

**2008 was probably the most difficult year that the Bank ever encountered. 2009 could be better or worse. We have departed from norms, traditions and established structures and have sharpened the content of our report to give you a better understanding on how your Bank is positioned to meet these challenging times.**



COMMERCIAL BANK

*Our Interest Is In You*



# Annual Report of the Board of Directors

The Directors have pleasure in presenting the Annual Report for the year ended December 31, 2008 which includes business strategy and review, risk management, governance, audited Group accounts, investor relations and a sustainability supplement. The latter makes relevant cross references, so as to minimise repetition and keep the content of the whole simple, clear and succinct.

Pages 1 to 91 of this Annual Report comprise a Report of the Directors that has been drawn up and presented in accordance with Section 168 of the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange. The information on Directors is given on pages 65 to 74 while the details on their remuneration and other benefits are given in Note 5 to the Financial Statements on page 124 of this Annual Report.

The Financial Statements, Significant Accounting Policies used and the Notes thereto of the Bank and the Group, and the additional disclosures included in the Annual Report designated as audited, comply with the requirements of the Sri Lanka Accounting Standards and the Companies Act No. 7 of 2007. These Financial Statements and Notes thereto give a true and fair view of the Bank's and the Group's financial position as at December 31, 2008 and of their performance for the year ended on that date.

There were no significant changes in the nature of principal activities of the Bank or any of its subsidiaries during the financial year under review, except for the disposal of the 30% stake in the equity of Commercial Leasing Company PLC, one of the former Associates of the Bank.

The Bank's External Auditors, Messrs Ernst & Young, who were reappointed in accordance with a resolution passed at the last Annual General Meeting, have expressed their opinion which appears on page 97 of this Annual Report. The details on their remuneration are given in Note 5 to the Financial Statements on page 124. As far as the Directors are aware, the Auditors do not have any other relationship with the Bank, or any of its subsidiaries. The Auditors do not have any interest in contracts with the Bank, or any of its subsidiaries.

The Bank adopted the Sri Lanka Accounting Standard No. 16 (Revised 2006) on Employee Benefits in 2008, which became effective for financial years beginning on or after July 1, 2007.

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments to the Government, other regulatory institutions and related to the employees have been made in time.

The Interests Register is maintained by the Bank, as per the Companies Act No. 7 of 2007. All Directors have made declarations as provided for in Section 192 (2) of the Companies Act aforesaid. The related entries were made in the Interests Register during the year under review. Entries were made in the Interests Register on share disposals, Directors' interests in contracts, remuneration paid to the Directors etc. The Interests Register is available for inspection as required under the Companies Act.

Donations made during the year amounted to Rs. 23,220,181/- (Rs. 29,740,726/- in 2007). Of this, a sum of Rs. 2,594,500/- (Rs. 1,992,270/- in 2007) was made to approved charities.

The Board of Directors has reviewed the Bank's business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on going concern concept.

Signed in accordance with a resolution of the Directors.



**M.J.C. Amarasuriya**  
Chairman



**B.R.L. Fernando**  
Deputy Chairman



**A.L. Gooneratne**  
Managing Director



**Dr. H.S. Wanasinghe**  
Director



**L.J.A. Fernando**  
Director



**D.S. Weerakkody**  
Director



**P.M. Martelli**  
Director



**R.M.S. Fernando**  
Director



**Mrs. R.R. Dunuwille**  
Company Secretary



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## The Bank in a Nutshell

Today Commercial Bank is widely seen as the Benchmark Private Sector Bank in Sri Lanka

***Solid compounded annual growth rates in the past 5 years: Gross Income 29.12%, Profit Before Tax and Profit After Tax 24.60% and 20.43%, Assets 15.22%, Return on Average Shareholders' Funds 15.92%. Healthy Tier I and Tier I & II Capital Adequacy Ratios in the past 5 years, over the minimum percentages stipulated by the CBSL. The Bank has 181 delivery points and 346 ATMs. It has invested over Rs. 2.501 Bn in state-of-the-art technology in the last 10 years. It is accessible to anyone with an Internet connection, 24 hours a day 365 days of the year. On-line banking now allows a wide array of transactions at the click of a mouse. Inward remittances grew by 44.82% in 2008. Apart from several accolades won in Sri Lanka, our Bangladesh operation was also ranked as one of the best rated banks in a space of 5 years. All of these have been achieved in the midst of volatile macroeconomic conditions.***

### Robust and Resilient

Our strategy for the next half decade is to be robust and resilient. To expand our international operations and widen global presence, to enhance our delivery channels and our product range. To look at new market segments, to reduce risks and costs and maintain high service standards. All this while building on our high performance work and ethics culture and continuing to discharge our larger responsibilities as a modern corporate citizen.



## ● FINANCIAL HIGHLIGHTS

	Group			Bank		
	2008 Rs. Mn	2007 Rs. Mn	Change %	2008 Rs. Mn	2007 Rs. Mn	Change %
<b>Results for the Year</b>						
Gross Income	43,960.022	35,206.860	24.86	44,115.249	35,222.918	25.25
Profit before Financial VAT and Taxation	9,507.716	8,342.611	13.17	9,611.610	8,256.491	16.41
Profit before Taxation	7,416.248	6,790.849	9.21	7,520.142	6,704.729	12.16
Provision for Taxation	3,295.842	2,638.396	24.92	3,251.770	2,601.164	25.01
Profit after Taxation	4,120.406	4,152.453	(0.77)	4,268.372	4,103.565	4.02
Revenue to the Governments	5,414.510	4,224.216	28.18	5,370.438	4,186.984	28.27
Gross dividends	1,786.498	1,856.285	(3.76)	1,786.498	1,856.285	(3.76)

### At the Year End

Shareholders' Funds (Capital and Reserves)	26,226.050	24,357.891	7.67	25,891.229	23,936.037	8.17
Deposits from customers	199,865.203	183,087.880	9.16	199,880.986	183,110.135	9.16
Gross loans and advances to customers	186,681.482	178,726.737	4.45	186,885.529	178,878.233	4.48
Total Assets	281,567.040	268,385.230	4.91	281,213.685	267,939.639	4.95

### Information per Ordinary Share (Rs.)

Earnings (Basic)	16.36	17.04	(3.99)	16.96	16.84	0.71
Dividends	N/A	N/A	N/A	7.00	7.00	-
Net Assets Value per Ordinary Share	105.16	93.79	12.12	103.81	92.09	12.73
Market value at the year end - voting	N/A	N/A	N/A	67.00	147.00	(54.42)
Market value at the year end - non-voting	N/A	N/A	N/A	49.00	74.50	(34.23)

### Ratios

Return on average shareholders' funds (%)	16.29	20.57	(20.81)	17.13	20.63	(16.97)
Return on average assets (%)	1.50	1.69	(11.24)	1.55	1.67	(7.19)
Price earnings (times) - Ordinary voting shares	4.10	8.62	(52.44)	3.95	8.73	(54.75)
Price earnings (times) - Ordinary non-voting shares	3.00	4.37	(31.35)	2.89	4.42	(34.62)
Year on year growth in earnings (%)	(0.77)	100.37	(100.77)	4.02	103.89	(96.13)
Year on year growth in dividends on ordinary shares (%)	-	40.00	(100.00)	-	40.00	(100.00)
Dividend yield (%) - Ordinary voting shares	N/A	N/A	N/A	10.45	4.76	119.54
Dividend yield (%) - Ordinary non-voting shares	N/A	N/A	N/A	14.29	9.40	52.02
Dividend cover on ordinary shares (times)	N/A	N/A	N/A	2.42	2.29	5.68
Dividend cover on preference shares (times)	101.28	36.91	174.40	104.92	36.48	187.61
Total Dividend cover (times)	2.31	2.24	3.12	2.39	2.21	8.14

### Statutory Ratios

Liquid assets (minimum 20%)	N/A	N/A	N/A	24.82	24.24	2.39
Capital Adequacy Ratios (Basel II)						
Tier I (minimum required 5%)	10.55	10.00	5.50	10.51	9.99	5.21
Tier I & II (minimum required 10%)	13.13	12.98	1.16	13.09	12.99	0.77

## ● OUR FOCUS AREAS

We are a fully-fledged consumer and corporate bank operating primarily in Sri Lanka, Bangladesh and in a few Middle Eastern countries through our business promotion officers (BPOs). The scope and breadth of our banking activities is summarised below:

	Corporate Banking	Personal Banking	Treasury
<b>Products</b>	Letters of Credit, Shipping and other guarantees, Import and Export finance, SWIFT facilities, Syndicated loans, Project financing, Securitisation, Structuring, Managing and underwriting of Initial Public Offerings and Private Placement of Equity, Company valuations and restructuring, Investment advice and evaluation, Structuring of Corporate Debt Instruments, Working capital financing, Leasing, Domestic and International Factoring, Off-shore banking facilities, Internet Banking, Sponsor of the Colombo Stock Exchange, Bullion Trading, payment solutions to corporate clients	Current, Savings (Passbook and Statement) and Fixed Deposit Accounts, Credit Cards, Debit Cards, Minors' Accounts, Teen Saver Accounts, High Interest Savings Accounts, Certificates of Deposit, Tiered Savings Accounts, Salary Remittance Package, Housing Loans with Fixed and Floating Rates, Personal Loans with top-up facility, Leasing, Development Loans, Senior Citizens' Deposit Accounts, Foreign Currency Savings Accounts, Utility Bill payment service through ATM/Internet, mobile phones reload facility, SMS banking facilities	Foreign Exchange dealings, Forward Interest Rate Swaps and futures trading, Currency Swaps, Interest Rate Swaps, Forward Rate Agreements, Caps, Floors and Collars, Commodity price hedging, G7 and LKR FX options, Dual Currency Deposits and other yield enhancing structures, Hedging FX and interest rate risk, FIS trading
<b>Core Competencies</b>	Financial stability and strength, Highest rating among local private commercial banks, Large single borrower limit, Expertise in corporate credit and trade finance, High level of professionalism, Innovative products, State-of-the-art technology, On-line branch network, In-house legal expertise, Cost effective operations, Well established and trusted correspondent Banks	'ComNet' computer linked branch and ATM network, State-of-the-art information technology, Branch network spread out in every part of the country, Wide portfolio of innovative products, Recognition as the Best Bank in the country, Speedy decision-making due to region-wise setup, A target-oriented work culture, Speedy and friendly service, 24 hours 365 days service, issuer and acquirer of Visa, Master Card and Debit Card.	Availability of a fully-customised Treasury software package, Risk management unit with integrated ALM, FTP and profitability system, Competitive rates due to sufficient FX resources, Possibility of mobilising foreign currency funds owing to operations outside the country, Possibility of mobilising local currency funds owing to well established and wide branch network, Innovative & customised treasury products, Strong relationships with foreign banks, Well-trained Treasury team, Financial strength and image of the Bank, Market views on FX and interest rates, Highest rating among local private banks
<b>Delivery Channels</b>	Branch network, ATM network, Internet Banking	Branch network, ATM network, Internet Banking, Holiday Banking Centres, Saturday Banking, Priority Banking, Telephone/SMS Banking, Mobile ATM, Mobile Phone Banking Facility	Branch network

## ● VALUE CREATION

Our track record of value creation is unique and we continue to be one of the very few companies that have adopted Economic Value Added (EVA) as one of our primary measures of value creation.

### Value to Shareholders

	2004	2005	2006	2007	2008
Economic Value Added (EVA) (Rs. Mn)	913.810	907.104	304.454	1,802.812	<b>503.064</b>
Market Value Added (MVA) (Rs. Mn)*	(3,251.790)	2,471.879	8,816.694	7,740.662	<b>(15,216.161)</b>
Return on Average					
Shareholders' Funds (ROE) (%)	13.16	15.93	12.73	20.63	<b>17.13</b>
Dividend Payout Ratio (%)	29	30	39	44	<b>41</b>
Bonus Issues	-	1:1	-	1:3	-
Rights Issues	-	-	-	3:10	-
Credit Rating	AA+ (Sri)	AA+ (Sri)	AA+ (lka)	AA+ (lka)	<b>AA+ (lka)</b>

\* MVA is the difference between the market capitalisation and total capital invested (The sum total of shareholders' funds and cumulative loan loss provision).

### Value to Government

#### (i) Taxes Paid - Income Tax, Financial VAT and Debits Tax (Rs. Mn)

	2004	2005	2006	2007	2008
Income Tax	828.1	1,290.4	2,191.6	2,629.2	<b>3,260.8</b>
Financial VAT	441.1	622.9	971.0	1,551.8	<b>2,091.5</b>
Debits Tax	3.8	4.1	6.4	6.0	<b>9.2</b>
<b>Total</b>	<b>1,273.0</b>	<b>1,917.4</b>	<b>3,169.0</b>	<b>4,187.0</b>	<b>5,361.5</b>

#### (ii) Taxes Collected - Value Added Tax, Debits Tax and Stamp Duty (Rs. Mn)

	2004	2005	2006	2007	2008
Value Added Tax	-	35.9	74.8	230.4	<b>619.5</b>
Debits Tax	636.0	813.8	1,014.7	1,226.5	<b>1,416.5</b>
Stamp Duty	-	-	45.0	71.1	<b>66.3</b>
<b>Total</b>	<b>636.0</b>	<b>849.7</b>	<b>1,134.5</b>	<b>1,528.0</b>	<b>2,102.4</b>

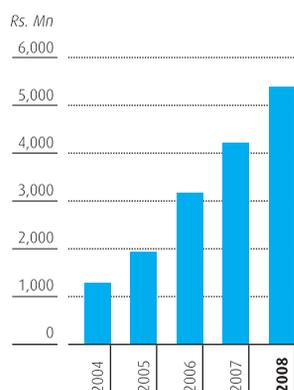
## ● FINANCIAL GOALS & ACHIEVEMENTS

Financial Indicator - Bank	Goal	Achievement				
		2004	2005	2006	2007	2008
Return on Average Assets (ROA) (%)	Over 2%	1.35	1.48	1.00	1.67	<b>1.55</b>
Return on Average Shareholders' Funds (ROE) (%)	Over 20%	13.16	15.93	12.73	20.63	<b>17.13</b>
Growth in Income (%)	Over 20%	22.17	31.00	51.99	43.95	<b>25.25</b>
Growth in Profit After Taxation (%)	Over 20%	14.03	40.33	(14.87)	103.89	<b>4.02</b>
Growth in Total Assets (%)	Over 20%	25.57	30.04	24.38	19.63	<b>4.95</b>
Dividend Per Share (DPS) (Rs.)	Over Rs. 5.00	6.00	4.50	5.00	7.00	<b>7.00</b>
Capital Adequacy Ratios (Group)						
Tier I (%)	Over 8%	10.78	9.68	7.62	10.60	<b>10.55</b>
Tier I & II (%)	Over 13%	13.16	12.08	11.58	13.71	<b>13.13</b>

### Economic Value Added



### Value to Governments



# Chairman's Message



***The Bank with its well structured processes, disciplines and work culture will ride rough seas and continue to deliver value to all our stakeholders***

## *Keeping Our Faith in the Fundamentals*

***Difficult markets and the emerging global crisis could not prevent the Bank posting an after tax profit of Rs. 4.268 Bn in 2008. The dregs of gloom that emerged in the West in the first half of the year percolated into Sri Lanka by the end of the year. This was accompanied by news of financial scams by a few local companies. The Bank's performance though shone through this pall of gloom like a beacon and is a sure indicator of its solid foundation and capacity to adapt.***

The operating environment in Sri Lanka has been tough for many years. Rising oil prices, high inflation, the war and low business confidence have made things hard for the industry. That the Bank has managed to perform, and perform creditably in these years is satisfying. Our performance has been recognised globally in the awards we have been bestowed, in our entry into the global top 1,000 banks in 2008 and the rating we have achieved. Fitch yet again, confirmed the AA+ (Ika) rating for the Bank. The Bank's NPL and the cost/income ratio are among the lowest in the local banking industry. Yet we cannot downplay the significance of the current global financial crisis, which has pushed alarm bells in a hitherto unprecedented way.

Manoeuvring through the global crisis will be challenging not only for the Bank but for all business entities. To be surmounted, it requires the collective vision and energies of governments, regulators, the business sector and ordinary citizens.

The Bank is confident it can ride this crisis by sticking to the fundamentals: strong reserves, optimum liquidity, healthy capital adequacy ratios, product innovation, a lean organisational structure and a motivated management team and workforce. The Bank with its well-structured processes, disciplines and work culture will ride these rough seas and continue to deliver value to all our stakeholders.

Our strategy over the next few years will promote the Bank's image as a reliable and prudent institution. We will seek new customer relationships and explore new market segments, looking particularly at micro finance, wealth management, e-exchange and pawning. We will seek to develop low cost delivery channels for our products. At every moment we will focus on developing new products for existing markets and for the new ones. Maintaining the Bank's technological superiority has always been a priority and this will not change. We will continue to invest in Bangladesh, expand our presence in other countries and look at opportunities in other regions. The Bank's commitment to corporate social responsibility will not waver and we will be aggressive in looking for new avenues to invest in the future prosperity of our people. Today the global future is uncertain, but at the Bank we continue to invest innovatively in the future.



