,955)
Balance as at 31st December	**28,513**	**6,190**
21 (b) **Charge/(Write back) to other comprehensive income**		
Fair value gain/(loss) on available-for-sale finacial assets	31,004	(142,993)
Deferred tax (charge)/reversal on available-for-sale financial assets	(8,681)	40,038
	22,323	**(102,955)**

As at 31st December 2016

22 Property, Plant and Equipment

	Installation	Furniture & Equipment	Restoration	WIP	Total 2016	Total 2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost						
Balance at 01st January	66,363	222,543	-	94,271	383,177	326,749
Additions	263,062	87,613	7,176	188,604	546,455	102,983
Disposals	(53,165)	(40,594)	-	-	(93,759)	(46,555)
Transfers	-	-	-	(282,875)	(282,875)	(46,555)
Balance as at 31st December	276,260	269,562	7,176	-	552,998	336,622
(Less): Accumulated depreciation						
Balance at 01st January	51,793	174,578	-	-	226,371	244,223
Charge for the year	28,840	36,118	3,455	-	68,412	28,703
Disposals	(47,063)	(40,480)	-	-	(87,543)	(46,555)
Balance as at 31st December	33,570	170,216	3,455	-	207,240	226,371
Carrying value at 31/12/2016	242,690	99,346	3,721	-	345,758	
Carrying value at 31/12/2015	14,570	47,965	-	94,271		156,806

22 (a) Fully Depreciated Property, Plant and Equipment

The initial cost of fully depreciated property, plant and equipment as at 31st December, which are still in use as at reporting date is as follows.

As at	2016	2015
	Rs. '000	Rs. '000
Installation	2,984	41,106
Furniture & Equipment	104,596	130,778

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year.

As at 31st December		2016 Rs. '000	2015 Rs. '000
23	**Deferred Tax Assets**		
	Deferred tax assets [Refer Note 23 (a)]	24,222	53,011
	Total Deferred Tax Assets	**24,222**	**53,011**
23(a)	**Deferred tax assets**		
	Balance as at 1st January	53,011	20,877
	(Reversal) / origination during the year [Refer Note 23 (b)]	(28,789)	32,134
	Balance as at 31st December	**24,222**	**53,011**
23(b)	**(Reversal) / Origination during the year**		
	(Reversal) / origination to Profit and Loss	(4,946)	7,254
	(Reversal) / origination to Other comprehensive income [Refer Note 23 (c)]	(23,843)	24,880
		(28,789)	**32,134**
23(c)	**Recognised in Other comprehensive income**		
	(Reversal) / origination on Employee benefits [Refer Note 28.4]	(15,162)	(15,158)
	(Reversal) / origination on available-for-sale financial assets [Refer Note 21 (b)]	(8,681)	40,038
		(23,843)	**24,880**
24	**Other Assets**		
	Deposits and prepayments	15,732	12,508
	Financial Investments	1,040	1,040
	Income tax paid in advance	270,733	361,154
	VAT receivable	706	-
	Others	81,650	84,823
	Total Other Assets	**369,861**	**459,525**
25	**Due to Banks**		
	Other Borrowings	5,039,802	1,511,202
	Total Due to Banks	**5,039,802**	**1,511,202**
26	**Derivative Financial Instruments**		
	Foreign exchange derivatives		
	Forward foreign exchange contracts	205,973	619,807
	Total Derivative Financial Instruments	**205,973**	**619,807**
27	**Due to Other Customers**		
	Total amount due to other customers	19,155,408	19,176,524
	Total Due to Other Customers	**19,155,408**	**19,176,524**
27(a)	**Product wise analysis due to other customer**		
	Demand deposits (current accounts)	6,906,596	10,522,312
	Savings deposits	3,537,177	3,253,510
	Time deposits	8,497,218	5,258,170
	Other deposits	214,417	142,532
		19,155,408	**19,176,524**
27(b)	**Currency wise analysis due to other customer**		
	Sri Lanka rupee	14,546,232	11,322,471
	United State dollar	4,271,065	7,467,165
	Great Britain pound	14,006	30,393
	Euro	64,175	113,010
	Japanese Yen	3,927	17,080
	Others	256,003	226,405
		19,155,408	**19,176,524**

As at 31st December	2016 Rs. '000	2015 Rs. '000
28 Employee Benefits		
28.1 Net Liability Recognised in Statement of Financial Position		
Balance at the beginning of the year	210,735	234,800
Charge / (Reversal) for the year [Refer Note 28.2]	(17,190)	(16,392)
Payments during the year	(2,825)	(7,673)
	190,720	210,735
28.2 Charge / (Reversal) for the year		
Service Cost	17,370	20,356
Net interest on the net defined benefit liability / (asset)	19,590	17,387
Defined Benefit Plan-Actuarial (gain)/loss	(54,150)	(54,135)
	(17,190)	(16,392)
28.3 Amount Recognised in Income Statement		
Service Cost	17,370	20,356
Net interest on the net defined benefit liability / (asset)	19,590	17,387
	36,960	37,743
28.4 Amount Recognised in OCI		
Defined Benefit Plan-Actuarial gain/(loss)	54,150	54,135
Deferred tax (charge)/reversal on Defined Benefit Plan	(15,162)	(15,158)
	38,988	38,977
28.5 Employee Benefits Obligation Reconciliation		
Balance at the beginning of the year	210,735	234,800
Service Cost	17,370	20,356
Interest Cost	19,590	17,387
Acturial (Gain)/Loss	(54,150)	(54,135)
Benefits Paid during the year	(2,825)	(7,673)
Balance at the end of the year	190,720	210,735

An actuarial valuation of the provision for employee benefits was carried out as at 31st December 2016 by Kulin Patel, Fellow, Institute and Faculty of Actuaries of UK; an actuarial valuer attached to Towers Watson India. The valuation method used by the actuaries to value the employee benefits obligation is the "Projected Unit Credit (PUC) actuarial Method", the method recommended by the Sri Lanka Accounting Standard (LKAS 19) "Employee Benefits".

	2016	2015
28.6 Principal assumptions used		
(a) Discount rate	12.50%	9.50%
(b) Salary increase	12.00%	12.00%
(c) Staff turnover / (Withdrawal rate)		
- Service less than 5 years	7.00%	7.00%
- Service greater than or equal to 5 years	2.00%	2.00%
(d) Mortality rate (Age 67-70)	80% Multiplier	

Sensitivity of Assumptions Employed in Actuarial Valuation

Sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the Employment Benefit Liability measurement.

	2016	
Increase/(Decrease) in discount rate	1%	(1%)
Sensitivity effect on Employment Benefit Obligation Increase/(Decrease) in the Liability	(14,368)	16,173

	2016 Rs. '000	2015 Rs. '000
29 Other Liabilities		
Accruals	184,010	154,370
Other	360,020	346,039
Total Other Liabilities	544,030	500,409
30 Assigned Capital		
Assigned Capital	1,524,250	1,524,250
Total Assigned Capital	1,524,250	1,524,250

As at 31st December

31 Statutory Reserve Fund

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

	2016 Rs. '000	2015 Rs. '000
Balance at the beginning of the year	539,055	485,766
Transferred during the period	68,770	53,289
Balance at the end of the year	607,825	539,055

32 Other Reserves

Available for sale reserve [Refer Note 32 (a)]	28,513	6,190
Exchange equalization account	5,170	5,170
Exchange equalization reserve [Refer Note 32 (b)]	799,957	698,278
	833,640	709,638

32 (a) Available-for-Sale Reserve

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available-for-sale until such investments are derecognized or impaired.

	2016 Rs. '000	2015 Rs. '000
Balance at the beginning of the year	6,190	109,145
Net fair value gains/(losses) on remeasuring Financial investments	22,323	(102,955)
Balance at the end of the year	28,513	6,190

32 (b) Exchange Equalization Reserve

The exchange equalization reserve comprises of all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

As at the Reporting date, the assets and liabilities of the Foreign Currency Banking Unit were translated in to the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the Reporting date and the Statement of Profit or Loss and Other Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation of these Financial Statements are taken to exchange equalization reserve through other comprehensive income.

	2016 Rs. '000	2015 Rs. '000
Balance at the beginning of the year	698,278	488,045
Net gains/(losses) arising from translating the Financial Statements of the foreign operations	101,679	210,233
Balance at the end of the year	799,957	698,278

33 Contingent liabilities and commitments

In the normal course of business the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	2016 Rs. '000	2015 Rs. '000
33(a) Contingent liabilities		
Acceptances	920,103	1,016,154
Guarantees	8,213,170	8,222,011
Documentary Credits	2,862,124	2,468,322
Forward exchange contracts	166,415	168,407
	12,161,812	11,874,894

34 Related Party Disclosures

The Bank carries out transactions in the ordinary course of its business with parties who are defined as related parties in the Sri Lanka Accounting Standard LKAS 24, "Related Party Disclosures", the details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

34(a) Parent and ultimate controlling party

Citigroup, Inc., which is incorporated in the United States of America, is the ultimate Head Office controlling party of the Branch.

Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard LKAS 24 "Related Party Disclosures", Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity.

Key Management Personnel (KMP) of the Bank

Branch has named the local members of Country Coordinating Committee (CCC) as the Key Management Personnel as at 31st December 2016 as per the circular issued by Central Bank of Sri Lanka.

CCC Members are;

Citi Country Officer
Country Human Resource Head
Citi Country Compliance Officer
Citi Treasury and Trade Solutions Head
Financial Institutions Head
Fixed Income Currencies and Commodities (FICC) Head and Country Treasurer.
Country Operations and Technology Head.
Chief Finance Officer
Securities and Funds Services Head.
Global Subsidiaries Group Head.
Country Risk Manager

	2016 (Rs.Millions)	2015 (Rs.Millions)
Compensation to KMPs		
Short term employment benefits	211.04	210.79
Post Employment Benefits	-	-
Other Long Term Benefits	-	-
Termination Benefits	-	28.01
Share Based Payments	-	-
	211.04	238.80
Transactions with KMPs		
Statement of financial position items		
Deposits, Current A/C Balances and Investments	-	-
Loans- Under staff benefits (outstanding)	24.58	29.26
	24.58	29.26

Transactions, Arrangement and Agreements involving KMP and their close family members (CFM)

CFM of a KMP are those family members who be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

(a) the individual's domestic partner and children;
(b) children of the individual's domestic partner; and
(c) dependants of the individual or the individual's domestic partner.

CFM are related parties to the entity. There were no transaction with CMF during the year.

35 Maturity Analysis

Assets or Liability	On Demand Rs. 000	< 3months Rs. 000	3-12 months Rs. 000	1-5 years Rs. 000	Over 5 Years Rs. 000	Unclassified Rs. 000	Total Rs. 000
Total Assets	**11,233,779**	**11,801,300**	**10,166,130**	**2,101,307**	**1,574,770**	**346,798**	**37,224,084**
Cash	806,921	-	-	-	-	-	806,921
Due from Banks	7,761,213	3,917,915	-	-	-	-	11,679,128
Investments	864,557	2,176,238	7,415,021	335,928	140,360	-	10,932,104
Loans & Advances	1,801,088	5,338,326	2,751,109	1,765,379	968,080	-	12,623,982
Fixed Assets	-	-	-	-	-	345,758	345,758
Other Assets	-	368,821	-	-	466,330	1,040	836,191
Total Liabilities	**10,920,905**	**6,826,168**	**3,600,102**	**1,768,588**	**3,007,636**	**11,100,685**	**37,224,084**
Total Capital Fund	-	-	-	-	-	11,100,685	11,100,685
Deposits	5,481,638	5,694,137	3,600,102	1,768,588	2,610,943	-	19,155,408
Borrowings	5,439,267			-	-	-	5,439,267
Other Liabilities	-	1,132,031	-	-	396,693	-	1,528,724
Maturity Gap	**312,874**	**4,975,132**	**6,566,028**	**332,719**	**(1,432,866)**	**(10,753,887)**	
Cumulative Gap	**312,874**	**5,288,006**	**11,854,034**	**12,186,753**	**10,753,887**		

36 **Events after reporting date**
There have been no material events occurring after the reporting date that required adjustments to or disclosure in the Financial Statements.

37 **Management Responsibility Statement:**
The Management is responsible for the preparation and presentation of these Financial Statements.

38 **Capital expenditure commitments**
There were no material capital commitments as at the reporting date.

39. Financial Risk Management

Introduction and Overview

The Citibank N.A., Colombo ("Branch") has exposure primarily to the following risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The Branch is primarily exposed to credit, liquidity, Operational and market risks, the latter being subdivided into trading and non-trading risks. Risk is inherent in the Branch' activities but it is managed through the process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Branch' continuing profitability and each individual within the Branch is accountable for the risk exposures relating to his or her responsibilities.

Risk Management Structure

The Branch adopts global / regional risk management policies and procedures whilst adhering to local regulatory directives. Risk Management Functions (RMF) are organized along the key risks it monitors with each risk family reporting into regional lines. Within the Branch, an overall risk coordinator is designated to ensure a holistic view of the exposures.

Risk Measurement and Reporting Systems

The risk policies require that all exposures are recorded and reported in a timely manner by parties independent from the business units. Where exposures have to be estimated (for example, exposures from derivative transactions), risk personnel at regional office who are independent from the business and trading unit determine such estimates. Risks are assessed and discussed at various forums such as the Integrated Risk Management Committee (IRMC), Business Risk, Compliance and Control Committee (BRCC) and at the Risk Council at varying intervals viz. monthly and quarterly. A comprehensive review of all material risks also takes place annually through the comprehensive Internal Capital Adequacy Assessment Process (ICAPP).

Excessive Risk Concentrations

Concentration arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Branch's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentration of risk, the Branch's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The management of the Branch is responsible for establishing and monitoring compliance with policies governing large exposures and credit risk concentrations of the Branch. The management reviews these policies regularly (at least annually) to ensure that they remain adequate and appropriate for the Branch. Subsequent changes to the established policies are approved by the management.

The Branch reviews the policies for managing each risk which are summarized as follows:

1. Credit risk

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be characterized in terms of an actual default or by deterioration in counterparty's credit quality. The Branch manages credit risk in various forms via stringent credit evaluation and approval process, regular individual and portfolio reviews, daily limits monitoring including regulatory limits etc. In addition, Branch obtains collateral where appropriate, enters into master netting agreements /collateral arrangements with counterparties, and limits the duration of exposures.

Maximum exposure to credit risk before collateral held or other credit enhancements

The table below provides an analysis of the maximum end of the period exposure of the Branch's financial instruments to credit risk, before taking into account collateral held or other credit enhancements:

	Gross Maximum Exposure Rs. '000'	Fair Value of Collateral	Net Exposure Rs. '000'
Loans to Customers 2016	12,678,771	NIL	12,678,771
Loans to Customers 2015	10,279,056	NIL	10,279,056

Collateral is an asset, group of assets, or revenue stream(s) given as security to the Branch in the form of a legally enforceable pledge for payment of a loan(s), performance of a contingent obligation(s), and/or settlement of a counterparty transaction(s). Whilst the cash flows generated from the obligor's business is considered as the primary way out, in the event of default, the Branch could mitigate the credit risk to a greater extent through legally enforceable collateral held. Any kind of asset or property, which preferably has a ready and stable market, can be used as a facility collateral type. The main types of collateral, which could be obtained by the Branch are cash deposits, stand-by LCs, various property, equipment and assignments over stocks and book debts. Depending on the credit risk appetite for individual obligors and/or facilities, the Branch would call for collateral as a secondary source of repayment.