**M.J.C. Amarasuriya**  
Chairman

Colombo  
February 18, 2009

# Management Report

## ● INTRODUCTION BY THE MANAGING DIRECTOR



## *In the eye of a storm*

**The past year was one of the most challenging years of my banking career. Local and global events came together to create for me personally, and for the Bank as an institution, a range of unique challenges that we have never encountered previously.**

At the international level the global recession reared its head in the first quarter of the year and then burst into an unprecedented global financial crisis by the third quarter. At the local level unstable economic conditions, high inflation and volatile interest rates continued to stretch our every sinew.

2007 was an exceptional year for the Bank. We posted a strong performance in that year despite the unfavourable economic and political climate. Trying to carry this same performance into 2008 and to push the bar even higher was a tough task. We had to change course many times during 2008 to confront volatile interest rates, a liquidity crunch and a drop in customer confidence.

In 2007 while there was a sharp increase in interest rates, there was also a time lag that allowed us to adjust our

rates. In 2008 however, the scenario was different and the Bank was forced to quickly re-price all its deposit products with the result that margins were squeezed. New business volumes were much lower than the previous year and growth was relatively slower.

The Bank had to grapple with shrinking liquidity lines in the foreign currency market where long-term liquidity sources were almost non-existent for the most part of 2008. The Bank was fortunate that it could fall back onto its foreign reserves at this hour of need. We had also paid off a medium-term syndicated loan the Bank had taken and this helped us tide over this period.

**Despite global and local volatilities, including an inflation rate that hovered around 20% for most part of the year, we are satisfied that the Bank ended 2008 on a high. Profit before tax was a comfortable Rs. 7.520 Bn and profit after tax was Rs. 4.268 Bn.**

Higher provisioning for debt, a slower growth in advances and a significant increase in Financial VAT slowed our growth rate, despite a solid performance in some other areas. The Bank also made

a payment of Rs. 692.162 Mn on account of the oil hedging contracts which is yet to be paid to the Bank.

During the year the effective Financial VAT rate increased from 16.67% to 20% resulting in an adverse impact of approximately Rs. 348.000 Mn to our revenue. Banks in Sri Lanka are subject to a high incidence of tax, much higher than most other countries and contrary to international best practices.

**Once again Corporate Banking, Personal Banking and the Treasury played important roles in swelling the Bank's bottom line. Corporate Banking contributed 20.31% to the Bank's profits; Personal Banking 40.56% and the Treasury 15.76%. The Treasury operations of the Bank did well and exchange income showed a substantial increase of 70.46%.**

The deteriorating economic situation had other consequences. The Bank was forced to increase provision for possible loan losses to Rs. 4.954 Bn, a net increase of Rs. 1.397 Bn compared to 2007. Non-performing loans ratio increased from 2.96% to 5.19% but is still considered to be lower than the industry average.

During the year the Bank disposed of its stake in Commercial Leasing and realised a capital gain of Rs. 405.531 Mn which helped swell the bottom line.

### Remittances

The Bank did well with regard to promoting the flow of remittances into the country, again responding to a national priority. We established a remittance house in the European Region and expanded our activities in Qatar, Oman, Jordan and the Far East. Inward remittances grew by 44.82% in 2008. While in 2007 the Bank's share of the remittance market was 9%, in 2008 it had grown to 13%. This and other non-fee based products will drive the future growth of the Bank.

Introduction by the Managing Director

## Bangladesh

The Bank's operations in Bangladesh had another good year despite the adverse political and economic climate. Although business volumes were down the Bank expanded its activities opening 2 new SME centres last year. We were also ranked as one of the best banks in that country.

Although it was the Bank's intention to establish a presence in the Far East, we have put these plans on hold in view of the global uncertainties. We will continue however, to grow our operations in Bangladesh.

## SME

The Bank has earmarked the SME sector and the micro sector a priority area. The Bank will give increased focus and attention to SMEs over the coming years and seek to attract new capital lines in this regard.

## Pawning

The Bank moved into the pawning business in 2008. Part of this is motivated by an attempt to engage in better capital management since pawning is zero rated for capital adequacy purposes whilst it is an attempt to give pawning a socially acceptable face and to become a leader in this market segment.

## Risk Management

During the past year we took measures to put in place an integrated risk management system. Deutsche Bank in Singapore and Ernst & Young in Mumbai helped us in this regard. The Bank has employed an external risk management consultant so that we can have a fully integrated risk management process by the end of 2009.

## 'Best Bank'

For the seventh year running the Bank won the Best Bank Award among Sri Lankan banks. It also became the first Sri Lankan Bank to enter the list of top

1,000 best global banks of the 'Banker Magazine' published by the London based Financial Times group. In addition, the acclaimed US based 'Global Finance Magazine' chose Commercial Bank as 'The Best Bank in Sri Lanka' for the 10th consecutive year.

## CSR

We did not lose sight of our social responsibilities and continued with our many activities in this area. One of our priority projects was to restore the access pathways to Sri Pada (Adam's Peak), sacred to many Sri Lankans. We are also contributing to the efforts to have it declared as a World Heritage site.

## Employee Relations

We continued to maintain good relations with the employee unions. The Collective Agreement which we concluded with them in 2006 will lapse in 2009 and we will soon commence negotiations on a fresh agreement.

## Disaster Recovery

We are also proud that we managed to test our Disaster Recovery Process. A fire at the Bank's Panadura branch last year forced us to put the plan into operation and I am happy to record that we were able to re-establish branch operations within 10 days.

## Legal Framework

The legal infrastructure in the country is still wanting despite recent initiatives. This is especially the case with regard to recovery actions where the process is time consuming and inefficient. It is important that the legal system facilitate recovery actions that are smooth and timely.

## Thank You

My warm thanks to our customers for continuing to place faith in the institution and to the employees for delivering such a superb performance when lots of others around us were crumbling under pressure.

## Condolences

My condolences to the family of Mr. Raja Samantilaka, a member of our IT team who died as a result of a fire in his hotel room while in Bangladesh. He was an important member of our Sri Lankan team and I would like to record here the strong contribution he made to the Bank's operations.

## Resilient

**The current year is likely to be a challenging one. The full impact of the financial crisis and the recession will be felt only this year.**

While the Bank hopes to participate in the reconstruction of the North and East since it is likely that the war, in its current form, will soon end, there are local and global uncertainties it will have to overcome.

The current moment is a trying time for all financial institutions. There is a general lack of confidence and this has had a 'knock on' effect on all financial institutions. The climate is now right for the regulators to consider banking consolidation so that the strengths and resources of institutions can be harnessed and channeled in a common direction. This is the global trend and Sri Lanka should also give it serious consideration.

**At the Bank we believe that the way forward is to have a strong capital base and a critical share of the market. This will generate resilience and enable the Bank to take the blows that the current crisis may throw.**



A.L. Gooneratne  
Managing Director

Colombo  
February 18, 2009

## ● GLOBAL & LOCAL ENVIRONMENT

# Managing the Turbulence

### Global

**The turbulence unleashed by the global financial crisis is unprecedented. Macro economic conditions have never been as unfavourable in the recent past as they are now with falling investor and consumer confidence and a widespread 'state of alert'. The International Labour Organisation has predicted that 20 Mn jobs will be lost by the end of 2009 and a 'global negative growth' is forecast for the first time in many years.**

Companies once considered the epitome of stability have crashed sending ripples of fear through many financial systems. Some of the big global financial institutions have seen their share prices plunge drastically.

The global crisis is likely to create a number of adverse consequences for Sri Lanka over the next two years:

- Reduced demand for exports
- A fall in export prices
- Lower levels of foreign remittances
- Lower levels of Foreign Direct Investment (FDI)
- Lower foreign reserves
- High inflation and high interest rates

### Local

2008 was yet again characterised by high inflation, high interest rates and high expenditure on the North-East war. The country's gross official reserves which were at US\$ 3,424.4 Mn in August 2008 had come down to US\$ 1,753.0 Mn by end of 2008.

This forced the Central Bank to permit a limited depreciation of the Sri Lankan Rupee (LKR). LKR depreciated by 3.96% against US\$ closing at Rs. 112.80 by the end of 2008.

The Central Bank took steps to inject more liquidity into the market through a reduction of the Statutory Reserve Requirement and by providing a reverse repo facility to commercial banks and primary dealers. Foreign funds however, will come at a price and the Government will be forced to fall back on domestic

borrowings, which again is available only at high rates. Although inflation has slowed down, interest rates are expected to remain high in the short term.

On the positive side, the Eastern province has now been integrated with the rest of the economy with the prospect that the full potential of that province can now be exploited. The North is also likely to follow this model and the opening up of these two provinces will create new opportunities for the local entrepreneur.

● FINANCIAL REVIEW

Despite the unfavourable macro economic conditions that prevailed in the country, the Bank was successful in improving overall performance during the year. It has to be mentioned that the moderate growth achieved was not a patch on the growth margins posted in 2007. Commercial Bank continued to maintain its position as the premier Bank in the country and continues to be the most profitable and financially robust. The Bank operates in a highly competitive arena where 22 commercial banks and 14 specialised banks compete for a share in the financial market. Commercial Bank now commands 13% of the market share in deposits, advances as well as in total banking assets of the country, based on results published up to September 30, 2008.

More emphasis has been placed on risk assessment considering the turbulent economic environment in which its clients operate. However, the Bank experienced deterioration in its asset quality as a result of general downturn of the economic environment amidst a high inflationary condition. It was further aggravated with the new provisioning policies of the Central Bank which came into effect during the course of 2008. Nevertheless the prudent measures taken in the past few years enabled the Bank to remain robust in these extremely challenging times.

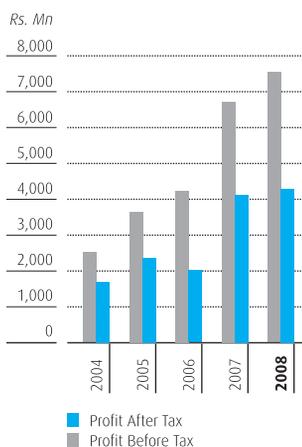
**Bank's Profitability**

The Bank recorded moderate results during the year. Pre-tax profit of the Bank was up by Rs. 0.815 Bn to Rs. 7.520 Bn in 2008, a 12.16% growth over the previous year. Provision for taxation recorded a higher increase of 25.01% mainly due to an amendment introduced to the basis of calculation of Financial VAT. The profit after tax reached Rs. 4.268 Bn compared to Rs. 4.104 Bn in 2007, recording a lower growth of 4.02% over the previous year. It is pertinent to mention that the pre-tax profit of the Bank reported above has been arrived at after charging Rs. 692.162 Mn being payments made on account of oil hedging transactions with two customers of the Bank and after recognising Rs. 405.531 Mn being the profit made on sale of Bank's stake in the shares of Commercial Leasing Company PLC, one of the former Associates of the Bank. Once discounted for the effects of these two abnormal items the normalised pre-tax profit of the Bank would amount to Rs. 7.529 Bn and on this basis the normalised pre-tax profit for 2008 would have recorded a growth of Rs. 0.825 Bn or 12.31% over 2007. Further, the normalised post tax profit of the Bank would have recorded a growth of only Rs. 0.007 Bn or 0.17%.

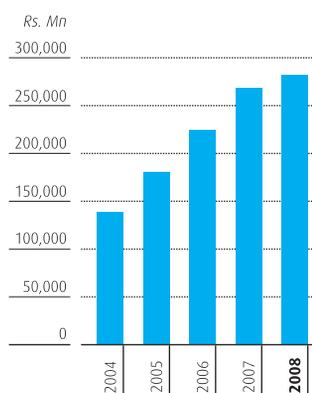
**Business Volumes**

Moderate growth in business volumes, stiff competition amidst a volatile interest rate environment which squeezed margins and substantial increases in non-performing advances as a result of inflationary conditions, contributed to recording a lower growth in net interest income compared to previous years. Deposits recorded an increase of 9.16% to reach Rs. 199.881 Bn while total net advances recorded an increase of 3.49% to reach Rs. 180.401 Bn over the previous year. The total interest earning assets of the Bank amounted to Rs. 254.006 Bn in 2008 versus Rs. 240.833 Bn in 2007 representing a growth of Rs. 13.173 Bn or 5.47% over the previous year while the total interest bearing liabilities grew by 6.04% to Rs. 224.955 Bn in 2008 compared to Rs. 212.143 Bn in 2007. Nevertheless the increase in volumes along with prudent fund management measures adopted, helped the Bank reach Rs. 12.853 Bn in net interest income recording an increase of Rs. 1.301 Bn or 11.26% over the previous year. The Bank continued to witness a shift in the deposits mix from low cost deposits to high cost deposits due to the high interest rate regime that prevailed during the year. The Bank duly redeemed the preference shares and debentures totalling to Rs. 3.244 Bn during the year.

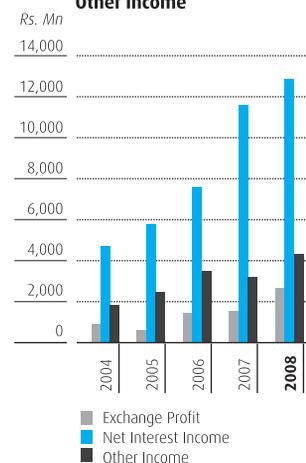
**Profit Before Taxation and After Taxation**



**Total Assets**



**Net Interest Income, Exchange Profit and Other Income**



## Financial Review

**Provisions and NPLs**

The pre-and post-tax profits of the Bank reported above, were achieved after providing Rs. 2.278 Bn on account of possible loan losses in 2008. The provision for bad debts increased by 28.17% or Rs. 0.501 Bn to Rs. 2.278 Bn as compared to Rs. 1.777 Bn provided in 2007. This increase was primarily attributable to the adverse macroeconomic conditions that prevailed in the country and additional provisions made consequent to the new guidelines issued by the Central Bank of Sri Lanka on classification of non-performing loans. Despite the substantial increase recorded in the non-performing advances, the Bank's Net NPL ratio of 5.19% is considered to be one of the lowest reported by a local commercial bank based on the results published up to September 30, 2008. As a result of the increase in non-performing advances, the Provision Cover and the Open Credit Exposure ratio of the Bank deteriorated to 35.46 % and 21.39% respectively as at December 31, 2008 from 51.07% and 9.61% recorded as at December 31, 2007.

**Non Fund Based Income**

Foreign exchange profits recorded a phenomenal growth of 70.46% to reach Rs. 2.633 Bn mainly due to higher gains realised from forward foreign exchange deals transacted during the year. The growth was boosted further by the gain recognised on revaluation of

the Offshore Banking Centre's retained profits maintained in US dollars. Foreign exchange trading and turnover too recorded substantial increases over the previous year. The LKR/US\$ rate was volatile during the year before ending at Rs. 112.80. On a year-to-year basis, the LKR recorded a depreciation of 3.96% against the US\$ in 2008 compared to 0.93% a year ago.

Fees and commission-based income increased by 13.96% compared to the previous year. Other income recorded an increase of almost 100% over the previous year. This was mainly due to the profit made on disposal of shares of Commercial Leasing Company PLC as mentioned earlier. The other notable factor that contributed for this increase was the higher recoveries made during the year.

**Operating Expenses**

Operating expenses grew by 28.14% mainly due to high inflationary conditions prevailed in 2008 and an increase in Financial VAT arising as a result of an amendment introduced to the basis of calculation of Financial VAT in 2008. This also includes a payment made on oil hedging contracts for which the Bank is yet to be paid. Discounting the payment made on oil hedging transactions, the normalised operating expenses recorded a growth of 20.91%. As a result, the Cost to Income ratio of 50.46 % (normalised 46.96%) recorded a moderate increase compared to the ratio of 47.87% reported a year ago. It is pertinent to mention that the Cost to Income ratio of the Bank is considered to be one of the lowest reported by a local commercial bank, based on the results published up to September 30, 2008.

**Group Performance**

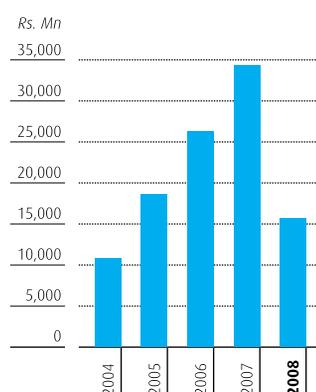
The Commercial Bank Group made a pre-tax profit of Rs. 7.416 Bn in 2008 as against Rs. 6.790 Bn recorded in 2007, recording a lower growth of Rs. 0.625 Bn or 9.21%. The post-tax profit of the Group amounted to Rs. 4.120 Bn in 2008

compared to Rs. 4.152 Bn recorded in 2007. This recorded a marginal decrease of 0.77%. The main contributory factor for this decrease was the profits recognised on sale of shares of Commercial Leasing Company PLC in the Group accounts being lower than that of the Bank. This was due to the recognition of part of that profit in equity of the Group prior to its disposal.

**Moving to Basel II**

In 2007, the Bank successfully carried out a parallel run to compute the Capital Adequacy Ratios (CAR) under Basel II. The Bank migrated to the Basel II, in March 2008 in which the 'Standardised Approach' was used to risk weight the Credit and Market risks while the 'Basic Indicator Approach' was used to risk weight the Operational risk. The Bank did not observe any significant variances in the reported ratios in 2008 compared to that of 2007.

The Bank depended on the retention of profits to supplement the enhanced capital requirements consequent to the increase in the asset base of the Bank. As a result, the Bank witnessed a deteriorating CAR during the last few years. This situation has further been aggravated due to the lower growth reported in post tax profits of the Bank. The Tier I and Tier I & II CAR as at December 31, 2008 stood at 10.51% and 13.09% respectively.

**Market Capitalisation****Dividend Per Share**

Financial Review

**Bank's Assets**

Total assets of the Bank grew by 4.95% to reach Rs. 281.214 Bn in 2008, as against Rs. 267.940 Bn reported in 2007.

Overseas operations in Bangladesh continued to boost the overall performance of the Bank and has greatly contributed in reducing the over-dependence on the Sri Lankan market. The Pre-tax and Post-tax profits of Rs. 1.019 Bn and Rs. 0.539 Bn earned during the year respectively by this operation, substantiates the growth potential of this market.

**Market Capitalisation**

Commercial Bank recorded the largest market capitalisation of Rs. 15.630 Bn among all listed banks and financial institutions in Sri Lanka to rank No. 4 (No. 4 in 2007) among all listed companies on the Colombo Stock Exchange at end of 2008. This however recorded a sharp decrease compared to the market capitalisation of Rs. 34.234 Bn recorded at December 31, 2007 mainly due to the dampened market activities as evidenced by the year-to-year drops of 40.85% and 50.44% recorded in the All Share Price Index (ASPI) and Milanka Price Index respectively. This was mainly due to adverse economic conditions that prevailed in the country as well as by the effects of the global financial crisis.

**Dividends**

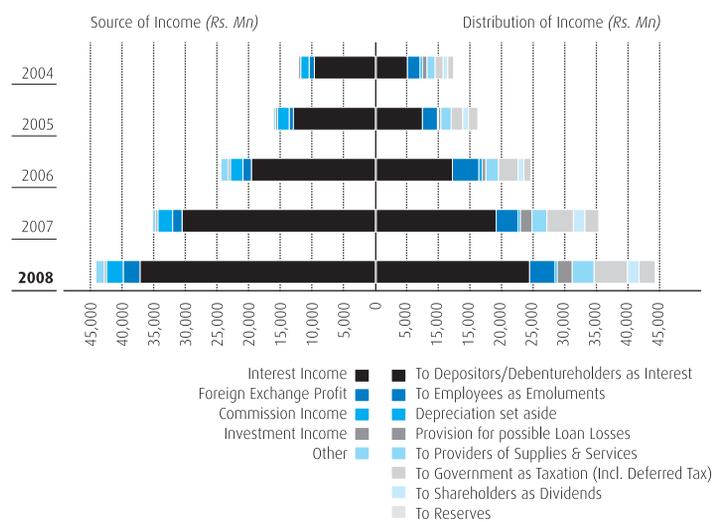
The Directors have recommended a final dividend of Rs. 4.00 per share to be paid on April 06, 2009. This together with the two interim dividends already paid in 2008 totalling to Rs. 3.00 per share, will add up to a total dividend of Rs. 7.00 per share for the year 2008 (Rs. 7.00 in 2007). Thus, the Bank has declared a total dividend of Rs. 1.745 Bn to its ordinary shareholders for 2008. This amounted to a Dividend payout ratio of 41.27% which is well above the minimum prescribed rate of 25.00% under the Deemed Dividend tax rule.

**Sources and Distribution of Income**

For the year ended December 31,

	2004 Rs. Mn	2005 Rs. Mn	2006 Rs. Mn	2007 Rs. Mn	2008 Rs. Mn
<b>Source of Income</b>					
Interest Income	9,584	13,033	19,532	30,503	37,188
Foreign Exchange Profit	874	587	1,439	1,545	2,633
Commission Income	1,377	1,760	2,011	2,383	2,715
Investment Income	217	441	305	310	359
Other	238	279	1,182	482	1,220
	12,290	16,100	24,469	35,223	44,115
<b>Distribution of Income</b>					
To Depositors/Debtenture holders as Interest	4,878	7,226	11,955	18,951	24,336
To Employees as Emoluments	2,132	2,364	4,374	3,539	3,926
Depreciation set aside	260	299	376	411	421
Provision for possible Loan Losses	699	415	655	1,777	2,278
To Providers of Supplies and Services	1,373	1,527	1,919	2,282	3,534
To Government as Taxation (Incl. Deferred Tax)	1,264	1,905	3,178	4,159	5,352
- Income Tax	819	1,278	2,201	2,601	3,252
- Financial VAT	441	623	971	1,552	2,091
- Debits Tax	4	4	6	6	9
To Shareholders as Dividends	650	869	911	1,856	1,786
To Reserves	1,034	1,495	1,101	2,248	2,482
	12,290	16,100	24,469	35,223	44,115

**Sources and Distribution of Income**



## Financial Review

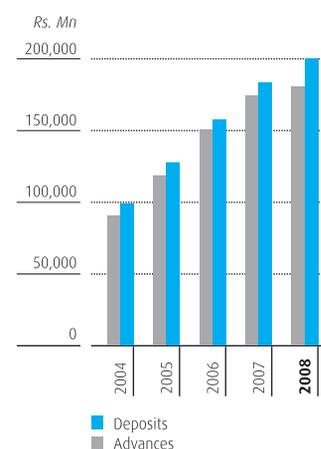
The following table summarises the Bank's performance with regard to some of the key objectives set at the beginning of the year:

Key Objectives	2008 Actual	2008 Budget	2007 Actual
Total Revenue (Rs. Mn)	44,115.2	44,308.4	35,222.9
Pre-Tax Profit (Rs. Mn)	7,520.1	8,723.7	6,704.7
Post-Tax Profit (Rs. Mn)	4,268.3	5,004.3	4,103.6
<b>Ratios</b>			
Return on Average Shareholders' Funds	17.13%	20.16%	20.63%
Return on Average Assets	1.55%	1.70%	1.67%
Earnings per Share (Rs.)	16.96	21.31	16.84
Cost/Income Ratio	50.46%	46.16%	47.87%
Net Non-Performing Advances	5.19%	4.58%	2.96%
Capital Adequacy Tier I	10.51%	10.19%	10.57%
Tier I & II	13.09%	12.47%	13.69%
Deposits (Rs. Mn)	199,880.9	212,204.3	183,110.1
Advances (Rs. Mn)	186,885.5	210,847.7	178,878.2

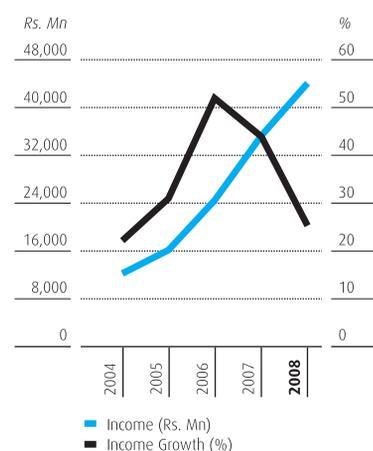
An analysis of the profits and business volumes made by the four broad business divisions of the Bank namely Corporate Banking, Personal Banking, International Operations and the Treasury is summarised below:

	2008		2007	
	Rs. Mn	%	Rs. Mn	%
<b>Profit before Tax:</b>				
- Corporate Banking	1,527.02	20.31	2,185.47	32.60
- Personal Banking	3,049.92	40.56	2,833.46	42.26
- Treasury	1,185.17	15.76	635.48	9.47
- Overseas Operations	1,758.03	23.37	1,050.32	15.67
<b>Total</b>	<b>7,520.14</b>	<b>100.00</b>	<b>6,704.73</b>	<b>100.00</b>
<b>Loans and Advances (Gross):</b>				
- Corporate Banking	74,905.45	40.08	77,039.71	43.07
- Personal Banking	96,506.77	51.64	89,229.81	49.88
- Overseas Operations	15,473.31	8.27	12,608.71	7.05
<b>Total</b>	<b>186,885.53</b>	<b>100.00</b>	<b>178,878.23</b>	<b>100.00</b>
<b>Deposits:</b>				
- Corporate Banking	28,587.64	14.30	29,221.07	15.96
- Personal Banking	150,670.54	75.38	137,715.13	75.21
- Overseas Operations	20,622.80	10.32	16,173.93	8.83
<b>Total</b>	<b>199,880.98</b>	<b>100.00</b>	<b>183,110.13</b>	<b>100.00</b>

## Balance Sheet Growth



## Income and Income Growth



● STRATEGIC DIRECTION

## Retaining our Resilience

*Four key strategies will drive the Bank over the next few years:*

- **Enhancing Customer Convenience**
- **Building a High Performance Culture**
- **Expanding to International Markets**
- **Prudent Growth**

*The strategic direction of the Bank is designed taking into account the Bank's past performance, its existing and likely future capacities and emerging external scenarios.*

*It identifies main goals and objectives of the different sub-units along with detailed action plans and specific time frames.*

*The Bank's strategic direction is periodically and critically reviewed by the Management Team and the Board to ensure that it is in tune with the operating environment and the evolving capacities of the Bank.*

Strategic Direction

## Enhancing Customer Convenience

**The Bank's performance over the past decade has been driven by its strong capacity to innovate and re-engineer products to enhance customer convenience. The Bank's goal has been to simplify banking, expand delivery channels and enable our broad range of customers to access our products with ease.**

**In our attempts at product innovation, we have aimed to develop products that cater to the specific needs of our wide customer base. We have focused on expansion of web-based delivery channels which in turn enhance the quality and accessibility of our physical infrastructure.**

### Enhancing Delivery Channels

The Bank opened seven new delivery points in 2008. The total number of delivery points at the end of 2008 was 181. The Bank continued to expand its supermarket service points with a view to providing more options for its customers. The Bank will look at opportunities in the North and the East of the country as these areas slowly return to normalcy.

Customer convenience has also been enhanced by extended hours of service at an increasing number of branches. Some of the Bank's branches now offer Saturday banking and holiday banking to many of our customers.

Apart from its conventional delivery channels, the Bank has also ventured into new areas. Pawning is one area which the Bank will pursue more aggressively in the future. Over the limited period of our engagement in this activity, we have already generated satisfying results. Products tailored for the SME sector will also receive priority in the coming years as the Bank begins to explore this market segment thoroughly.

The Bank also launched several derivative products with a view to making Sri Lanka a financial hub and hope to continue to look at opportunities in this market segment too. The lack

of appropriate knowledge and a legal framework for such products may hamper our ability to develop them.

### Product Innovation

**Product innovation has been a key driver of the Bank's growth in the past decade and will continue to figure in our future growth plans.**

The Bank launched two SMS-based products: Com SMS and Com eLoad. Com SMS enables customers to monitor the movements in their bank accounts and carry out a variety of transactions. Com eLoad allows customers to reload prepaid mobile connections with a simple SMS. In 2007, 'Com-e-Load' won a Silver Medal for the Financial Category at the National Best Quality Software Competition.

'Paymaster', is the first total payment solution offered to corporate clients in Sri Lanka, and was initially launched in 2007. 'Paymaster' is a seamless and comprehensive electronic payment mechanism that replaces paper and cash transactions, reducing processing time and costs. It also eliminates the risk associated with the transfer of cash. Paymaster enables settlement of suppliers, disbursements of dividends or interest, payment of insurance claims or agent commissions and the payment of salaries and bonuses.

A new savings account, branded as 'Super Saver' carrying a premium interest rate was launched last year. The Bank saw the need for a specially tailored high-yielding Savings Account.

### Maintaining Superiority in Technology

Our customers now have access to 333 ATMs in Sri Lanka. The Bank's ATM network continues to grow. Last year we established ATMs in 24 new locations around the country of which 15 ATMs were installed in large corporate customer locations. In addition we added a further 20 ATMs to existing locations.

Approximately 74,000 transactions amounting to Rs. 285 million take place on average every day through the Bank's ATM network. Through the use of Visa/Master ATM switch, customers of other banks and financial institutions also have

access to the Bank's ATMs, resulting in additional revenue and brand visibility. All ATMs comply with MasterCard and Visa international security standards of Europay Mastercard Visa International (EMV) and the Triple Data Encryption System (TDES) standard.

### Speedy and Efficient Delivery

Establishment of more regional offices play a major role in speeding up the decision making process. Regional credit centres have been formed with a special emphasis on following up with and assisting customers who encounter difficulties in repaying their loans.

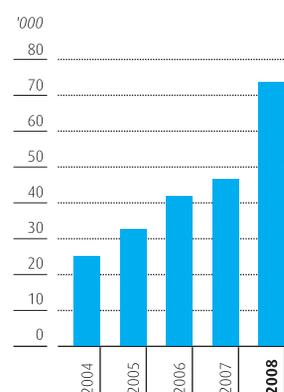
The instant process of issuing 'Visa Debit' cards, opened up a new dimension in customer convenience.

Telephone and Internet Banking have revolutionised customer convenience in banking services enabling customers not just to access the Bank with ease but also to do so at a lesser cost and greater speed.

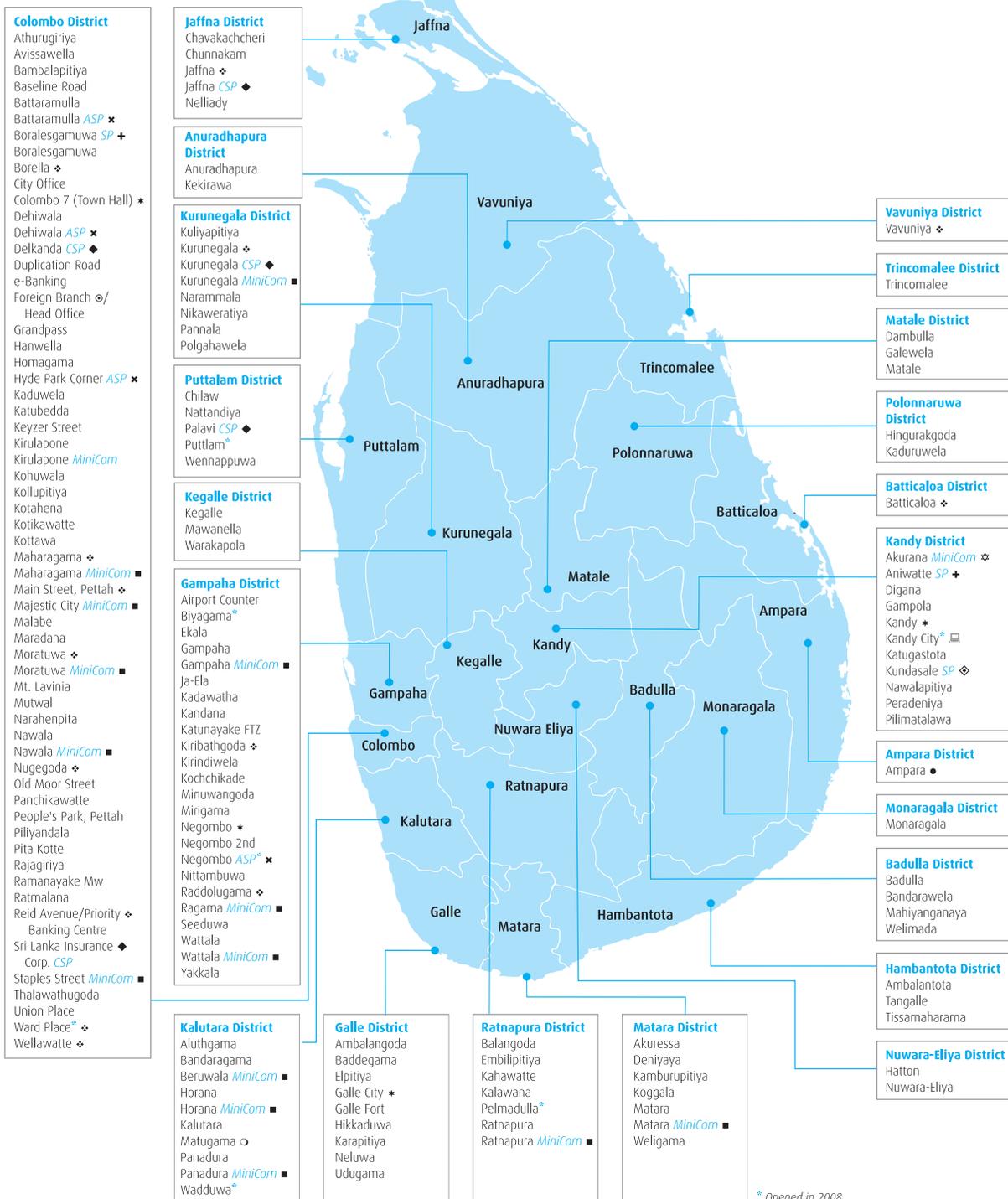
### Future Strategies

- Expanding credit and support services to the SME sector
- Implementing a payment gateway
- Continuing to open branches in new locations
- Re-engineering internal processes and internal controls in order to increase the operational efficiency
- Further increasing the credit and debit card base
- Penetrating untapped opportunities in Internet Banking