All collaterals are monitored through a collateral management system that enable timely monitoring of the earliest date of collateral expiration or facilities, and currency mismatches between collateral and facilities.

Given the highly selective and top tier clients under Target Market and Risk Acceptance Criteria Framework of the Sri Lanka Institutional Clients Group (ICG) business, eligible collateral is rarely the basis of extending credit facilities. However, we aim to maintain pari-passu status with other lenders on particular facilities. In certain instances facilities are secured by guarantees, mainly corporate guarantees and Stand-by LCs from obligors' parent, subsidiaries and banks acceptable to the Bank. Credit derivatives, comprises chiefly of plain vanilla, are booked for approved counterparty obligors whose suitability and acceptance has been screened.

Credit risk rating

Per the Branch's Credit Manual, all obligors and all credit facilities must be rated. Obligors with external ratings assigned by certain rating agencies may be used for internal ratings provided these are at least of a certain grade. Otherwise, obligors are rated using internally approved credit models that are developed by a team responsible for all models used by the Branch.

Models are developed along geographic and industry lines. All obligor risk ratings are reviewed annually. Assigned obligor ratings may differ from ratings generated by the model to factor in likely occurrence of certain quantitative or qualitative aspects that may change the probability of default over a 12 month horizon. Risk policy establishes approval criteria for changes to model derived risk ratings,

In addition, all risk rating models are subject to periodic review for appropriateness and validity. Model validation and changes are done at a global level.

The obligors risk ratings (ORR) represents the probability that an obligor will default within a one year time horizon. ORRs are assigned on a scale of 1 to 10, with sub-grades, where "1" is the best quality risk and "7-" is the worst for obligors that are not in default. The risk rating of "8" is used solely for facilities classified as non-performing due to a cross-border event. ORRs of "9+", "9" and "10" are assigned to obligors meeting the definition of default under Basel when either or both of the following have occurred:

- When the obligor is past due more than 90 days on any material credit obligation to Citi. Overdrafts are considered to be past due once the customer has breached an advised limit or been advised of a limit smaller than the current outstandings.
- When the bank considers that the obligor is unlikely to pay its credit obligations to Citi in full without recourse by Citi to actions such as realizing security (if held), collecting against a guarantee or other form of support, or filing a claim against the insurer.

Facility risk ratings (FRR) represent an expected loss rate, or 'Loss Norm' for each facility and is the product of two components: the default probability of the obligor associated with the final ORR, and Loss given default

FRRs are assigned on a scale of 1 to 10, with sub-grades, where"1" is the best quality risk and "7-" is the worst for performing facilities. The "8", "9" and "10" categories indicate facilities that have been placed on non-performing status. As such these FRR could correspond to IFRS definition as follows.

	ORR	FRR
Standard	1 – 6	1 – 6
Substandard	7	7
Past Due	8-10	8-10

Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets (gross of allowance for credit and impairment losses and unearned deferred and other income) of the Branch as of December 31, 2016:

	Neither past due nor individually impaired		Unrated Rs. '000'
	Standard Grade Rs. '000'	Substandard Grade Rs. '000'	
Balances with central banks	309,317		
Placements with banks	9,997,860		
Derivative financial instruments	442,108		
Other financial assets held-for-trading	2,912,589		
Loans and receivables to other customers	12,198,901	330,779	149,091
Financial investments – Available-for-sale	8,019,515		

During the financial year ended 31st December 2016, the Branch did not have any Past due but not impaired or individually impaired loan and advances.

Impairment process of loans

For loan impairment assessment, the key considerations are:

- whether any payment of principal or interest are overdue by more than 90 days,
- counterparties have difficulties in their cash flows,
- downgrade of credit rating
- Infringement of original terms of the contact.

The Branch first assesses and categorizes loans whether evidence of loan impairment exists individually or collectively. Individually assessed loans for impairment are reduced through the use of an allowance account on an individual basis and the amount of loss is charged to the statement of profit or loss. Impairment losses are evaluated on a quarterly basis, unless unforeseen circumstances require more careful attention. Collective impairments are assessed using the expected loss norms relative to internal credit risk ratings of obligors. The methodology and assumptions used for estimating future cash flows for individual loan impairment are reviewed regularly by the Branch to reduce gap between loss estimates and actual loss experience.

Branch has evaluated all accounts individually for impairments and accounts that do not show objective evidence of impairments are considered under the collective impairment process.

Allowance for Impairment

	Amounts Rs.'000
Gross Loans & receivables	12,678,771
Less: allowance for individual impaired L&R	NIL
Less: allowance for collective impaired L&R	(54,789)
Carrying Amount	**12,623,982**

Reconciliation of changes in the banks provision for loan losses/*impairment*

	Specific	**Collective (Rs. '000)**
Opening Balance	NIL	82,197
Changes/(Write back)	NIL	(27,408)
Closing Balance	NIL	**54,789**

Risk concentrations of the maximum exposure to credit risk

An industry sector analysis of the Branch' financial assets as of December 31, 2016 and 2015, before taking into account the fair value of collateral held or other credit enhancements is as follows:

Industry wise analysis of loans and receivables	**2016 Rs. '000'**	**2015 Rs. '000'**
Agriculture and fishing	1,625,558	1,683,775
Manufacturing	1,126,915	1,765,569
Transport	2,358	187,447
Traders	568,109	637,903
Financial and Business Services	577,987	1,229,190
Infrastructure	3,731,259	2,053,945
Other Services	2,642,160	1,528,590
Other Customers	2,404,425	1,192,637
Gross total	**12,678,771**	**10,279,056**

2. Liquidity risk and funding management

Liquidity Risk is the risk that the Branch will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without adversely affecting either daily operations or the financial condition of the branch.

The following tools were adopted by the Branch to manage the inherent risk in its contractual maturities:

GAP analysis: market access report
This is a key tool in monitoring the current liquidity position of the Branch as it quantifies the daily and cumulative liquidity gap in a business-as-usual environment. The gap for any given tenor bucket represents the potential borrowings from or placements to the markets that are required to replace the maturing liabilities or assets.

Stress scenarios
Stress tests are intended to quantify the likely impact of an event on the balance sheet and the net potential cumulative gap over a 12-month period, and to ascertain what incremental funding may be required under any of the defined scenarios. The Branch adopts a stress scenario on which the impact is being analysed and reported to management on a timely basis.

Liquidity ratios
Liquidity ratios are used to measure and monitor changes in the Statement of Financial Position's financial liquidity.

Cross-currency Funding Limit:
Cross Current Funding measures the amount of local currency assets funded by foreign currency liabilities. CCFL restricts the proportion of local currency assets funded by foreign currency liabilities and is monitored on daily basis.

Market triggers
Market triggers are internal or external market and economic factors that may imply a change to market liquidity or the Branch' access to the markets.

Significant funding source
In order to properly manage the liquidity risk, the Branch has a threshold for determining which single name liquidity providers, as well as which groups of liquidity providers, are significant funding sources.

Contingency funding plan
The purpose of the Contingency Funding Plan (CFP) is to ensure that Citibank Sri Lanka is able to continue to fund assets & meet any financial obligations, on timely basis at fair market costs & under any market conditions. The plan also ensures that Citibank Sri Lanka is operationally prepared for managing any contingency.

The table below summarizes the contractual maturity of financial assets and liabilities of the Branch as of December 31, 2016 based on contractual undiscounted cash flows as per the directives by CBSL.

Assets or Liability	On Demand Rs. 000	< 3months Rs. 000	3-12 months Rs. 000	1-5 years Rs. 000	Over 5 Years Rs. 000	Unclassified Rs. 000	Total Rs. 000
Total Assets	**11,233,779**	**11,801,301**	**10,166,130**	**2,101,307**	**1,574,770**	**346,798**	**37,224,084**
Cash	806,921	-	-	-	-	-	806,921
Due from Banks	7,761,213	3,917,915	-	-	-	-	11,679,128
Investments	864,557	2,176,238	7,415,021	335,928	140,360	-	10,932,104
Loans & Advances	1,801,088	5,338,326	2,751,109	1,765,379	968,080	-	12,623,982
Fixed Assets	-	-	-	-	-	345,758	345,758
Other Assets		368,821			466,330	1,040	836,191
Total Liabilities	**10,920,905**	**6,826,168**	**3,600,102**	**1,768,588**	**3,007,636**	**11,100,685**	**37,224,084**
Total Capital Fund	-	-	-	-	-	11,100,685	11,100,685
Deposits	5,481,638	5,694,137	3,600,102	1,768,588	2,610,943	-	19,155,408
Borrowings	5,439,267			-	-	-	5,439,267
Other Liabilities	-	1,132,031	-	-	396,693	-	1,528,724
Maturity Gap	**312,874**	**4,975,132**	**6,566,028**	**332,719**	**(1,432,866)**	**(10,753,887)**	
Cumulative Gap	**312,874**	**5,288,006**	**11,854,034**	**12,186,753**	**10,753,887**		

The above tables were prepared based on the following assumptions:

Financial Assets

Maturities of debt securities at Fair Value through P&L (FVPL) and Available for Sale (AFS) investments are based on the contractual maturity on which these assets will be realized. Financial assets other than FVPL and AFS investments are classified in the analysis below based on the remaining period from the end of the reporting period to the contractual maturity date of those assets will be realized.

Financial liabilities

Maturities of financial liabilities are based on the remaining period from the end of the reporting date to the contractual maturity date. Where counterparty can demand payment of the amounts outstanding, the liability is classified in the analysis below in the earliest period in which the Branch can be required to pay.

The table below shows the contractual expiry by maturity of the Branch's off-balance sheet exposure and commitments as of December 31, 2016.

	On Demand Rs. 000	<3months Rs. 000	3 to 12 months Rs. 000	< 2 years Rs.000	Total Rs. 000
Off balance sheet exposure	5,496,805	1,220,993	2,532,081	2,911,933	12,161,812

3. 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, and equity prices.

The Branch is integrated into the overall Citigroup risk and control framework, balancing senior management oversight with well-defined independent risk management functions. It is the responsibility of the senior management of the Branch to implement Citigroup policies and practices, to oversee risk management, and to respond to the needs and issues in the Branch. The Branch's policy is to control material market risks through a framework of limits & triggers which are approved by ALCO and to manage any residual exposure through a series of stress tests and robust controls over calculating, monitoring and reporting results.

The risk appetite is largely determined and controlled due to regulatory limits on foreign exchange. The spot foreign exchange exposure is limited through Net Open Position which is approved by CBSL. The aggregate interest rate exposures on trading account is limited by limits on PV01. Currently, Citi Sri Lanka is trading in simple products such as FX spot, FX Forwards and Government Bonds.

Risk is measured in terms of:-

(a) Factor sensitivities – impact of change of rates by one basis point for interest rate products (PV01) and FX Delta (FXDL) for Spot position. These measures & limits are further sub-divided for each yield curves and currencies.

(b) Value-at-risk Trigger, which measures maximum potential loss at 99% confidence level over 1-day holding period based on the day's outstanding risk positions across the entire mark-to-market exposures.

(c) Loss Triggers: The Trading book and available for sale book profit and loss monitored against month-to-date (for Trading book) and rolling 21-days / inception-to-date (for available for sale) Loss Triggers.

All market risk taking activity in the Branch is centralised with Treasury and undertaken by authorised dealers. The Treasury is subject to limits and triggers across all products and risk factor. The Branch's has a defined process and procedures of limit approvals, changes, delegation, reporting and escalation in case of limit excesses and trigger breaches. The independent Market Risk Management reports and monitors the trading risk exposures against approved limits and triggers on a daily basis. An excess or a breach is reported and dealt with appropriately for corrective action with reporting to ALCO, and Senior Market Risk Management and Corporate Treasury.

VaR assumptions/parameters

The VaR is calculated using Monte Carlo simulation model with a 99.0% confidence level based on the volatilities of, and correlations between, market risk factors, The Branch uses its in-house globally-linked Global Market Risk (GMR) System database to gather all data information required and calculate the daily VaR figures.

The GMR VaR model used by the Branch incorporates the following features;

- Volatility and correlation matrix is based on a 3 year time series and is updated monthly;
- Uses Monte-Carlo simulations to generate market moves estimated for the market risk factors underlying the portfolio;
- 1-day VaR is reported at 99.0% confidence level are calculated;
- VaR is reported by different market risk factors (for e.g. interest rates, FX)
- Component VaR (CVaR) is calculated to measure the relative contribution of each risk factor to the total VaR.

Objectives and limitations of the VaR methodology

VaR estimates the potential decline in the value of a position or a portfolio, under normal market conditions, over a one day holding period, at a 99.00% confidence level. The VaR method used by the Branch incorporate the factor sensitivities of the trading portfolio with the volatilities and correlations of those factors which is based on historical observed levels.

Stress testing is undertaken to complement VaR to assess the impact of the move beyond the 99% confidence level on the capital adequacy ratio of the Branch.

A summary of the VaR position of the Branch trading portfolio's at 31st December, 2016 is as following:

As at 31st December	**2016 Rs.000**
Foreign Currency risk	707
Interest Rate Risk	8,544
Equity Risk	-
Overall	9,251

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 interest rate risk on the trading book is captured as part of the above described process under the market risk section. Interest rate risk represents the Branch's exposure to adverse movements in interest rates with regard to its non-trading exposures (Banking Book). Interest rate risk is measured by doing a gap analysis as well as factor sensitivity analysis. Business-specific assumptions underlying these measurements, e.g., tenor bucket used for demand deposits, are documented and models used to measure interest rate risk are independently reviewed. Interest rate gap analysis utilizes the maturity or repricing schedules of balance sheet items to determine the differences between maturing or repricing items within given tenor buckets. The interest rate risk in the banking book is also measured and monitored through PV01 limits. The Branch follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The following table sets forth the asset-liability gap position of the Branch.

Assets or Liability	On Demand Rs. 000	< 3months Rs. 000	3-12 months Rs. 000	1-5 years Rs. 000	Over 5 Years Rs. 000	Unclassified Rs. 000	Total Rs. 000
Total Assets	**11,233,779**	**11,801,300**	**10,166,130**	**2,101,307**	**1,574,770**	**346,798**	**37,224,084**
Cash	806,921	-	-	-	-	-	806,921
Due from Banks	7,761,213	3,917,915	-	-	-	-	11,679,128
Investment	864,557	2,176,238	7,415,021	335,928	140,360	-	10,932,104
Loans & Advances	1,801,088	5,338,326	2,751,109	1,765,379	968,080	-	12,623,982
Fixed Assets						345,7578	345,758
Other Assets		368,821			466,330	1,040	836,191
Total Liabilities	**10,920,905**	**6,826,168**	**3,600,102**	**1,768,588**	**3,007,636**	**11,100,685**	**37,224,084**
Total Capital Fund	-	-	-	-	-	11,100,685	11,100,685
Deposits	5,481,638	5,694,137	3,600,102	1,768,588	2,610,943	-	19,155,408
Borrowings	5,439,267	-	-	-	-	-	5,439,267
Other Liabilities	-	1,132,031	-	-	396,693	-	1,528,724
Maturity Gap	**312,874**	**4,975,132**	**6,566,028**	**332,719**	**(1,432,865)**	**(10,753,887)**	
Cumulative Gap	**312,874**	**5,288,006**	**11,854,034**	**12,186,753**	**10,753,887**		

Foreign currency risk
Foreign currency risk is the risk of exchange rate fluctuations that may result in the receipt of reduced interest and a loss of principal when converted to the investor's local currency.