Average No. of ATM Transactions per day



Network of Delivery Points



Branches opened from 9am to 1.30pm on Bank holidays will be notified by press releases

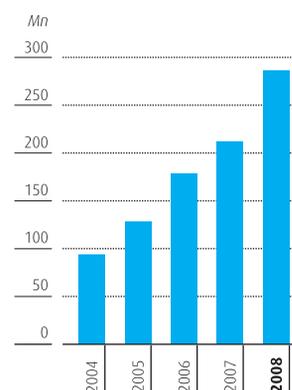
\* Opened in 2008

Strategic Direction

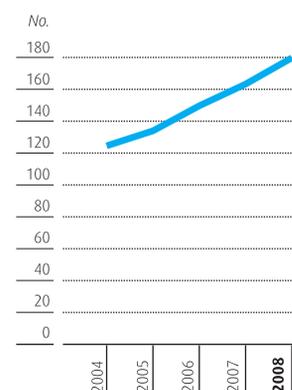
## Customers of the Bank can now access the Bank and its products in multiple shapes and forms

- **ATM Network**
- **Internet Banking**
- **Wide Network Bank Branches**
- **Supermarket Service Points**
- **Trade Finance related services**
- **Instant Money Transfer Service**
- **Mobile Phone Banking**
- **Mobile Phone reload facility**
- **The Total Payment Solution**
- **Visa/Maestro Debit Card**
- **Instant Debit Card**
- **Weekend/Holiday Banking**
- **Convenient Banking Hours**
- **365 day banking at select venues**
- **Business Promotion Officers**
- **Priority Banking**
- **Special facilities for Disabled Customers**

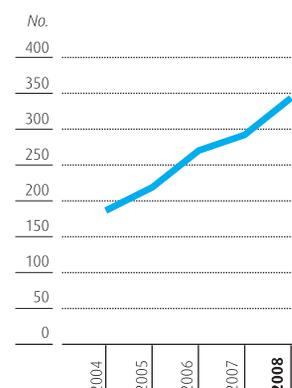
Average ATM Volume per day



Number of Delivery Points



Number of ATMs



Strategic Direction

## Building a High Performance Culture

**The Bank has managed its various knowledge assets. Among them its team of people, has been one of the main factors that has enabled the Bank to deliver consistent value over the years.**

### Knowledge Enhancement

Knowledge enhancement focuses on enhancing the capabilities of the staff through performance coaching. Learning processes, succession management, leadership capabilities and ensuring the management's commitment are some key areas that the Bank focuses on.

During 2008, our Staff Development Centre conducted 204 internal training programmes and 141 external local programmes. Last year 88 staff members participated in overseas training which included seminars, conferences and study visits to correspondent banks. Eminent overseas trainers from India, the United Kingdom and Malaysia conducted training on Risk Management, Basel II, SMEs, and Credit Management for a number of our officers.

Last year we put in a considerable effort to strengthen our libraries. At the end of the year, sub-libraries were in place at 134 branches.

Job rotation and enrichment in addition to systematic staff transfers provide additional knowledge and

experience to our staff. In 2008, 21% of our workforce was rotated.

### Knowledge Acquisition

Knowledge acquisition is essentially to do with creating the right workforce with the right people in the right jobs. All positions are periodically evaluated and role profiles updated from time to time. Our recruitment procedure is one that is constantly sharpened to ensure a better fit from the word go. In the year under review, we received 17,239 applications and recruited 467. Of these recruits, 219 were for replacement, 241 for expansion and 7 were for new roles that were created.

Wherever specialised knowledge needs to be acquired, the Bank uses external consultants. Pawning, risk management, exposure on International Accounting Standards on Financial Instruments and Basel II were some such recent initiatives.

### Target-Driven Performance Culture

**The Bank's Target-Driven Performance Culture has motivated our employees to push the bar higher and higher. The Bank's strategy of rewarding its team members whenever targets have been met or exceeded has been highly successful.**

Compensation and benefit management differentiates between various levels of performance and motivates the Bank's staff to exceed stated targets and to perform as a team. The goal is to produce a continuous

superior performance through a highly motivated workforce. The sustainability of the Bank's performance depends on an on-going optimum alignment between the passion of our staff to exceed targets and the Bank's unceasing efforts to raise the performance bar.

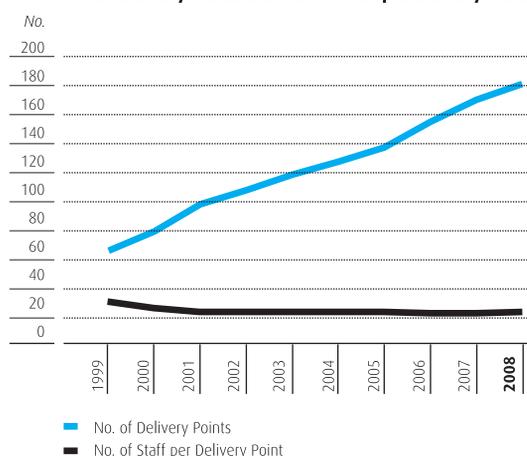
The Bank is increasingly recognising the growing importance of Compensation and Benefits Management, which impacts on knowledge management within as well as across sectors, and recognised that rewards were a key driver influencing employee behaviour and thereby affecting business results.

The Bank engaged the services of an external firm of consultants to carry out a comprehensive assessment of its compensation and benefits programme. The new Compensation and Benefits programme promotes desired behaviours and recognises required results, with a focus on rewarding critical skills and capabilities and building a high performance culture.

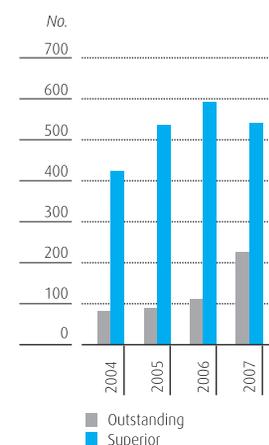
### Future Strategies

- Focussing on managing change, shaping the culture to facilitate the achievement of strategic direction.
- Capacity enhancement of front line staff and developing emerging skills in general.
- Setting accountability, periodic measurement and rewards.
- Creating exciting, caring and productive work environment.

No. of Delivery Points and No. of Staff per Delivery Point



Performance Rating Analysis



Strategic Direction

## Expanding to International Markets

In line with our vision to have an international presence and to reduce our dependency on any single country, we have managed to successfully enter new markets. The quest for new markets is an on-going exercise receiving much top management time and effort. Although an imposing, time consuming and expensive task, evaluation of new markets is on-going and receives top priority.

**The Bank is currently represented in 10 countries either through a fully-fledged branch, a BPO, an agent or an Exchange House. In addition, it has a network of 48 correspondent banks in 24 different countries and is linked to global ATM networks enabling customers to perform ATM transactions across the world.**

Some of the key markets in which the Bank has explored the possibility of establishing branches are: Cambodia, India, Nepal, Seychelles, Qatar and Vietnam. However, overly restrictive regulatory regimes for foreign banks or high capital requirements have made a fully-fledged banking operation not feasible in these countries. We have not however, completely abandoned the prospect of entering these markets.

### The Bank in Bangladesh

The Bank commenced its business in Bangladesh by acquiring the banking business of Credit Agricole Indosuez, a French multi-national Bank, in November 2003.

Having commenced operations with two branches and two booths in 2003, today the Bank has expanded into a six-branch operation augmented by three booths, two SME Centres and 13 ATM locations, including four off-site locations. The impressive growth record of our

operations in Bangladesh from inception to date is shown below.

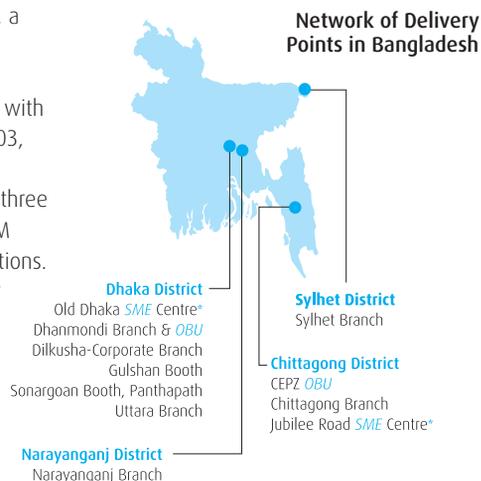
Year	2003	2004	2005	2006	2007	2008
Total Assets (Rs. Mn.)	9,203.5	11,076.2	13,104.7	16,555.3	19,243.7	<b>23,442.6</b>
Contribution to Total Assets (%)	8.35	8.00	7.28	7.39	7.17	<b>8.33</b>
Gross Income (Rs. Mn.)	589.4	1,151.9	1,591.3	1,884.1	2,379.9	<b>2,874.1</b>
Contribution to Total Gross Income (%)	5.86	9.37	9.88	7.70	6.76	<b>6.54</b>
NPLs (Rs. Mn.)	-	-	-	-	-	<b>3.8</b>
No. of Staff	129	125	148	181	193	<b>211</b>

**Within a period of five years the Bank has established itself as one of the leading foreign banks and was last year rated as the 'Best Foreign Bank' by Credit Rating Information Ltd.**

In 2007 the Bank partnered with Dutch Bangla Bank Ltd. (DBBL) and now shares DBBL's 330 plus ATM network. Our customers can now access their accounts through this network as well. The Bank has also entered into agreements with Prime Bank and Islami Bank of Bangladesh to carry out cash management services and remittances disbursement through their branch networks.

### In 2009 the Bank in Bangladesh will:

- Increase the number of branches from 6 to 9.
- Introduce Credit Cards within the 1st Quarter, 2009.
- Increase the number of ATM machines in the existing network.
- Increase SME Centres.



\* Opened in 2008 / SME Small & Medium Enterprises / OBU Offshore Banking Unit

### The Maldives

The Bank has supported the tourism industry in the Maldives by contributing to improving the tourism infrastructure facilities and assisted to diversify investments in other countries.

### Remittances

The Bank pioneered a simple yet sophisticated web-based money transfer system in 2003. This was launched under the brand name 'Com Bank e-exchange'. The system was launched in London with a single exchange house and over the years we have established a strong presence in Europe and the Middle East.

**Last year remittances channelled through the Bank grew at 44.82% and 62.83% in terms of volume and value respectively.**

The Bank has six business promotion officers stationed in Jordan, Kuwait, Qatar and Oman to promote the Bank's instant money transfer facility and other deposit products.

### Future Strategies

- Exploring opportunities to establish operations in other countries.
- Expanding the reach of the remittance operations to the Far East, Middle East and Europe under the brand name 'Commex'.
- Further expansion of the Bangladesh operations with special emphasis on the SME sector and expanding the ATM network.

Strategic Direction

## Prudent Growth

Commercial Bank has in the past decade outpaced the market growth consistently and with increasing momentum. It has been a record of an all-round growth encompassing new avenues, market shares as well as balance sheet and profitability. Thus, the pursuit of growth and the practice of prudence have featured prominently and co-existed in harmony. This philosophy that has held us in good stead will be held fast in the ensuing years.

Following are the cornerstones of this strategy:

### Maintaining a Quality Portfolio of Advances and Deposits.

Our loan portfolio and deposit portfolio is widely diverse across sectors and across instruments. We have one of the lowest non-performing loan ratios in the industry despite our dominant market share in advances.

### Stringent Corporate Governance

A comprehensive set of responsibilities and practices exercised by the Board and Executive Management ensure that risks are managed appropriately and the Bank's resources are used responsibly. More information on this area is found in the Section on 'Stewardship' on pages 46 to 77 of this Annual Report.

### Cost Containment

Commercial Bank has maintained one of the lowest cost/income ratios in the industry. Our cost/income ratio as at the year end stood at 50.46%. This is even more significant given that Commercial Bank was the growth leader in the last decade.

### Investing in New Technology

**The Bank continued to make investments in IT and in upgrading its systems and processes. In 2008 it invested Rs. 552.060 Mn to upgrade its systems and add new ones. Over the past five years, the Bank has invested Rs. 1.728 Bn in IT: an average of Rs. 345.664 Mn per year.**

In 2008, in partnership with the International Finance Corporation (IFC) the Bank commissioned an external review in order to develop an 'Information Technology Road Map'. Based on the outcome of this initiative, the Bank is now designing a two-year investment plan to address the areas that need development.

**The following indicators are a testimony of our growth record. They are also the ones that we will track to measure prudent growth in the ensuing years.**

#### Value Growth

	2004	2008	5-year compounded annual growth - Commercial Bank (%)
Assets (Rs. Bn)	138.473	<b>281.214</b>	15.22
Deposits (Rs. Bn)	98.730	<b>199.881</b>	15.15
Advances (Rs. Bn)	90.721	<b>180.401</b>	15.24
Profit after tax (Rs. Bn)	1.685	<b>4.268</b>	20.43
Profit per employee (Rs. Mn)	0.589	<b>1.056</b>	12.41
ATM transactions per day by value (Rs. Mn)	93.451	<b>285.048</b>	24.99

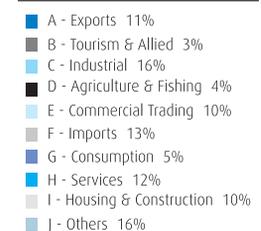
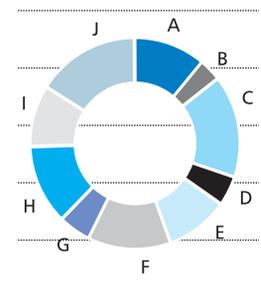
#### Volume Growth

	2004	2008	5-year compounded annual growth - Commercial Bank (%)
No. of delivery points	129	<b>181</b>	3.44
No. of ATMs	188	<b>346</b>	6.29
ATM transactions per day by volume	25,055	<b>73,732</b>	24.09

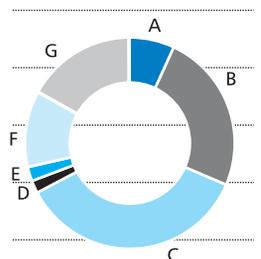
#### Quality of Growth

	2004	2008
Non-performing loans ratio (%)	4.43	<b>5.19</b>
Cost Income ratio (%)	56.78	<b>50.46</b>
Total Capital Adequacy Ratio (%)	13.16	<b>13.13</b>

#### Sectoral Classification of Loans & Advances - 2008



#### Deposit Mix - 2008



Strategic Direction

**Value Addition**

	2008		2007	
	Rs. '000	%	Rs. '000	%
<b>Value Added</b>				
Income from Banking Services	43,236,404		34,782,698	
Cost of Services	(26,828,388)		(20,128,239)	
Value Added by Banking Services	16,417,041		14,654,459	
Non-Banking Income	878,845		440,220	
Loan Losses and Provisions	(2,278,212)		(1,777,476)	
	15,008,649		13,317,203	

**Distribution of Value Added****To Employees**

Salaries and other benefits	3,926,397	26.16	3,538,518	26.57
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**To Providers of Capital**

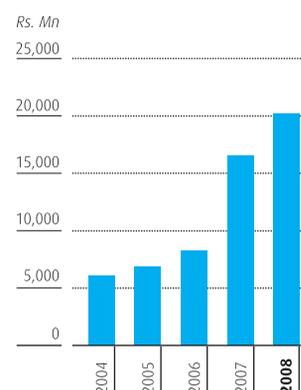
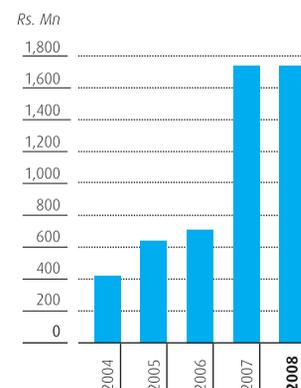
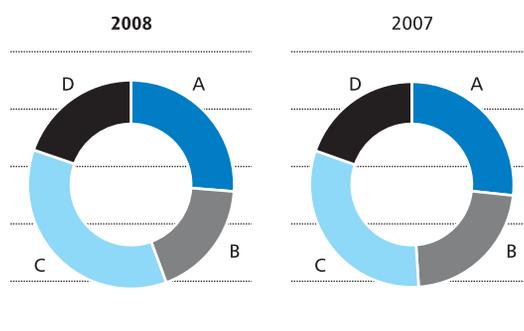
Dividends to Shareholders	1,786,498		1,855,626	
Interest to Debenture holders	977,881		1,104,753	
	2,764,379	18.42	2,960,379	22.23

**To Governments**

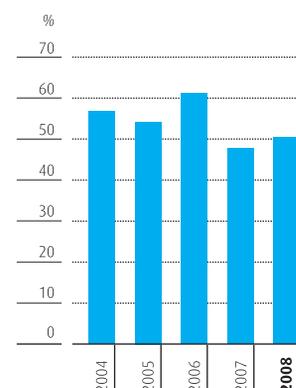
Income Tax	3,260,795		2,629,177	
Value Added Tax	2,091,468		1,551,762	
Debits Tax	9,150		6,045	
	5,361,413	35.72	4,186,984	31.44

**To Expansion and Growth**

Retained profit	2,481,874		2,247,939	
Depreciation	483,611		411,396	
Deferred Taxation	(9,025)		(28,013)	
	2,956,460	19.70	2,631,322	19.76
	15,008,649	100.00	13,317,203	100.00

**Free Capital****Gross Dividend****Distribution of Value Added**

	2008	2007
	%	%
■ A - To Employees	26	27
■ B - To Expansion & Growth	20	20
■ C - To Governments	36	31
■ D - To Providers of Capital	18	22

**Cost/Income Ratio**

Strategic Direction

### Economic Value Added

Economic Value Added (EVA) is a measure of profitability which takes into consideration the cost of total invested equity.