Exchange controls imposed by the relevant authorities may also adversely affect the exchange rate and result in the receipt of reduced interest or principal.

Foreign currency liabilities generally consist of foreign currency deposits in the Branch's FCBU account or which are generated from remittances to the country by Srilankan expatriates and overseas Srilankan workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Branch and foreign currency denominated borrowings appearing in the regular books of the Bank.

Foreign currency deposits are generally used to fund the Branch' foreign currency denominated loans and receivables and investment portfolio in the FCBU. Banks are required by the Central Bank of Sri Lanka to match the foreign currency liabilities with the foreign currency assets held through FCBUs.

The Branch determined that the functional currency of the FCBU is USD. Consequently, the FCBU is not exposed to fluctuations of its USD-denominated financial assets and liabilities.

The table below summarizes the Branch's exposure to foreign exchange risk as of December 31, 2016. Included in the table are the Branch's assets and liabilities at carrying amounts, categorised by currency.

Assets or Liability	Currency					Total
	LKR	USD	GBP	EURO	Others	
Assets						
Cash and cash equivalents	777,911	1,152,261	14,106	61,720	172,874	2,178,872
Balances with central banks	309,317	-	-	-		309,317
Placements with banks	2,851,163	7,146,697	-	-	-	9,997,860
Derivative financial instruments	-	311,198	8	128,307	2,595	442,108
Other financial assets held-for-trading	2,912,589	-	-	-	-	2,912,589
Loans and receivables to other customers	10,901,395	1,722,587	-	-	-	12,623,982
Financial investments – Available-for-sale	8,019,515	-	-	-	-	8,019,515
Property, plant and equipment	345,758	-	-	-	-	345,758
Deferred tax assets	24,222	-	-	-	-	24,222
Other assets	345,711	24,150	-	-	-	369,861
Total assets	**26,487,581**	**10,356,894**	**14,114**	**190,027**	**175,469**	**37,224,084**
Liabilities						
Due to banks	-	4,666,764	517	-	372,521	5,039,802
Derivative financial instruments	-	112,996	-	90,606	2,371	205,973
Due to other customers	14,546,232	4,271,065	14,005	64,176	259,930	19,155,408
Other Borrowings	399,465	-	-	-	-	399,465
Current tax liabilities	588,001	-	-	-	-	588,001
Other liabilities	621,502	113,248	-	-	-	734,750
Total liabilities	**16,155,200**	**9,164,073**	**14,522**	**154,782**	**634,822**	**26,123,399**
Equity						
Stated capital/Assigned capital	1,524,250					1,524,250
Statutory reserve fund	607,825					607,825
Retained earnings	8,134,970					8,134,970
Other reserves	833,640					833,640
Total equity	**11,100,685**	**0**	**0**	**0**	**0**	**11,100,684**
Total equity and liabilities	**27,255,885**	**9,164,073**	**14,522**	**154,782**	**634,822**	**37,224,084**

4. Operational Risk

Operational Risk is the risk of loss resulting from inadequate or a failed internal processes, systems or human factors or from external events. It includes reputation and franchise risks associated with Citi's business practices or market conduct. It also includes the risk of failing to comply with applicable laws, regulations, ethical standards or Citi policies.

Operational Risk does not encompass strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity, or insurance risk. Currently the Branch is reporting operational risk capital charge under Basic Indicator Approach (BIA).

The branch maintains an Operational Risk Management Framework with a Governance Structure to ensure effective management of Operational risk .The Governance Structure presents three lines of defence, as depicted below.

First Line of Defence The business owns all risks arising from its activities, including its Operational Risk, and is responsible for its management. The Business Senior management, in partnership with the Independent Risk, must determine each Business' Key Operational Risks.

In-Business Risk Management is responsible for identifying and reporting of Operational Risks as they emerge and communicating these risks to Independent Control Functions in the second line of defence, who can create a comprehensive view of the branches risks across managed businesses. The Business may rely on Functional specialists, for example, service centres within O&T, to implement certain responsibilities under the ORM Framework.

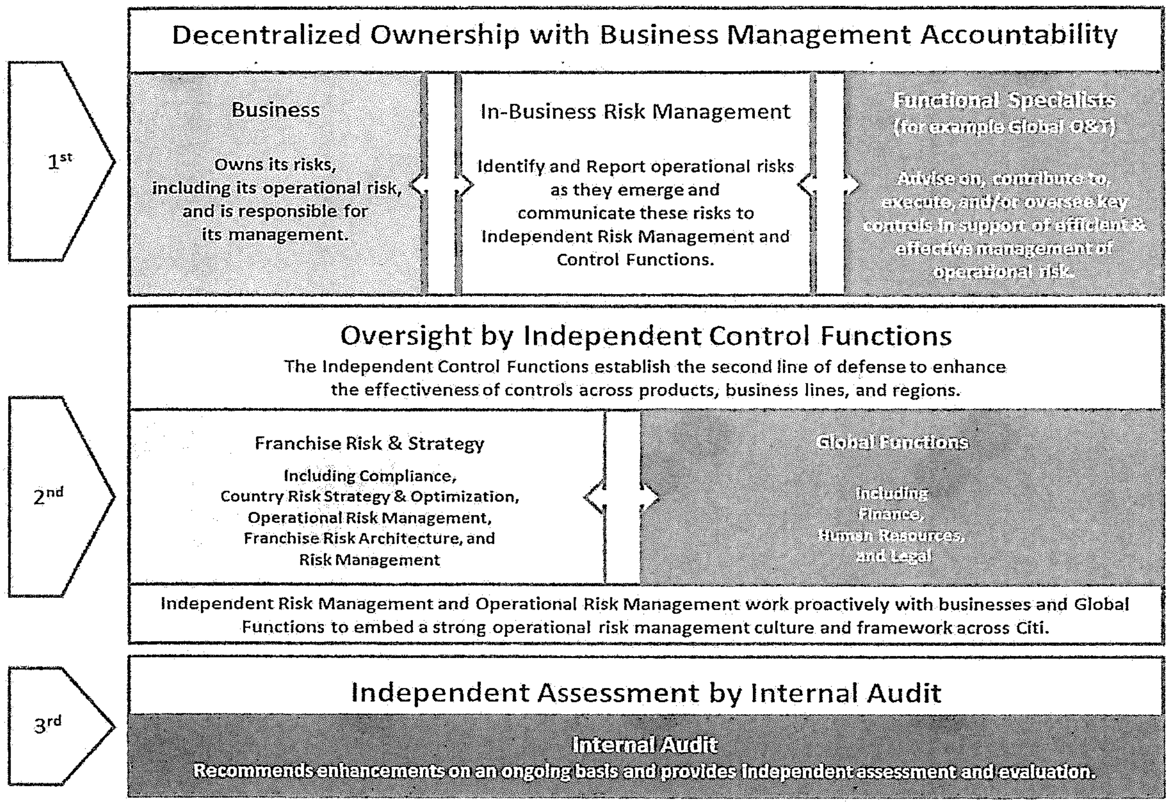
Second Line of Defence: The branches' s Independent Control Functions establish the second line of defence to oversee and challenge the effectiveness of controls and manage operational risks across Businesses, Regions, and Functions. The Second Line of Defence Control Functions include Risk Management and its Operational Risk Management organization, Compliance, Finance, Human Resources, and Legal. Legal and Compliance additionally advise on legal and regulatory issues that affect our risk and control environment and may provide information related to certain emerging risks

Operational Risk Management oversees the implementation of the ORM Framework for the management of operational risk. ORM Managers engage with the Business and the respective Chief Risk Officers to ensure effective implementation of the ORM Framework by focusing on i) identification, analysis and assessment of operational risks; ii) effective challenge of key control issues and operational risks; and iii) anticipation and mitigation of operational risk events. ORM ensures that validation and verification is established for critical framework elements.

ORM seeks to create lasting solutions for minimizing losses from failed internal processes, inadequate controls, and emerging risks, and drive actions to address the root causes that persistently lead to operational risk losses. ORM executes against those objectives by:

- Independently assessing risk, challenging both our historical and proposed practices and working as independent partners with our colleagues to improve processes;
- Establishing and overseeing the application of operational risk policies and standards, technology and tools, and governance processes;
- Monitoring and assessing the effectiveness of risk mitigation tools including internal controls;
- Maintaining an enterprise-wide assessment of the most significant, current, and emerging operational risks to business activities, and ensuring appropriate actions are in place to mitigate these risks Identifying, assessing, anticipating, measuring, reporting and mitigating Citi's operational risk exposure;
- Establishing, with Franchise Risk Architecture, the operational risk capital requirements and allocations; and
- Driving projects, as needed, aimed at strengthening controls to enable better decision making about products and service offerings

Third Line of Defence: Internal Audit recommends enhancements on an ongoing basis and provides independent assessment and evaluation.



Use of insurance for the purpose of mitigating operational risk

Citi Group has the following Corporate Reimbursement Programs (CRP) that provides protection to Citibank Sri Lanka:

1. CRP for all Risk Property for physical loss or damage, including Flood, Earthquake, and Business Interruption coverage. This program provides protection for Real and Personal property including owned / leased Buildings, Tenant Improvements / Installations, Furniture and Electronic /IT Equipment on a Replacement Cost basis. This program runs from March 1st 2017 to March 1st 2019.
2. CRP which provides protection for its subsidiaries against physical loss or damage to securities, cash and other valuables in Citi's legal care, custody or control on premises and in transit anywhere in the world. The program applies to loss from burglary, robbery, theft, employee dishonesty, forgery, counterfeiting, computer systems fraud and similar offenses. The limit provided by the program is reasonable and customary for financial institution exposures. This program runs from January 1st 2017 to January 1st 2018.
3. CRP for third party / public liability coverage for third party bodily injury and third party property damage, including broad form contractual liability and products / completed operations coverage. This program runs from January 1st 2017 to January 1st 2018.

Outsourced activities together with parties and basis for payment for such services;

Citibank Sri Lanka has outsourced several activities in accordance with its Outsourcing policy and have duly informed the Central Bank of Sri Lanka (CBSL) of all such outsourced activities.

Investment in appropriate information technology and other risk mitigation techniques taken during the reporting period;

Citi Sri Lanka has invested appropriately on IT technology. The Citigroup as a whole uses globally developed IT software for which significant investments have been made.

Due diligence tests of third party service providers;

Citi Sri Lanka conducts due diligence tests annually for outsourced service providers, in accordance with the Asia Pacific Outsourcing Governance Procedure Manual.

Contingency plan to handle failure situations

A detailed Continuance of Business policy document is in place which is tested periodically by a dedicated unit within Sri Lanka operations. . A full disaster recover drill is conducted annually for Denial of Access scenario in compliance with Citi Policy and regulatory guidelines. As recommended by regulator a semi-annual drill is also conducted for core banking functions and payment & settlement related functions and results are communicated to CBSL with an action plan for improvements where necessary. Throughout the year respective business units participate for hosting data center tests for the applications used by the respective units.

Major operational losses (system or human failures and financial) incurred by the Bank during the reporting period

There are no major operational failures or material financials losses during the year ending Dec 2016.

5. Capital Management

The main objectives of managing banks' capital are as follows:

- maintain sufficient capital to meet minimum regulatory capital requirement.
- hold sufficient capital to support branch risk appetite
- allocate capital to business to support the branch's strategic objectives.

Regulatory Capital

The Bank manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed banks in Sri Lanka based on the Basel Framework. Thus the Branch's operations are directly supervised by the CBSL and the Bank is required to comply with the Provisions of the Basel II framework in respect of regulatory capital. Commercial banks in Sri Lanka need to maintain a Total Capital Adequacy Ratio (CAR) of 10% and a Core Tier 1 Capital Ratio of at least 5%.

The Branch computes CAR as a ratio of its capital to its risk weighted assets. Calculations of the risk weightings defined under credit risk and market risk are based on the standardized approach whereas operational risk is computed by using the basic indicator approach.
As of 31st December 2016, Branch reported a Tier 1 ratio of 44.52% and a total CAR of 44.52% which remain comfortably above the CBSL's capital requirements.

6. Fair value of Financial Instruments carried at amortised cost

The following table summarises the carrying amounts and the Branch's estimate of fair values of those financial assets and liabilities not presented on the Branch's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which are no observable in the market.

As at 31st December	2016	
	Carrying Amount	Fair value
Assets	**Rs 000**	**Rs 000**
Cash and cash equivalents	2,178,872	2,178,872
Balances with Central Bank of Sri Lanka	309,317	309,317
Placements with banks	9,997,860	9,997,860
Loans and receivables to other customers	12,623,982	12,623,982
Liabilities		
Due to Banks	5,039,802	5,039,802
Due to other customers	19,155,408	19,155,408
Other borrowings	399,465	399,465

Given below is the basis adopted by the Branch in order to establish the fair values of the financial instruments which are shown above.

Cash and cash equivalents, balances with Central Bank of Sri Lanka and placements with banks

The carrying amounts of cash and cash equivalents, balances with central banks and placements with banks approximate their fair value as those are short-term in nature. These balances have a contractual remaining maturity of less than three months from the reporting date.

Loans and receivables to banks

Loans and receivables to banks represent reverse repurchase agreements with other banks. These are short term reverse repurchase contracts which will be matured within three months from the reporting date and thus the carrying amounts of such contracts approximate to their fair values.

Loans and receivables to other customers

Approximately 98% of the total portfolio of loans and receivables to other customers have a remaining contractual maturity of less than one year.
The fair value of loans and receivables to other customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads.

The estimated fair value of loans and advances with a residual maturity of more than one year is the present value of future cash flows expected to be received from such loans and advances calculated based on interest rates at the reporting date for similar types of loans and advances. Such loans include both fixed and floating rate loans. Majority of the floating rate loans can be re priced either quarterly or semi-annually while for fixed rate loans, the loan contract allows the Branch to change the contracted rate if there is a material difference between the contracted rate and the market interest rate.

Due to Banks

Approximately 100% of the amounts due to other banks as at the reporting date have a remaining contractual maturity of less than one year. Majority of the balance amount comprised of floating rate instruments where interest is reset either quarterly or semi-annually. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

Due to other customers

More than 95% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

Other Borrowings

Other borrowings mainly consist of securities sold under repurchase agreements which have a remaining contractual maturity of less than three months.