	2004 Rs. '000	2005 Rs. '000	2006 Rs. '000	2007 Rs. '000	2008 Rs. '000
<b>Invested Equity</b>					
Shareholders' Funds	12,004,962	13,861,828	14,842,841	22,936,037	<b>25,891,229</b>
Add : Cumulative Loan Loss Provision	2,053,828	2,192,293	2,536,465	3,557,301	<b>4,954,774</b>
	14,058,790	16,054,121	17,379,306	26,493,338	<b>30,846,003</b>

### Earnings

Profit after Taxation and Dividends on Preference Shares	1,454,362	2,133,888	1,815,210	3,991,065	<b>4,227,688</b>
Add : Loan Losses and Provisions	699,200	414,864	655,070	1,777,476	<b>2,278,212</b>
Less : Loan Losses Written Off	(9,138)	(5,011)	(7,698)	(1,836)	<b>(5,141)</b>
	2,144,424	2,543,741	2,462,582	5,766,705	<b>6,500,759</b>

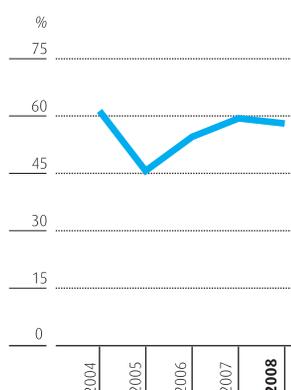
Cost of Equity based on 12 months

Weighted Average Treasury Bill Rate plus 2% for the Risk Premium	9.65%	10.87%	12.91%	18.07%	<b>20.92%</b>
Cost of Average Equity	1,230,614	1,636,637	2,158,128	3,963,893	<b>5,997,695</b>
<b>Economic Value Added</b>	913,810	907,104	304,454	1,802,812	<b>503,064</b>

At Commercial Bank we are deeply conscious of delivering value to all our stakeholders consistently. We still remain one of the very few companies in Sri Lanka that has embraced EVA as a measure of performance.

In EVA terms, we have created Rs. 503.064 Mn during the year 2008 and over Rs. 4.400 Bn over the past 5 years.

### Profit Retention Ratio



## Sustainability Supplement

REPORTING FRAMEWORK

***We have structured our sustainability report along the FORGE framework for Sustainability Management and Reporting for the Financial Services Sector. The FORGE Group is a consortium of financial institutions and involves the British Bankers' Association and the Association of British Insurers ([www.abi.org.uk/forge](http://www.abi.org.uk/forge)). Our Sustainability report is presented along the four major themes identified by FORGE as being those most relevant to financial services organisations viz, Marketplace, Workplace, Community and Environment.***

***Commercial Bank believes in placing Sustainability at the heart of our day-to-day business activities rather than making it an extraneous effort attracting attention of its own. We were the first Company in Sri Lanka to adopt a triple bottom line reporting policy almost ten years ago. Our aim is to conduct our business in a socially responsible manner in respect of the environment, staff, customers, shareholders and local communities.***

***Thus, we are of the view that our entire Annual Report is in a way a chronicle of our sustainability; hence, the title of this chapter. We have in these pages supplemented the information given elsewhere in the Annual Report under the four focus areas of Marketplace, Workplace, Community and Environment. In the interest of keeping the Annual Report clear and concise we have avoided repetition and cross referred to the relevant sections instead.***

## Responsibility in the Marketplace

### Customer Centric Products, Services and Delivery

Commercial Bank serves almost 3 Mn customers across the length and breadth of Sri Lanka. In the past five years, the Bank has also ventured further afield to cover ten countries including a fully-fledged operation in Bangladesh. The Bank's customers span a wide cross section from large to medium, small and micro enterprises; from minors to teenagers, adults and pensioners, from bustling capital cities to little village hamlets.

The Bank has products and services to cover most banking needs of this diverse customer base (refer page 6 for complete list of products). The Bank has pioneered many of these products and services in response to identifying customers' unique needs. One of the key strategies that drive the Bank is enhancing customer convenience. Thus the Bank has an array of different delivery channels capable of reaching far and wide; and going out to the customer rather than the other way around. The Bank also invests heavily on information technology towards enhancing customer convenience. A comprehensive update of these delivery channels and product innovation is explained in the backdrop of its strategic context on pages 20 to 22 in this Annual Report.

### Customer Survey Sheds Valuable Light

In the year under review, we commissioned an independent Research Firm to conduct an island-wide survey on customer satisfaction. The study ran across a 12-month period. It commenced with a qualitative segment that actively involved 31 focus groups plus extensive interviews with 20 large-scale corporate entities in Sri Lanka. This was followed by the quantitative segment of the study employing over 900 questionnaires across both individuals and SMEs.

Results of this survey will help us to better hold true to our mission of redefining convenience in financial services. We have already instituted several new measures stemming from this survey.

### Lending Guidelines

We incorporate ethical and environmental criteria over and above legal requirements into our lending appraisal. We also seek to be a responsible lender and ensure our credit checking identifies individuals who have the ability to repay the loans and not get into repayment difficulties. Our mortgage products do not offer loan values based on unreasonable multiples of salary.

### Working Against Corruption in all its Forms

The Bank takes stringent measures to ensure that the Code of Ethics which binds all employees is observed to the letter as well as practised in all the glory of its spirit. No Director or member of the management has been found guilty on account of corruption of any form including bribery in any Court of Law.

## Responsibility in the Workplace

Building a high performance culture is one of our core strategies. The HR practices related to how we acquire, develop and reward people is explained with the requisite detail on page 23 of this report.

### The Bank invested a total sum of Rs. 40.736 Mn on training in 2008 which worked out to an average of Rs. 10,081/- per employee

Category	No. of Programmes	No. of Heads	Total Training Hours
Executive Officers & above	414	1,481	20,086
Junior Executive Assistants & Management Trainees	112	765	11,252
Junior Executive Assistants & Banking Trainees	135	4,048	77,551
Outsourced Staff	29	659	8,760

Commercial Bank's employment practices continue to reflect the human rights standards enshrined in the United Nations Universal Declaration of Human Rights and the International Labour Organisation Conventions. These cover such items as forced and compulsory labour, minimum working age, working hours, health and safety, discrimination,

sexual harassment, collective bargaining and industrial relations.

The Bank also provides opportunities for the differently abled, encourages quality of work life for which the Bank has a written policy, and provides facilities for all staff to participate in sports.

### Staff retention ratio is perhaps the most significant indicator of the Bank's attractiveness and effectiveness as an employer

	2008	2007
Staff Retention		
Staff Retention - Sri Lanka (%)	95.83	96.16
Staff Retention - Bangladesh (%)	88.08	90.40
Average	91.96	93.28

**Low level of absenteeism is a good indirect indicator of the quality of work life in the Bank**

Staff Grade	No. of Staff	No. of Days Absent
Permanent Staff (Sri Lanka)	39	828
Banking Trainees (Sri Lanka)	191	600

**The Sri Lankan Operation of the Bank contributes a significant sum of money towards employee benefit plans every year**

	2008 Rs. Mn
Bank's Contribution - E.P.F.	196.720
Bank's Contribution - E.T.F.	46.992
Contribution - Pension Fund	292.592
Contribution - W. & O.P. Fund	0.066
Staff Welfare	83.877
Pensions	127.408
Gratuity	45.953

**An analysis of the age of employees demonstrates a healthy balance between youth and experience**

Age Analysis of the Staff as at December 31, 2008

Category	Corporate Management	Executive Officers	Executive Assistants & Allied	Junior Executive Assistants & Allied	Banking Trainees (BT)/ Graduate Trainees (GT)	Office Assistants and Others	Total for the year 2008	Total for the year 2007
Above 60 years	3	1	-	-	-	-	4	3
51-60 years	15	171	6	31	-	35	258	224
41-50 years	6	322	15	161	1	74	579	542
31-40 years	1	624	19	235	1	36	916	940
21-30 years	-	356	15	1,047	739	-	2,157	1,909
20 and below	-	-	-	-	127	-	127	127
<b>Total</b>	25	1,474	55	1,474	868	145	4,041	3,745

**Average age of employees**

	2008	2007
Sri Lanka	31.8	32.0
Bangladesh	37.4	37.9
Average	34.7	34.9

**Commercial Bank recognises that a diverse workforce gives the Company a wider range of experiences and helps it to respond better to the needs of its customer base**

#### Gender Distribution as at December 31, 2008

	Male	Female	Total
Corporate Management	24	1	25
Executive Officers	1,077	397	1,474
Executive Assistants & Allied	43	12	55
Junior Executive Assistants & Allied	1,012	462	1,474
Banking Trainees	754	114	868
Office Assistants & Others	145	-	145
<b>Total</b>	<b>3,055</b>	<b>986</b>	<b>4,041</b>

**Fresh talent is mostly acquired at junior grades. Senior grades represent a good blend of experience with the Bank coupled with experience from outside.**

#### Service Distribution as at December 31, 2008

Category	Corporate Management	Executive Officers	Executive Assistants & Allied	Junior Executive Assistants & Allied	Banking Trainees (BT)/ Graduate Trainees (GT)	Office Assistants and Others	Total for the year 2008	Total for the year 2007
Above 20 years	17	399	14	102	-	87	619	590
16-20 years	1	260	6	121	-	27	415	315
11-15 years	1	266	6	117	-	30	420	531
6-10 years	-	119	1	47	-	1	168	244
Below 5 years	6	430	28	1,087	868	-	2,419	2,065
<b>Total</b>	<b>25</b>	<b>1,474</b>	<b>55</b>	<b>1,474</b>	<b>868</b>	<b>145</b>	<b>4,041</b>	<b>3,745</b>

Average Service of Employees (In Years)	2008	2007
Sri Lanka	8.0	9.0
Bangladesh	9.5	10.1
Average	9.6	8.8

**The value of our human capital is estimated to be Rs. 33 Bn.**

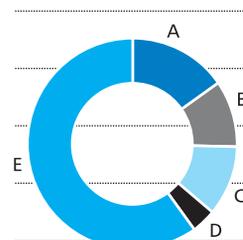
#### Human Resource Accounting

The Lev and Schwartz model has been used to compute the value of the Bank's human resource as at December 31, 2008.

The Human Resource Valuation is based on the following assumptions:

- All the existing employees will continue in employment up to retirement.
- Employee remuneration includes all direct and indirect benefits earned by them.
- Annual increment is granted at 14% on average.
- Total future remuneration of all the employees for each year is discounted to the present value at 20.92%, the 12 months weighted average Treasury Bill rate plus 2% for the risk premium.

#### Service Analysis - 2008



- A - Above 20 Years 15%
- B - 16 - 20 Years 10%
- C - 11 - 15 Years 10%
- D - 6 - 10 Years 4%
- E - Below 5 Years 61%

## Responsibility in the Community

Commercial Bank set up a CSR Fund in 2004 with a seed capital of Rs. 25.0 Mn. In 2008, the Bank contributed a further

Rs. 20.0 Mn to the Fund. Over the five years since its establishment, the Bank has contributed a total of Rs. 85.6 Mn to the Fund. The Fund balance as at the year end was Rs. 65.7 Mn.

### The Bank's community investment strategy is aimed at fostering self-reliance, independence and creativity among the most deserving Sri Lankans

	2008	2007
Total Community Investment Programme (Rs. Mn)	23.220	29.740
Total Community Investment Programme as a percentage of underlying after-tax profit (%)	0.54	0.72
Total Community Investment Programme spend per employee (Rs.)	5,746	7,941

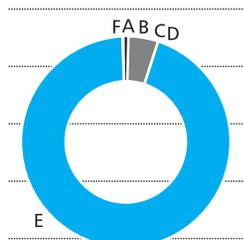
This Fund provides much of the base for the Bank's community assistance programmes.

The major part of the CSR activities of the Bank is handled by the Commercial Bank CSR Trust, which is headed by the Chairman of Commercial Bank. The CSR activities of the Bank broadly encompass the areas of education, healthcare and poverty alleviation. Additionally care of disabled soldiers and assisting those affected in

the war-torn areas have also been added to the range of activities in recent times, taking into consideration the present day realities.

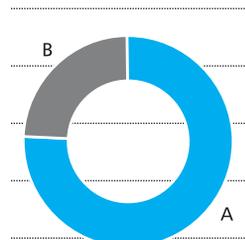
The activities of the CSR Trust are managed by the Co-ordinator of the CSR Trust. The Co-ordinator entertains various requests for projects received through branches as well as directly. These proposals are evaluated and recommended by the Co-ordinator to the governing body of the CSR Trust for its approval.

Staff Recruitment - 2008



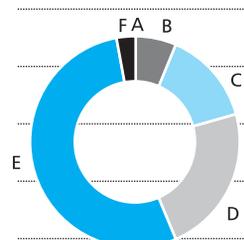
■ A - Corporate Management	1%
■ B - Executive Officers	4%
■ C - Exe Assistants & Allied	0%
■ D - Junior Exe Assts & Allied	0%
■ E - Banking Trainees	95%
■ F - Office Assistants	0.6%

Gender Distribution - 2008



■ A - Male	76%
■ B - Female	24%

Age Analysis - 2008



■ A - Above 60 Years	0.1%
■ B - 51 - 60 years	6%
■ C - 41 - 50 years	14%
■ D - 31 - 40 years	23%
■ E - 21 - 30 years	54%
■ F - 20 and below	3%

The Bank's community investment strategy is aimed at fostering self-reliance, independence and creativity among the deserving segments of Sri Lankans. All donations have to conform to this strategy. Some of the major projects undertaken last year were:

Programme/Activity	Description	Year of Commencement	Status Update
Scholarships to undergraduates	The total scholarship recipients as at year end was 125	2006	An on-going programme
Village development programme	Three-fold objective, viz, Financially assist small-scale entrepreneurs; improve infrastructure of the village; and uplift the social well-being of all segments of the village community. Udawela village in the Kurunegala District was the first recipient of our assistance under this Programme. A primary school in the village was upgraded in addition to other on-going programmes in this village	2008	An on-going programme
Refurbishment of the dental clinic at Deniyaya Base Hospital	One-off project	2008	Completed
Co-sponsorship of promotional video to inspire patients afflicted with cancer	One-off project	2008	Completed
Rehabilitation and reconstruction of access pathway between Seethagangula and Thenna of Sri Pada (Adam's Peak).	We are also contributing to the efforts to have it declared as a World Heritage Site	2008	Completed
Renovation of Maternity Ward of Galewela Hospital	One-off project	2008	Completed
Capacity Building Training Programmes for Micro Entrepreneurs in Ampara & Monaragala Districts in collaboration with Agromart Foundation	One-off project	2008	Completed
Donation of equipment to Cancer Hospital, Maharagama	One-off project	2008	Completed
Donation to Camilla School - Mattegoda	One-off project	2008	Completed
Ridi Viharaya - Decorating & Constructing Lamp Post	One-off project	2008	Completed
Construction of road way and a drainage system at Deaf & Blind School, Ratmalana	One-off project	2008	Completed
Gamini Dissanayake Foundation	One-off project	2008	Completed
Donation to Peter Weerasekara Foundation	One-off project	2008	Completed
Renovations to Hikkaduwa Government Hospital	One-off project	2008	Completed
Medical Equipment to Matara General hospital	One-off project	2008	Completed

## Responsibility in the Environment

### Launch of Social and Environmental Management System (SEMS)

We launched a Social and Environmental Management System (SEMS) in the year under review and brought it under a dedicated officer. The SEMS provides a policy framework, implementation system and a monitoring mechanism to ensure that not only the Bank but also its customers conform to certain standards. Its objectives are as follows:

- To identify and assess social and environment impacts, both adverse and beneficial, in the project's area of influence
- To avoid, or where avoidance is not possible, minimise, mitigate or compensate for adverse impacts on workers, affected communities and the environment
- To ensure that affected communities are appropriately engaged on issues that could potentially affect them
- To promote improved social and environment performance of our client companies through the effective use of management systems

### Carbon Footprint - a voluntary initiative

We are conscious that greenhouse gases produced as a by-product of our operations is contributing to global warming. Sri Lanka is not an Annex 1 country which is legally bound to reduce its greenhouse gas emissions. However, at Commercial Bank, we have decided to voluntarily take measures to reduce our emissions.

In the ensuing year, we will be developing our strategy and instituting a programme to reduce our emissions within a specified number of years. As a preliminary, we have measured our direct carbon emissions.

We have used Greenhouse Gas Protocol's Standard to measure our emissions. Scopes 1 and 2 of the said standard have been used.

Being a Bank, ours is an office-based organisation. Thus, our main direct contributors to greenhouse gases were considered to stem from our travel and transport vehicles and the electricity that we purchase. We also included hired transport used for our day-to-day activities. However, these don't represent an exhaustive list and they are also limited by the lack of readily available data in our organisation that is widely dispersed across hundreds of locations.

Also, we have not considered our indirect contributors to emissions (Scope 3). It is with these limitations that we report on our carbon footprint for 2008.

Given that the major part of our operations is based in Sri Lanka, we have limited the operations boundary to our head office and all offices and branches in the island.

The operations of our subsidiaries are based in the Bank's own premises. Of our associates, the major one, Commercial Leasing was divested in the year under review. The remaining are relatively small, and in addition, our stake in them is less than 25%. Thus, we have taken the Bank as our organisational boundary.

This is but a preliminary step in our quest towards becoming a carbon zero company.

### Green Loans

Commercial Bank's 'E-Friends II Credit Line' Loans provide concessionary funding for those entrepreneurs who adopt environmentally-friendly technologies. Since its launch in 2005, the Bank has advanced a total sum of Rs. 1.3 Bn which includes Rs. 477.1 Mn (The credit Line was fully committed during this year) advanced in the year under review.

## Carbon footprint

***Our greenhouse gas emissions in 2008 are estimated to be 1,532 tCO<sub>2</sub>-e (metric tons of CO<sub>2</sub> equivalent\*\*).***

***This is made up of 917 tCO<sub>2</sub>-e and 615 tCO<sub>2</sub>-e direct emissions relating to Scope 1 and Scope 2 respectively.***

\*\* tCO<sub>2</sub>-e means metric tons of Carbon Dioxide equivalent. There are six main greenhouse gases that are considered. They are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF<sub>6</sub>). The potency of each of them as a greenhouse gas is different. Carbon Dioxide equivalent, states the functionally equivalent amount of these gases, taking carbon dioxide (CO<sub>2</sub>) as the reference.

# Risk Management

## ● COMMERCIAL BANK'S APPROACH TO INTEGRATED RISK MANAGEMENT

### Risk Overview

Risk is defined as a potentially negative impact on a business that can arise due to current internal processes or future internal and external events. The concept of risk comprises both the likelihood that an event will occur and the impact it would have on the business.

Risk, to varying degrees, is present in all business activities, so effective Risk Management is fundamental to the success of the Bank. The primary goals of Risk Management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's objectives and risk tolerance, and that there is an appropriate balance between risk and reward in order to maximise shareholder returns. The risk environment requires continuous monitoring and assessment of these evolving risk issues in an integrated manner in order to evaluate the impacts and manage the complex bank-wide risk interactions. Our Integrated Risk Management Framework is designed and is being further developed to meet these challenges.

### Managing Risk at Commercial Bank

Commercial Bank's Risk Management policies are designed to identify and analyse all types of risk, set appropriate risk limits and controls and monitor the risks and adherence to limits on a regular basis.

Our systems are structured to address both banking as well as non-banking risks covering both on and off balance sheet exposures, with a view to protecting capital and enhancing shareholder value. These ensure that the Bank takes well calculated business risks while not unduly exposing the Bank's capital, its financial resources and profitability. The management continues to oversee and update the systems, policies and procedures in all dimensions of operations within the broad guidelines and policies set by the Board. These policies and procedures are integrated

into the day-to-day decision making and corporate governance processes.

To ensure the effectiveness of the Bank's Risk Management measures, strict audits are also conducted by the Bank's Inspection Department. The independence of the Inspection and the Risk Management Departments is assured by the Bank's organisation structure shown in page 47 of this Annual Report.

### Responsibilities for Risk

#### The Board of Directors:

- bears overall responsibility for the maintenance of prudent Risk Management mechanisms in order to ensure the safety and soundness of the Bank.
- determines the structure for Risk Management within the Bank.
- identifies the principal risks faced by the Bank and ensures implementation of appropriate systems to manage these risks prudently.
- identifies and designates key management personnel to manage risks and defines their areas of responsibility.
- reviews risk strategy and significant risk policies of the Bank.

The Board exercises its responsibilities for risk through the Board Integrated Risk Management Committee.

### Board Integrated Risk Management Committee

A Board Integrated Risk Management Committee consisting of four Directors of which three are Independent and the Managing Director having overall bank-wide and group-wide Risk Management oversight and assists the Board in fulfilling its statutory, fiduciary and regulatory responsibilities. The Committee meets at least quarterly and is responsible for:

- Reviewing and oversight of the risk profile and portfolio composition of the Bank and its Subsidiaries within the context of the Board determined risk appetite.
- Making recommendations to the Board concerning risk appetite and particular risks or Risk Management practices of concern to the Committee.
- Reviewing Management's plans for mitigation of the material risks faced by the various business units of the Bank and Subsidiaries, including overseas branches.
- Oversight of the formal development of Risk Management policy encompassing all products and businesses, ensuring the development of policy manuals and procedures.
- Oversight of implementation and review of Risk Management, internal compliance and control systems throughout the Bank.



Commercial Bank's Approach to Integrated Risk Management

- Promotion of awareness of a risk based culture and the achievement of a balance between risk and reward for risks accepted.
- Reviewing the effectiveness of the Executive Credit Policy and Credit Risk Management Committee and the Executive Risk Management Assets and Liabilities Committee to address and manage specific risks.
- Holding the Managing Director and Corporate Management accountable for the Bank's risks.
- Ensuring that the Board of Directors is continuously made aware of the Bank's exposures, realised or potential substantial losses and Key Risk Indicators.

The Committee may make recommendations to the Board as it sees fit.

**Executive Credit Policy and Credit Risk Management Committee**, chaired by Managing Director includes all members of the Corporate Management with credit, risk and inspection responsibilities.

**Scope of Activities:**

- Exercises the powers and authority of the Board with respect to the day to day management of credit risk and credit exposure of the Bank in accordance with the policies and directives determined by the Board.
- Analyses, manages and controls the credit portfolio of the Bank by reviewing exposure and risks at overall Bank, Single Borrower, Group, Industry, Geography and Lending type levels, considers the concentrations, scenarios and stresses and gives appropriate instructions.
- Issues lending guidelines and credit risk rating standards so that all Lending Officers drive the Bank's lending portfolio in the direction of the Board approved appetite for credit risk.

- Approves credit policies, procedures and guidelines to analyse, manage and control the Bank's credit portfolio and to ensure that the Bank's credit risk profile evolves as planned.
- Advises Managing Director on delegated limits of authority for granting and reviewing credit.

**Executive Risk Management ALCO**

Chaired by Managing Director, includes Chief Operating Officer and members of Corporate Management from Finance, Treasury, Corporate and Personal Banking, International, Inspection and Risk functions.

**Scope of Activities:**

- Exercises the powers and authority of the Board with respect to day-to-day management of non-credit risk including market and operational risk in accordance with the policies and directives determined by the Board.
- Manages the balance sheet, off balance sheet exposures and capital within the performance and risk parameters laid down by the Board.
- Provides directions to the Bank's Treasury and other businesses regarding short term business strategy taking into account market variables in relation to the Bank's exposures and the Bank's Corporate Plan.
- Approves the liquidity and funding plans of the Bank and assesses the liquidity risks facing the Bank.
- Monitors Key Market and Operational Risk Indicators, reviews the potential impact of concentrations and various scenarios on the Bank's business and gives directives to mitigate and manage the related risks.
- Reviews and gives directives regarding risks associated with new or significantly changed businesses, products and activities.
- Evaluates the impact of market stresses on the sustainability of the Bank's business models, investments, growth and reputation and gives appropriate directives.

- Approves Market and Operational Risk Management policies, procedures and review mechanisms.
- Advises Managing Director on delegated limits of authority for Treasury activities and exposures.

**Business and Functional Managers**

Individual business and functional managers exercise powers in so far as they concern the management and day-to-day running of their business or function including the following responsibilities for risk:

- Primary responsibility for taking risks on the Bank's behalf within their delegated limits of authority in accordance with the Bank's policies, standards and guidelines subject to robust and effective review and challenge.
- Evaluating and controlling the risks in the business they and their subordinates are undertaking so that they are individually accountable for managing those risks.
- Ensuring consistent high standards for the origination, documentation, review, problem resolution and remedial action in respect of risks for which they are accountable.
- Assess and periodically report the extent of implementation of Risk Management measures within their business or function against a wide ranging list of possible risks and action taken to manage those risks.

**Integrated Risk Management Department**

Our Integrated Risk Management Department provides an independent control function, meaningfully impacts on all higher and exceptional risk decisions, supports the further development of our strong pervasive Risk Management culture and ensures that the Board and Management at the appropriate levels is provided with an integrated

Commercial Bank's Approach to Integrated Risk Management

view of the risks faced by the Bank. Its responsibilities include:

- Management of Risk across the entire Bank.
- Bringing to the attention of Management, the Executive Risk Management ALCO, the Executive Credit Policy and Credit Risk Management Committee and/or the Board Integrated Risk Management Committee as appropriate any situation that is of concern from a Risk Management perspective or that would materially violate any risk appetite policies or guidelines.
- Interacting regularly with the business and functional managers so that they have sufficient access to relevant information and guidance to manage their risks.
- Reporting to Corporate Management or the Board Integrated Risk Management Committee as appropriate on material risk concentrations as they develop, highlighting material market imbalances, assessing their potential impact and coordinating the related development of the Bank's risk strategy and appetite.

Other Departments and Units involved in various aspects of Risk Management include:

- Inspection Department which includes the bank-wide compliance function
- Central Recoveries Department
- Credit Monitoring Unit
- Anti-Money Laundering Unit
- Business Continuity Management Unit

**Risk Profile Assessment**

**Credit Risk**

Credit Risk accounts for 91.34% of the Bank's present risk weighting under Basel II, 64.15% of our total assets consists of loans and advances, credit risk is thus the most significant risk to which Commercial Bank is exposed.

Credit Risk is the possibility of losses resulting from the failure or unwillingness of a borrower or counterparty to meet the contractual obligations to the Bank and the risk that collateral will not cover that claim. In evaluating and managing Credit Risk, we continuously review exposures and concentrations at the: customer, group, industry, geography and lending type level. Credit Risk can be created in different areas of the Bank's operations, including the direct lending portfolio,

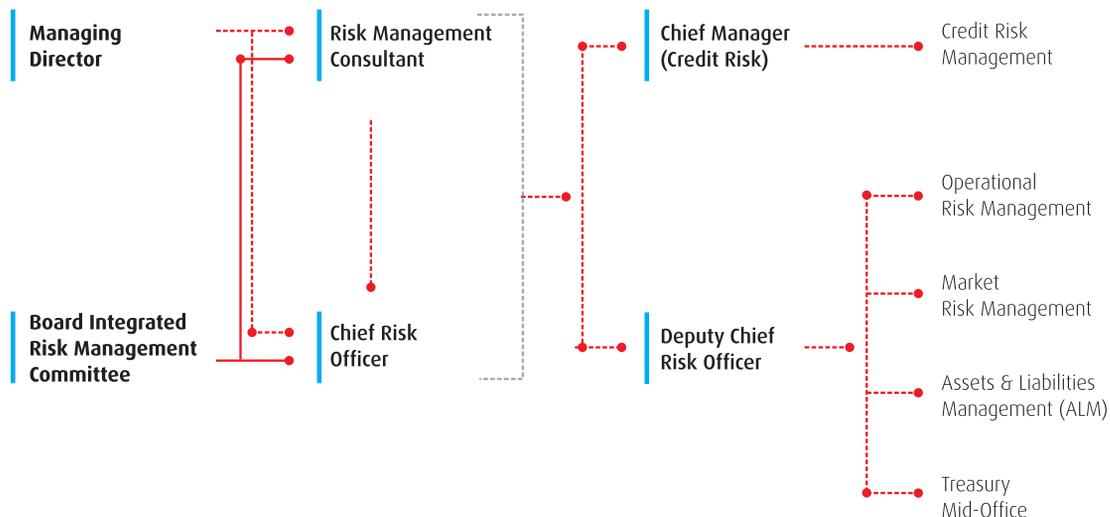
off balance sheet exposures, funding & investment activities and trading where the counterparties have repayment obligations and other commitments.

Responsibilities for the credit are clearly segmented between:

- (a) Credit origination and credit relationship management
- (b) Credit operations, documentation and lending administration
- (c) Credit risk management
- (d) Recovery and management of problem loans

The Bank's policy is to develop a high quality and diversified credit portfolio of Corporate, SME and Personal customers in Sri Lanka and Bangladesh. The Risk Management function closely monitors changes in economic and market conditions and guides business and functional management at all levels in their responsibilities for managing their loan portfolios, establishing a robust credit culture through prudent Credit Policies, Procedures and Credit Portfolio Development and Management Strategies. The Bank uses internal lending guidelines and procedures to ensure that all lending officers

Integrated Risk Management functional Department lines are given in the diagram below:



Commercial Bank's Approach to Integrated Risk Management

understand the Bank's appetite for risk in accommodating counterparty requirements and facilitate evaluation and approval of individual credit transactions. These processes are continuously reviewed and updated in order to maintain an optimal balance of risk and reward in our credit portfolio.

The Bank adopts a standard method in analysing various risks involved in credit propositions considering factors such as Business Risk, Financial Risk, Management Risk, Security Risk, Structural Risk, etc., and uses these to establish an Internal Risk Rating for each counterparty. This enables us to gradually migrate to more differentiated risk-based counterparty pricing. Our policies, processes and pricing enable the Bank to maintain and develop portfolio with tolerable levels of exposure relative to capital in each of the various segments and types of credit risk and ensure that these are adequately remunerated.

As part of the Bank's gradual progression towards establishing an Integrated Risk Management System, it commenced setting up of the Credit Risk Management Unit in 2008, fully independent from the business lines. Credit Risk Management focuses on the quality of the entire loans and advances portfolio, identifying trends and concentrations, they undertake sectoral studies based on which they improve and update our Lending Guidelines. The Credit Risk Management Unit actively monitors and controls Credit Risks initiated by different business sub-segments within the Bank, ensuring a sustainable risk culture throughout the organisation. The Credit Risk Management Unit has also taken over responsibility for evaluating and obtaining approval for country risk and bank counterparty risk exposures.

In response to deteriorating market conditions in 2008, we have carefully monitored vulnerable economic and industry sectors and slippage of credit into overdue in order to identify

areas of higher than normal risks and/or weaknesses in our processes or individual skill levels where suitable corrective action has been taken.

**Credit Risk in Off Balance Sheet Exposures (including risks involved with derivative products)**

Similar mechanics are used for the evaluating, managing and monitoring credit risk involved with our contingent exposures including trade related, guarantee, foreign exchange, interest rate, swap and option products as part of our overall customer credit approval limit setting and monitoring procedures.

Many of these products involve a myriad of interrelated credit, market and operational risks including the contingent exposure to market risk in the event of a counterparty default. These are all evaluated by the authority approving the credit after considering all the risk and mitigants. Current and potential credit exposures are measured and reviewed on a regular basis to evaluate the impact of changes in market conditions on the value of counterparty positions, which are quantified on the basis of market prices or in the case of derivatives by obtaining the current replacement cost or unwinding cost from a market maker or a major international counterparty. All derivative product risks are approved and regularly reviewed by ALCO. Commercial Bank has fully hedged the market risk of its derivative exposures with major correspondent international banks and these exposures are reported monthly to the Central Bank in accordance with their regulations.

The years preceding the current market turmoil were characterised by low levels of volatility and it was on this basis that we established credit risk limits for foreign exchange and commodity derivative products. The greatly increased volatility in 2008 have caused exposures for a few customers to exceed these limits but these still remain

well within the Bank's overall limits for single borrower exposures.

**Market Risk**

Market Risk has received significant additional management attention during 2008 to assess the potential impacts of the unprecedented volatility in financial markets worldwide on our business.