Attachment 1

Maturities of Assets and Liabilities (MAL)
LKR

(Rs. Million)

Sr.	Head of Accounts / Item	Upto 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-3 years	3-5 years	Over 5 years
A	Inflows								
1	Cash on hand	778	-	-	-	-	-	-	-
2	Deposits with CBSL	309	-	-	-	-	-	-	-
3	Balances due from Head Office, Affiliates and Own Branches	-	-	-	-	-	-	-	-
4	Balances due from Other Banks	3,160	-	-	-	-	-	-	-
5	Investments (Net of provisions)	2,923	-	3,296	4,119	-	265	71	141
6	Bills of Exchange	1	-	-	-	-	-	-	-
7	Overdraft	251	251	251	251	251	697	697	697
8	Loans and Advances	4,690	900	1,820	1	1	24	20	156
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	-	784	-	-	-	-	-	332
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Others - Please specify	-	-	-	-	-	-	-	-
	Total (a)	12,112	1,935	5,367	4,371	252	986	788	1,326
B	Outflows								
1	Demand Deposits	903	903	677	451	451	-	-	1,128
2	Savings Deposits	77	77	77	77	77	386	386	386
3	Balances due to Head Office/Affiliates/Own Branches	-	-	-	-	-	-	-	-
4	Balances due to Other Banks	-	-	-	-	-	-	-	-
5	Time Deposits	5,777	1,808	612		18		-	-
6	Certificates of Deposits, Borrowings and Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	-	-	-	-	-	-	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	67	36	6	-	-			
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	-	1,155	-	-	-	-	-	-
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	215	-	-	-	-	-	-	-
14	Letters of Credit/Guarantees/Acceptances	12	-	-	-	-	-	-	-
15	Repo/Bills Rediscounted/Swaps/Forward contracts	1,343	375	(640)	3,390	(1,519)	-	-	-
16	Other – Please Specify	-	-	-	-	-	-	-	-
	Total (b)	8,394	4,354	732	3,918	(972)	386	386	1,514
	Gap = (a) - (b)	3,718	(2,419)	4,635	453	1,225	600	402	(188)
	Cumulative Gap	3,718	1,299	5,934	6,387	7,612	8,212	8,614	8,426
	Cumulative Liabilities	8,394	12,748	13,480	17,398	16,426	16,812	17,198	18,712
	Cumulative gap as a % of cumulative liabilities	0	0	0	0	0	0	1	0

Maturities of Assets and Liabilities (MAL)
USD

(Rs. Million)

Sr.	Head of Accounts Item	Upto 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-3 years	3-5 years	Over 5 years
A	Inflows								
1	Cash on hand	23	-	-	-	-	-	-	-
2	Deposits with CBSL	-	-	-	-	-	-	-	-
3	Balances due from Head Office, Affiliates and Own Branches	1,101	-	-	-	-	-	-	-
4	Balances due from Other Banks	5,587	1,577	-	-	-	-	-	-
5	Investments (Net of provisions)	-	-	-	-	-	-	-	-
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	59	59	59	59	59	163	163	164
8	Loans and Advances	337	18	-	-	-	-	-	-
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets		36	-	-	-	-	-	311
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Others - Please specify	-	-	-	-	-	-	-	-
	Total (a)	7,107	1,690	59	59	59	163	163	475
B	Outflows								
1	Demand Deposits	427	427	320	213	213	-	-	534
2	Savings Deposits	96	96	96	96	96	479	479	479
3	Balances due to Head Office/Affiliates/Own Branches	4,666	-	-	-	-	-	-	-
4	Balances due to Other Banks	-	-	-	-	-	-	-	-
5	Time Deposits	150		23	-		-	-	-
6	Certificates of Deposits, Borrowings and Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	-	-	-	-	-	-	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	-	-	-	-		-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	-	150	-	-	-	-	-	113
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	-	-	-	-	-	-	-	-
14	Letters of Credit/Guarantees/Acceptances	-	-	-	-	-	-	-	-
15	Repo/Bills Rediscounted/Swaps/Forward contracts	(998)	(373)	558	(3,352)	1,453	-	-	-
16	Other – Please Specify	-	-	-	-	-	-	-	-
	Total (b)	4,341	300	997	(3,043)	1,762	479	479	1,126
	Gap = (a) - (b)	2,766	1,390	(938)	3,102	(1,703)	(315)	(315)	(651)
	Cumulative Gap	2,766	4,156	3,218	6,320	4,617	4,302	3,987	3,336
	Cumulative Liabilities	4,341	4,641	5,638	2,595	4,357	4,836	5,315	6,441
	Cumulative gap as a % of cumulative liabilities	1	1	1	2	1	1	1	1

Attachment 1

Maturities of Assets and Liabilities (MAL)
Other Currencies

(Rs. Million)

Sr.	Head of Accounts / Item	Upto 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-3 years	3-5 years	Over 5 years
A	Inflows								
1	Cash on hand	6			-	-	-	-	-
2	Deposits with CBSL	-	-	-	-	-	-	-	-
3	Balances due from Head Office, Affiliates and Own Branches	243	-	-	-	-	-	-	-
4	Balances due from Other Banks	-	-	-	-	-	-	-	-
5	Investments (Net of provisions)	-	-	-	-	-	-	-	-
6	Bills of Exchange	-	-	-	-	-	-	-	-
7	Overdraft	-	-	-	-	-	-	-	-
8	Loans and Advances	-	-	-	-	-	-	-	-
9	NPLs	-	-	-	-	-	-	-	-
10	Net Inter-Branch Transactions	-	-	-	-	-	-	-	-
11	Other Assets	-		-	-	-	-	-	131
12	Lines of credit committed from institutions	-	-	-	-	-	-	-	-
13	Others - Please specify	-	-	-	-	-	-	-	-
	Total (a)	249	-	-	-	-	-	-	131
B	Outflows								
1	Demand Deposits	52	52	39	26	26	-	-	65
2	Savings Deposits	4	4	4	4	4	19	19	19
3	Balances due to Head Office/Affiliates/Own Branches	373	-	-	-	-	-	-	-
4	Balances due to Other Banks	-	-	-	-	-	-	-	-
5	Time Deposits	-	-	-	-	-	-	-	-
6	Certificates of Deposits, Borrowings and Bonds	-	-	-	-	-	-	-	-
7	Net Inter-branch Transactions	-	-	-	-	-	-	-	-
8	Bills Payable	-	-	-	-	-	-	-	-
9	Interest Payable	-	-	-	-	-	-	-	-
10	Provisions other than for loan losses and depreciation in the value of investment portfolio	-	-	-	-	-	-	-	-
11	Other Liabilities	-	-	-	-	-	-	-	-
12	Lines of credit committed to institutions	-	-	-	-	-	-	-	-
13	Unutilized portion of Overdraft, Loans and Advances	-	-	-	-	-	-	-	-
14	Letters of Credit/Guarantees/Acceptances	-	-	-	-	-	-	-	-
15	Repo/Bills Rediscounted/Swaps/Forward contracts	-	-	-	-	(2)	-	-	-
16	Other – Please Specify	-	-	-	-	-	-	-	-
	Total (b)	429	56	43	30	28	19	19	84
	Gap = (a) - (b)	(180)	(56)	(43)	(30)	(28)	(19)	(19)	47
	Cumulative Gap	(180)	(236)	(278)	(308)	(336)	(355)	(375)	(328)
	Cumulative Liabilities	429	485	528	558	586	605	624	708
	Cumulative gap as a % of cumulative liabilities	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(0)

Attachment 2

Sensitivity of Assets and Liabilities (SAL)
LKR

Name of Bank : Citibank N.A.

Period Ended : 31st December 2016.