The Bank has clearly defined the division of responsibility for managing market risks, which are centralised in the Bank's Treasury and funding centre. The Heads of Global Markets and Global Treasury who manage the overall Treasury business report to Managing Director, the Back Office Treasury which records the transactions and activities of the Treasury reports to the Chief Financial Officer. The Middle Office Treasury was established during 2008 and independently and continuously monitors, measures and analyses the foreign exchange risks and other risks managed by the Treasury and reports to Deputy Chief Risk Officer.

Market Risk arises due to mismatches or changes of value as a result of the Bank's exposure to:

- Asset and Liability Products.
- Foreign Exchange Positions
- Investments in Shares and Bonds
- Derivative Products

The main types of Market Risk faced by the Bank are Interest Rate Risk, Liquidity Risk and Foreign Exchange Risk is described below.

**Interest Rate Risk**

Interest Rate Risk (IRR), is a major source of Market Risk in Commercial Bank and is unavoidable in any financial institution where the re-pricing of assets and liabilities are not identically matched. The ALCO manages the potential impact which might be caused by the volatility of changes in market interest rates and yield curves in order to optimize net interest income commensurate with IRR.

## Commercial Bank's Approach to Integrated Risk Management

The ALM Unit of the Risk Management Department undertakes scenario analysis considering various financial/profitability outcomes which would create rate shocks to the Balance Sheet. This assists the ALCO to devise strategies to manage and ensure the financial stability of the Bank in the event of drastic changes in market conditions. The ALCO uses Gap Analysis as a tool for monitoring the risks which arise when re-pricing maturities of assets and liabilities do not coincide and carefully monitors the potential impact on our profitability.

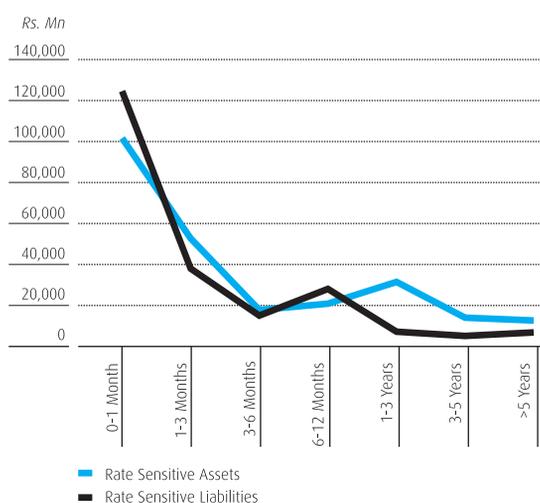
**Liquidity Risk**

Liquidity Risk Management has become a much higher priority in Commercial Bank during 2008 due to volatile funding conditions both in Sri Lankan and Global Markets.

Liquidity Risk is the risk that the Bank cannot fulfill its payment commitments on a given due date due to unforeseen factors or be forced to borrow funds on unfavourable terms. Liquidity acts as an important buffer in all banks to compensate for planned and unplanned balance sheet fluctuations and to provide a means for growth.

Liquidity Risk is managed by the ALCO within the overall liquidity and funding framework of the Bank and in response to market conditions. This also helps to pre-empt having to restructure or acquire additional liabilities at high cost under adverse market conditions to meet any unforeseen liquidity needs.

Bank	Up to 3 months Rs. Mn	3 to 12 months Rs. Mn	1 to 3 years Rs. Mn	3 to 5 years Rs. Mn	More than 5 years Rs. Mn	Total as at 31.12.2008 Rs. Mn	Total as at 31.12.2007 Rs. Mn
Interest earning assets	121,382	46,073	52,550	17,679	16,322	<b>254,006</b>	240,883
Non-Interest earning assets	19,827	2,112	277	186	4,806	<b>27,208</b>	27,107
<b>Total Assets</b>	<b>141,209</b>	<b>48,185</b>	<b>52,827</b>	<b>17,865</b>	<b>21,128</b>	<b>281,214</b>	267,940
Interest bearing liabilities	150,043	51,974	10,215	5,207	7,517	<b>224,956</b>	212,143
Non-Interest bearing liabilities	28,077	1,748	543	-	25,890	<b>56,258</b>	55,797
<b>Total Liabilities</b>	<b>178,120</b>	<b>53,722</b>	<b>10,758</b>	<b>5,207</b>	<b>33,407</b>	<b>281,214</b>	267,940
<b>Maturity Gap</b>	<b>(36,911)</b>	<b>(5,537)</b>	<b>42,069</b>	<b>12,658</b>	<b>(12,279)</b>	-	-
<b>Cumulative Gap</b>	<b>(36,911)</b>	<b>(42,448)</b>	<b>(379)</b>	<b>12,279</b>	-	-	-

**Rate Sensitive Assets and Liabilities**

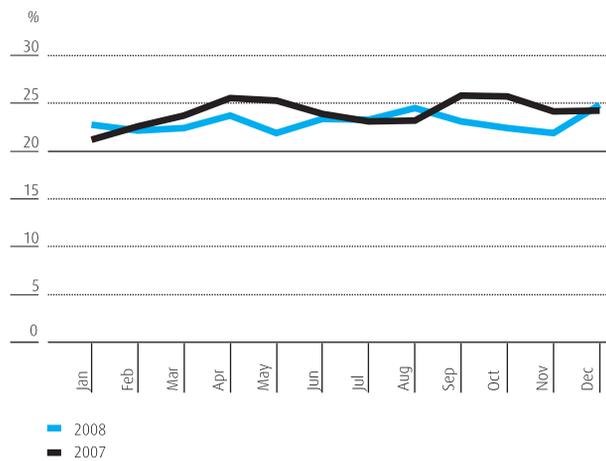
	0-1 Month Rs. Mn	1-3 Months Rs. Mn	3-6 Months Rs. Mn	6-12 Months Rs. Mn	1-3 Years Rs. Mn	3-5 Years Rs. Mn	>5 Years Rs. Mn	Maturities Not Applicable Rs. Mn	Total as at 31.12.2008 Rs. Mn	Total as at 31.12.2007 Rs. Mn
<b>Rate Sensitive Assets</b>	101,775	52,771	17,944	20,744	31,383	13,995	12,497	-	<b>251,109</b>	240,833
<b>Non-Rate Sensitive Assets</b>	-	-	-	-	-	-	-	30,105	<b>30,105</b>	27,107
<b>Total Assets</b>	101,775	52,771	17,944	20,744	31,383	13,995	12,497	30,105	<b>281,214</b>	267,940
<b>Rate Sensitive Liabilities</b>	124,640	37,930	15,151	28,215	7,333	5,066	6,800	-	<b>225,135</b>	212,143
<b>Non-Rate Sensitive Liabilities</b>	-	-	-	-	-	-	-	56,078	<b>56,078</b>	55,997
<b>Total Liabilities</b>	124,640	37,930	15,151	28,215	7,333	5,066	6,800	56,078	<b>281,214</b>	267,940
Net Rate Sensitive Assets/(Liabilities)	(22,865)	14,841	2,793	(7,470)	24,049	8,929	5,696	-	-	-
Rate Sensitive Ratio*	81.66	139.13	118.44	73.52	427.95	276.26	183.77	-	-	-

\* Ratio of rate sensitive assets to rate sensitive liabilities.

Commercial Bank places considerable importance on maintaining the stability of its Current, Savings and other core deposits and aims to minimise reliance on interbank or other wholesale funding which is mainly price driven. The ALCO carefully monitors funding concentrations and has succeeded in ensuring that these are satisfactorily diversified. Stability depends on maintaining the high level of depositor confidence that we have achieved through fair, competitive and transparent deposit pricing policies. We closely monitor our advances to deposit ratio as a key indicator of liquidity risk and limit growth of our lending portfolio commensurate with our growth of reliable core deposits.

Commercial Bank's Approach to Integrated Risk Management

Monthly Liquid Assets - Bank (Minimum 20%)



The ALCO reviews local and foreign currency liquidity separately and analyses the various scenarios which could cause a bank specific or market-wide liquidity shortfall taking into account projections for deposit withdrawals and drawdowns of committed lending facilities and reviews liquidity contingency plans to manage serious disruptions to the liquidity structure. Additionally the Bank continuously complies with a statutory requirement to maintain a 20% Statutory Liquid Asset Ratio (SLR) on a daily basis within both the Domestic Banking Unit and the Off-shore Banking Unit.

**Foreign Exchange Risk**

The Bank has established Risk Tolerance Level limits for the Bank's treasury within the directives and guidelines of Central Bank of Sri Lanka in order to ensure that any adverse exchange rate movements on the results to the Bank due to un-hedged foreign exchange positions are restrained within acceptable parameters. These limits are set at both the aggregate and the individual currency level. The most significant limits in place are:

- Individual Foreign Currency Position Limits
- Total Closing and Net Closing Position Limits

- Individual Dealer Placements Limits and Transaction Limits
- Counter party Spot, Forward and Placement Limits
- Trading Stop-loss limits

The Bank carries an additional structural foreign exchange exposure as a result of the investment made in its Bangladesh branches. All foreign exchange exposures and related risks are reviewed by the ALCO monthly, which provides additional guidance to the Treasury in managing the risks.

**Operational Risk**

Operational Risk is the risk of loss arising from fraud, unauthorised activities, errors, omissions, inefficiency, system failure or external events. Operational Risk Management is an integral part of the duties of Senior Management within each business, department and region who are responsible for maintaining an acceptable internal control environment commensurate with the nature of the operations within the framework of our long-standing bank wide policies and procedures, which are regularly updated in response to changing conditions.

Extensive training is provided to ensure that staff are fully aware of their responsibility for complying with the

correct operational procedures in order to optimise operational efficiency and individual accountability at all levels of the Bank. When frauds or shortcomings in processes are detected, immediate remedial action is initiated to prevent repetition. Institution wide awareness of such risks is achieved by way of circulars and use of intranet.

The Bank adopts a practice of educating business and functional managers and the Heads of Departments by sharing information relating to industry specific/major fraudulent activities whenever such events come into the limelight which facilitates prevention of recurrence of such events to a greater extent.

The transparency in business activities and stringent controls and policies that are in place ensure adoption of ethical business practices at the Bank.

Some of the Internal Controls which are in place for mitigating Operational Risk are:

- Clear management reporting lines, empowerment and accountability.
- Appropriate segregation of duties to: (a) prevent any single person being allowed to carry out a process from beginning to end without independent review and (b) prevent conflicts of interest.
- 'Four eyes' principle is established, whereby every key activity is subject to the scrutiny of another suitably skilled and authorised employee.
- Regular staff rotation and compulsory avilment of annual leave.
- Risk mitigation including insurance for potential low frequency high severity losses is obtained where it is available and cost effective.
- Continuous review of IT and other processes in response to emerging risks.
- Regular reports of exceptional transactions and other risk events are produced by our IT systems and management information system for management investigation.

## Commercial Bank's Approach to Integrated Risk Management

A Business Continuity Management Steering Committee comprising several members of Corporate and Senior Management ensures that Board approved continuity plans are in place, tested and updated for all business critical operations as per the guidelines laid down by the Central Bank. The plans describe how the Bank would operate in the event of serious disruption. A Business Continuity Management Unit at a location remote from the Head Office is prepared at a moment's notice to detect and manage incidents. The Bank also has extensive catastrophe protection insurance for significant parts of its operations.

During 2008, the Bank has updated and significantly improved its Anti Money Laundering and Terrorist Financing processes and guidelines in line with recent legislation and best international practices with particular focus on verifying the accuracy and updating identification and other information provided by customers. This ensures that we have and manage sufficient information about each customer to build a profile which enables us to: identify, investigate and if appropriate report any suspicious transactions including electronic fund transfers.

Our Know Your Customer (KYC) and Customer Due Diligence (CDD) procedures and related Anti Money Laundering controls significantly deter, and prevent fraudulent or other unlawful activities. Our Anti Money Laundering Unit maintains a close liaison with the Financial Intelligence Unit of the Central Bank and regularly trains and briefs employees about emerging threats so as to further improve counter measures.

The control environment in each business, department and branch is subject to an independent programme of periodic compliance

based inspections. During 2008, the Inspection Department of the Bank carried out 161 inspections in Sri Lanka and 19 inspections in Bangladesh and maintained a programme of off-site surveillance leading to 34 reports on our Bangladesh and 18 reports on our North-Eastern branch operations. Additional assistance from external auditors was commissioned to undertake inspections of 70 branches. A suitably skilled team within the Inspection Department regularly undertakes Information System Audits to ensure the integrity and proper functioning of all the Bank's computer systems. Major or high risk observations made during these inspections and corrective action are brought to the attention of the Board Integrated Risk Management Committee.

The Bank promotes a culture which recognises and rewards prompt identification and reporting of exceptional and emerging risks. During 2008, we have reviewed and improved our whistleblowing procedures as part of our Code of Ethics in order to encourage employee reporting of genuine concerns about malpractices or unethical behaviour, whilst protecting the whistleblower.

The Bank's Code of Ethics and Whistleblowers culture together with the Bank's Intranet and training programmes are used to ensure that all Commercial Bank's employees have a clear understanding of their responsibilities with regard to the Management of Risk assumed by the Bank. Employees are held accountable for their performance through the Bank's Performance Management System. In particular, employees recommending or approving risk at all levels are held primarily accountable for these decisions.

### Capital Resources

Capital Adequacy Ratio (CAR) symbolises the financial strength and stability of a bank. It describes the adequacy of the Bank's aggregate capital in relation to the risks undertaken, which arises from both on balance sheet assets and off balance sheet transactions (credit risks), its dealing operations (market risk) and from its human activities, technology and natural incidents (operational risks). As a result, it is widely known as a tool which indicates the limit up to which business can be expanded in terms of risk weighted assets of a bank as they too like other commercial institutions constantly explore ways of expanding their operations by acquiring assets, extending delivery channels in addition to mobilising deposits and granting loans. This is because a Bank's capital is considered as the 'cushion' for potential losses, which protects its depositors and other lenders. Consequently, banking regulators in most countries use CAR as a mechanism to protect stakeholders and enhance confidence in the banking system.

Day-to-day operations of a bank lead to expand the size of the balance sheet with the acquisition of assets and creating liabilities. These assets can be in the form of financial and non-financial assets. To supplement the growth in assets, the Bank incurs liabilities to providers of capital, depositors and lending institutions. The CAR recognises the different risk profiles attached to these assets in determining the capital required to 'cushion' any potential losses as the composition of the balance sheet of a bank is different to a normal organisation where a major portion of the assets and liabilities comprise of advances and deposits.

Commercial Bank's Approach to Integrated Risk Management

Vulnerability of the Banks' financial stability would affect the systemic importance of the banks to the economy, especially given the financial crisis faced in most parts of the globe. Regulatory capital requirements are therefore necessary to limit operations of banks to prevent overtrading whilst enabling banks to leverage their growth to optimise the return on assets. Therefore maintaining a healthy CAR would ensure a stable and a sound banking industry, which undoubtedly contribute to the growth of the economy.

All Sri Lankan banks adopted Basel II CAR computations from January 2008, in keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices.

In Sri Lanka, all Licensed Commercial Banks and Licensed Specialised Banks are required to apply the Standardised Approach for Credit Risk, Standardised Measurement Approach for Market Risk and Basic Indicator Approach for Operational Risk, in computing the capital requirements.

Besides that the Central Bank of Sri Lanka (CBSL) has already decided to move to adopting the internal ratings based (IRB) and other advanced approaches beginning 2013. Once the Central Bank is satisfied that the Banks have the appropriate models and risk management systems capacities, permission will be granted for them to proceed with IRB approaches.

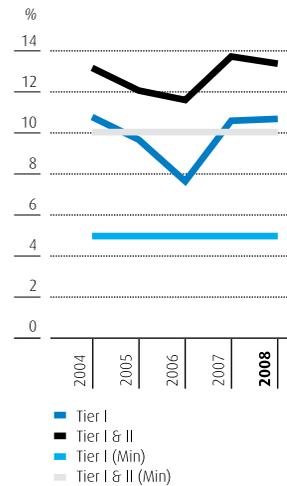
The detailed Capital Adequacy Computation of the Group as at December 31, 2008 is given on pages 44 to 45 of this Annual Report.

**Asset and Liability Management (ALM) Processes**

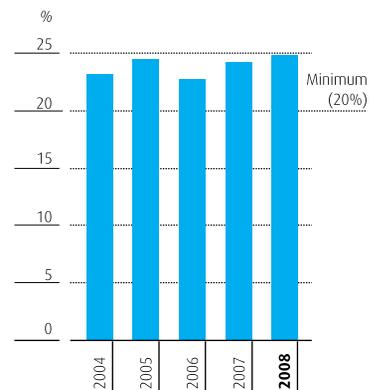
The Market and Operational Risk of the Bank and the Bank's capital is managed by the Assets and Liabilities Committee (ALCO) headed by the CEO/MD representing the key business unit heads and Risk Management Department. During the ALCO meetings, the liquidity position, pricing, market, operational, compliance, strategic, investment and product risks of the Bank are reviewed and managed. Normally at least three ALCO meetings are held each month of which one is fully dedicated to Risk Management using a Structured Key Risk Indicator format. These meetings and our monthly Corporate Management Executive Committee meetings ensure suitable management initiatives to mitigate the effects of specific risks where such risks are beyond prudent levels and that counter measures have been adequately evaluated to reduce the probability of recurrence and to reduce the impact should they recur.