(Rs. Million)

No.	Assets and OBS	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5 – 7 years	7 – 10 Years	10-15 years	15-20 years	Over 20 years	Non Sensitive	Total
1.0	Cash on Hand														777	777
2.0	Deposits with CBSL														309	309
3.0	Balances due from HO/Affiliates/Branches															-
4.0	Balances due from Other Banks	2,850													310	3,160
5.0	Investments	2,923	-	3,296	4,119	266		47	24	-	140					10,815
6.0	Bills of Exchange and Promissory Notes	1														1
7.0	Overdrafts		3,347													3,347
8.0	Loans and Advances	4,690	900	1,820	2	7	16	19	1	5	54	33	53	10		7,611
9.0	Non Performing Loans															-
10.0	Fixed Assets														332	332
11.0	Net Inter-branch Transactions															-
12.0	Accrued Interest															-
13.0	Other Assets														784	784
14.0	Reverse Repos	-														-
15.0	FRAs															-
16.0	Swaps															-
17.0	Futures															-
18.0	Options															-
19.0	Others (Specify)															-
	Total	10,464	4,247	5,116	4,121	273	16	66	25	5	194	33	53	10	2,512	27,136

	Liabilities and OBS														4,513	4,513
1.0	Demand Deposits															1,545
2.0	Savings Deposits		1,545													8,215
3.0	Time Deposits	5,777	1,808	612	18											164
4.0	Other Deposits	164														-
5.0	Balances due to HO/Affiliates/Branches															-
6.0	Balance due to other Banks															-
7.0	Certificate of Deposits															-
8.0	Other Borrowings															-
9.0	Net Inter-branch Transactions															-
10.0	Bills Payable														110	110
11.0	Interest Payable															-
12.0	Provisions (others)														1,524	1,524
13.0	Capital														539	539
14.0	Reserves														9,055	9,055
15.0	Retained Earnings															-
16.0	Subordinated Debts															-
17.0	Other (Specify)															399
18.0	Repos	399														-
19.0	FRAs															-
20.0	Futures															-
21.0	Swaps															-
22.0	Options														15,741	26,064
	Total	6,340	3,353	612	18	-	-	-	-	-	-	-	-	-	(13,229)	1,072
	Gap	4,124	894	4,504	4,103	273	16	66	25	5	194	33	53	10		

Attachment 2

Sensitivity of Assets and Liabilities (SAL)
USD

Name of Bank : Citibank N.A.

Period Ended : 31st December 2016.

(Rs. Million)

No.	Assets and OBS	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5 – 7 years	7 – 10 Years	10-15 years	15-20 years	Over 20 years	Non Sensitive	Total
1	Cash on Hand														23	23
2	Deposits with CBSL															-
3	Balances due from HO/Affiliates/Branches														1,101	1,101
4	Balances due from Other Banks	5,559	1,577												28	7,164
5	Investments															-
6	Bills of Exchange and Promissory Notes	-														-
7	Overdrafts		785													785
8	Loans and Advances	337	18	-												355
9	Non Performing Loans															-
10	Fixed Assets															-
11	Net Inter-branch Transactions															-
12	Accrued Interest														347	347
13	Other Assets															-
14	Reverse Repos															-
15	FRAs															-
16	Swaps															-
17	Futures															-
18	Options															-
19	Others (Specify)															-
	Total	5,896	2,380	-	-	-	-	-	-	-	-	-	-	-	1,499	9,775

	Liabilities and OBS															
1	Demand Deposits														2,135	2,135
2	Savings Deposits		1,915													1,915
3	Time Deposits	150		23												173
4	Other Deposits	63														63
5	Balances due to HO/Affiliates/Branches	4,657													9	4,666
6	Balance due to other Banks															-
7	Certificate of Deposits															-
8	Other Borrowings															-
9	Net Inter-branch Transactions															-
10	Bills Payable															-
11	Interest Payable														0	0
12	Provisions (others)															-
13	Capital															-
14	Reserves															-
15	Retained Earnings															-
16	Subordinated Debts															-
17	Other (Specify)															-
18	Repos															-
19	FRAs															-
20	Futures															-
21	Swaps															-
22	Options															-
	Total	4,870	1,915	23	-	-	-	-	-	-	-	-	-	-	2,144	8,952
	Gap	1,026	465	(23)	-	-	-	-	-	-	-	-	-	-	(645)	823

Attachment 2

Sensitivity of Assets and Liabilities (SAL)
OTHER CURRENCIES

Name of Bank : Citibank N.A.

Period Ended : 31st December 2016.

(Rs. Million)

No.	Assets and OBS	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5 – 7 years	7 – 10 Years	10-15 years	15-20 years	Over 20 years	Non Sensitive	Total
1	Cash on Hand														6	6
2	Deposits with CBSL															-
3	Balances due from HO/Affiliates/Branches	115													128	243
4	Balances due from Other Banks														-	-
5	Investments															-
6	Bills of Exchange and Promissory Notes															-
7	Overdrafts															-
8	Loans and Advances															-
9	Non Performing Loans															-
10	Fixed Assets															-
11	Net Inter-branch Transactions															-
12	Accrued Interest														131	131
13	Other Assets															-
14	Reverse Repos															-
15	FRAs															-
16	Swaps															-
17	Futures															-
18	Options															-
19	Others (Specify)															-
	Total	115	-	-	-	-	-	-	-	-	-	-	-	-	265	380

	Liabilities and OBS														259	259
1	Demand Deposits															78
2	Savings Deposits		78													-
3	Time Deposits															2
4	Other Deposits	2													371	373
5	Balances due to HO/Affiliates/Branches	2														-
6	Balance due to other Banks															-
7	Certificate of Deposits															-
8	Other Borrowings															-
9	Net Inter-branch Transactions															-
10	Bills Payable															-
11	Interest Payable															-
12	Provisions (others)															-
13	Capital															-
14	Reserves															-
15	Retained Earnings															-
16	Subordinated Debts															-
17	Other (Specify)															-
18	Repos															-
19	FRAs															-
20	Futures															-
21	Swaps															-
22	Options															
	Total	4	78	-	-	-	-	-	-	-	-	-	-	-	630	712
	Gap	111	(78)	-	-	-	-	-	-	-	-	-	-	-	(365)	(332)

Attachment 3

Foreign Exchange Position

Bank: Citibank N.A. Colombo
As at end of: 31st December 2016

(Rs million)

Currency (1)	Spot			Forward(a)			Net Open Position (8)	Net position in other exchange contracts (b) (9)	Overall exposure in respective foreign currency (10)	Overall exposure in Sri Lankan rupees(d) (11)
	Assets (2)	Liabilities (3)	Net (4)=(2)-(3)	Assets (5)	Liabilities (6)	Net (7)=(5)-(6)				
US Dollars	903	904	(1)	33,093	30,380	2,713	2,712	-	18.58	2,712
Pound Sterling	-	-	-			-	-	-	-	-
Euro	1	-	1	2,583	2,581	2	3	-	-	3
Japanese Yen	-	-	-			-	-	-	-	-
Indian Rupee	-	-	-			-	-	-	-	-
Australian Dollar	2	-	2	58	58	-	2	-	-	2
Canadian Dollar	-	-	-			-	-	-	-	-
Other currencies (c)	899	900	(1)	31,104	33,653	(2,549)	(2,550)	-		(2,550)
Total Exposure (e)	1,805	1,804	1	66,838	66,672	166	167	-		167
Total capital funds as per the latest audited financial statements(f)										10,627
Total exposure as a % of total capital funds as per the latest audited financial statements (should not exceed 30%)										1.57%

(a) Unsettled tom and spot transactions also should be included under forward operations.
(b) Report the net foreign exchange position in other foreign exchange contracts such as currency options, futures etc.
(c) The Sri Lankan rupee equivalent of other currencies should be shown under column 11.
(d) Column 11 should show the Sri Lankan rupee equivalent of column 10.
(e) The exposure indicated against each currency in column 11 should be added ignoring signs to arrive at exposure under (e).