The Bank implemented a Matched Term Funds Transfer Pricing (FTP) mechanism during 2008, which transfers Interest Rate Risk and other types of market risk to a Head Office Funding Centre. An ALCO sub committee co-ordinates the management of FTP and makes recommendation to the ALCO on initiatives to improve funding, market risk management, risk based pricing and transfer pricing. This process assists the Bank in ensuring that the various capital, risk, liquidity and pricing issues are well understood by business and functional managers throughout our network and that the various businesses are adequately motivated by the profitability of the various products to drive their business according to the Bank's Corporate Plan and Budget.

**Capital Adequacy Ratio**



**Liquid Assets Ratio**



Commercial Bank's Approach to Integrated Risk Management

**Capital Adequacy Computation - Group**

Prepared in accordance with the Basel II guidelines set out by the Central Bank of Sri Lanka.

**Computation of Risk-Weighted Assets**

Assets	Balance		Risk-Weight Factor (%)	Risk-Weighted Balance	
	2008 Rs. '000	2007 Rs. '000		2008 Rs. '000	2007 Rs. '000
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	61,291,473	61,792,701	0	-	-
Claims on Foreign sovereigns and their Central Banks	4,500,396	3,648,148	0-150	4,500,396	3,648,148
Claims on Public Sector Entities (PSEs)	636,768	420,024	20-150	636,768	420,024
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	20-150	-	-
Claims on Banks	20,018,834	13,974,585	0-150	9,040,776	7,403,317
Claims on Financial Institutions	115,302	480,509	20-150	58,916	240,255
Claims on Corporates	147,681,996	142,749,852	20-150	142,002,595	136,949,353
Retail claims	10,970,054	9,821,746	75-100	10,970,054	9,821,746
Claims Secured by Residential Property	16,367,107	15,553,219	50-100	16,367,107	15,553,219
Claims Secured by Commercial real estate	-	-	100	-	-
Non-performing Assets ( NPAs)	6,259,245	2,726,610	50-150	8,772,029	3,274,181
Cash Items	5,167,546	4,362,456	0	9,401	28,119
Property, Plant & Equipment	4,460,229	4,116,064	100	4,460,229	4,116,064
Other Assets	5,580,442	5,773,181	100	5,580,442	5,773,180
<b>Total</b>	<b>283,049,393</b>	<b>265,419,095</b>		<b>202,398,714</b>	<b>187,227,606</b>

Instruments	Balance		Credit Conversion Factor (%)	Credit Equivalent	
	2008 Rs. '000	2007 Rs. '000		2008 Rs. '000	2007 Rs. '000
Direct Credit Substitutes	13,314,798	11,042,883	100	13,314,798	11,042,883
Transaction-related Contingencies	3,271,227	3,609,511	50	1,635,614	1,804,756
Short-Term Self-Liquidating Trade-Related Contingencies	16,292,839	19,137,190	20	3,258,569	3,827,438
Sale and Repurchase Agreements and Assets Sold with recourse where the credit risk remains with the Bank	-	-	100	-	-
Obligations under an Ongoing Underwriting Agreement	-	-	50	-	-
Other Commitments with an Original maturity of up to one year or which can be unconditionally cancelled at any time	26,482,602	17,040,629	0	-	-
Commitments with an original maturity up to 1 year	-	-	20	-	-
Other Commitments with an Original Maturity of over one year	-	-	50	-	-
Foreign Exchange Contracts	54,568,952	58,463,292	0-5	1,091,379	1,169,266
Interest Rate Contracts	5,701,370	2,770,000	0-3	144,197	19,063
<b>Total</b>	<b>119,631,788</b>	<b>112,063,505</b>		<b>19,444,557</b>	<b>17,863,406</b>

Commercial Bank's Approach to Integrated Risk Management

### Computation of Capital

	2008 Rs. '000	2007 Rs. '000
TIER I: Core Capital		
Paid-up Ordinary Shares/Common Stock/Assigned Capital	9,548,123	9,514,809
Statutory Reserve Fund	1,847,916	1,634,497
Published Retained Profits/(Accumulated Losses)	140,477	103,704
General and Other Reserves	12,131,623	9,800,329
Minority Interests (consistent with the above capital constituents)	26,948	23,789
LESS:		
Other intangible assets	(296,723)	(268,486)
Advances granted to employees of the bank for the purchase of shares of the bank (ESOP)	(6,625)	(329,254)
50% of the Investments in the Capital of Other Banks and Financial Institutions	(8,902)	(13,898)
<b>Total Eligible Core Capital (TIER I Capital)</b>	<b>23,382,837</b>	<b>20,465,490</b>
TIER II: Supplementary Capital		
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	651,037	650,168
General Provisions	1,545,951	867,204
Approved Subordinated Term Debt	3,517,102	4,615,548
LESS:		
50% of the Investments in the Capital of Other Banks and Financial Institutions	(8,902)	(13,898)
<b>Total Eligible Supplementary Capital (TIER II Capital)</b>	<b>5,705,189</b>	<b>6,119,022</b>
<b>Total Capital Base</b>	<b>29,088,026</b>	<b>26,584,512</b>

### Computation of Ratios

	2008 Rs. '000	2007 Rs. '000
Total Risk Weighted Assets		
Total Risk Weighted Assets for Credit Risk	202,398,714	187,227,606
Total Risk Weighted Assets for Market Risk	859,023	3,577,010
Total Risk Weighted Assets for Operational Risk	18,327,883	13,941,576
Sub Total	221,585,620	204,746,192
Minimum Capital Charge		
Minimum Capital Charge for Credit Risk	20,239,871	18,722,761
Minimum Capital Charge for Market Risk	85,902	357,701
Minimum Capital Charge for Operational Risk	1,832,788	1,394,158
Sub Total	22,158,562	20,474,619
Total Capital available to meet the Capital charge		
Total Eligible Core Capital (TIER I Capital)	23,382,837	20,465,490
Total Eligible Supplementary Capital (TIER II Capital)	5,705,189	6,119,022
Total Capital Base	29,088,026	26,584,512
Core Capital Ratio (Minimum Requirement 5%)		
Total Eligible Core Capital (TIER I Capital)	23,382,837	20,465,490
Total Risk Weighted Assets	221,585,620	204,746,192
	10.55%	10.00%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital Base	29,088,026	26,584,512
Total Risk Weighted Assets	221,585,620	204,746,192
	13.13%	12.98%

# Stewardship

## ● CORPORATE GOVERNANCE

### *Governance at Commercial Bank*

***“At Commercial Bank, success comes from our passion for creating value - value for customers, shareholders and partners; value for our employees and the communities in which we do business which are driven from the core strategies”.***

The Bank is firmly committed to the highest standards of Corporate Governance and has complied with the corporate governance practices recommended by various regulatory bodies such as the Colombo Stock Exchange, the Central Bank of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. As your representatives, the Board of Directors ensures that the activities of the Bank are at all times conducted with the highest ethical standards and in the best interests of all its stakeholders with guidance from six key Board sub-committees.

The composition, charter and the functions of these committees are given in the Section on ‘Board Sub-Committees’ on pages 59 to 64 of this Annual Report.

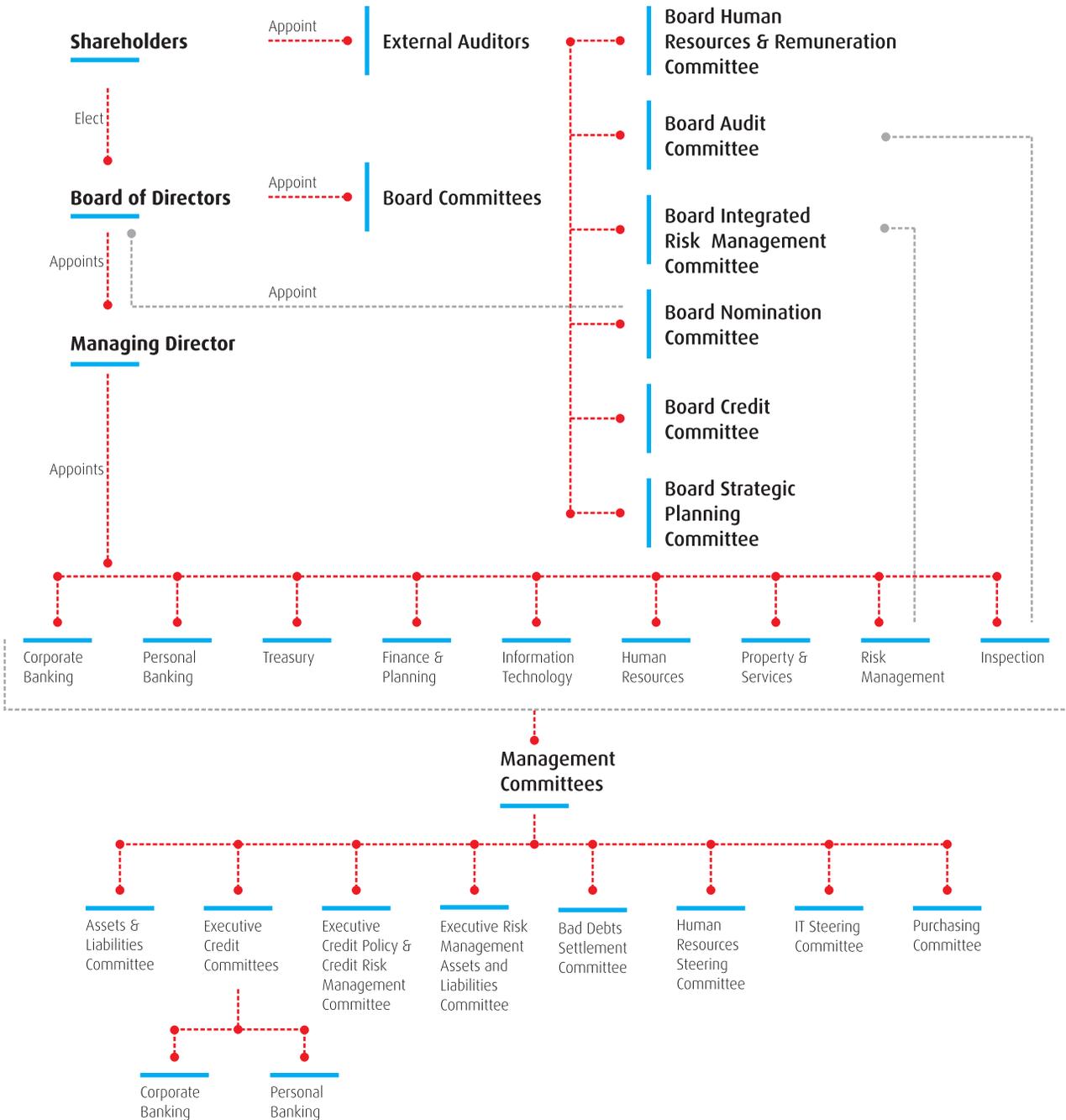
The Board of Directors sets the strategic direction and guides the corporate values. It has set up and enforces clear lines of responsibility and accountability throughout the Bank, as summarised in the diagram on page 47.

As depicted in the diagram, Corporate Governance at the Bank, stems with a Board of Directors that is independent, engaged, committed and effective in creating value to shareholders. Each function/profit centre is headed by a member of the Corporate Management team. As such, the responsibility for creating value for shareholders through performance is vested primarily with the Corporate Management team. Key Performance Indicators (KPIs) of each function/profit centre according to the Corporate Plan and the Budget are reviewed periodically.

In addition, the Bank has cross functional management committees made up of members from both Corporate Management and Senior Management who meet frequently and review the level of achievement of KPIs.

The pages 48 to 58 demonstrate Commercial Bank’s adherence to the disclosure requirements on the Codes on Corporate Governance issued by the Colombo Stock Exchange, the Central Bank of Sri Lanka, The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Corporate Governance



Corporate Governance

**Bank's Adherence with the Corporate Governance Rules as Required by Section 6 of the Listing Rules of The Colombo Stock Exchange****Corporate Governance Rule****Directors****Non-Executive Directors**

- (a) The Board of Directors of a listed company shall include at least,
- Two Non-Executive Directors; or
  - Such number of Non-Executive Directors equivalent to one third of the total number of Directors whichever is higher.
- (b) The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.
- (c) Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.

**Bank's Response:** *Complied with.***Independent Directors**

- (a) Where the constitution of the Board of Directors includes only two Non-Executive Directors as mentioned above, both such Non-Executive Directors shall be 'independent'. In all other instances two or 1/3 of Non-Executive Directors appointed to the Board of Directors, whichever is higher shall be 'independent'.

**Bank's Response:** *Complied with, as per the Board's determination on independence of each Director, based on Directors' declarations, as provided by Section 6.3 (b) of Listing Rules.*

- (b) The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his/her independence or non-independence against the criteria specified in the Code.

**Bank's Response:** *Complied with.***Disclosures Relating to Directors**

- (a) The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the Annual Report the names of Directors determined to be 'independent'.

**Bank's Response:** *Complied with. Please refer Note 1 on page 51 of this Annual Report for details.*

- (b) In the event a Director does not qualify as 'independent' against any of the criteria set out in clause 6.4, but if the Board, taking account all the circumstances, is of the opinion that the Director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination in the Annual Report.

**Bank's Response:** *Complied with, based on the tests detailed in Note 1 and 2 on page 51 of this Annual Report, in addition to the contribution made by each Director.*

- (c) In addition to disclosures relating to the independence of a Director set out above, the Board shall publish in its Annual Report a brief resume of each Director on its Board which includes information on the nature of his/her expertise in relevant functional areas.

**Bank's Response:** *Complied with. Please refer pages 70 and 71 of this Annual Report.*

- (d) Upon appointment of a new Director to its Board, the Company shall forthwith provide to the Exchange a brief resume of such Director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.

**Bank's Response:** *Complied with.*

Corporate Governance

## Corporate Governance Rule

### Directors

#### Remuneration Committee

A listed company shall have a Remuneration Committee in conformity with the following requirements.

**Bank's Response:** *Complied with.*

#### Composition

The Remuneration Committee shall comprise a minimum of;

- (i) two independent Non-Executive Directors (in instances where a company has only two Directors on its Board); or
- (ii) Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.

**Bank's Response:** *Complied with.*

In a situation where both the parent company and the subsidiary are 'listed companies', the Remuneration Committee of the parent company may be permitted to function as the Remuneration Committee of the subsidiary.

However, if the parent company is not a listed company, then the Remuneration Committee of the parent company is not permitted to act as the Remuneration Committee of the subsidiary. The subsidiary should have a separate Remuneration Committee.

**Bank's Response:** *Commercial Development Company PLC, one of the subsidiaries of the Bank is a listed company and has its own Remuneration Committee.*

One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.

**Bank's Response:** *Complied with.*

#### Functions

The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and the Chief Executive Officer of the listed company and/or equivalent position thereof, to the Board of the listed company, which will make the final determination upon consideration of such recommendations.

**Bank's Response:** *Complied with.*

#### Disclosures

The Annual Report should set out the names of Directors (or persons in the parent company's committee in the case of a group company) comprising the Remuneration Committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.

The term 'remuneration' shall make reference to cash and all non-cash benefits whatsoever received in consideration of employment with the listed company (excluding statutory entitlements such as contribution to Employees' Provident Fund and Employees' Trust Fund).

**Bank's Response:** *Complied with. Please refer the section on 'Board Sub-Committees' on page 62 of this Annual Report for the names of the Committee Members and Note 5 to the Financial Statements on page 124 for the details on remuneration paid.*

### Audit Committee

A listed company shall have an Audit Committee in conformity with the following requirements.

**Bank's Response:** *Please refer pages 60 to 61 of this Annual Report for the details of the Audit Committee.*

#### Composition

The Audit Committee shall comprise a minimum of;

- (i) two independent Non-Executive Directors (in instances where a company has only two Directors on its Board); or
- (ii) Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.

**Bank's Response:** *Complied with.*

In a situation where both the parent company and the subsidiary are 'listed companies', the Audit Committee of the parent company may function as the Audit Committee of the subsidiary.

However, if the parent company is not a listed company, then the Audit Committee of the parent company is not permitted to act as the Audit Committee of the subsidiary. The subsidiary should have a separate Audit Committee.

**Bank's Response:** *Commercial Development Company PLC, one of the subsidiaries of the Bank is a listed company and has its own Audit Committee.*

Corporate Governance

### Corporate Governance Rule

One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.

**Bank's Response:** *Complied with.*

Unless otherwise determined by the Audit Committee, the Chief Executive Officer and the Chief Financial Officer of the listed company shall attend Audit Committee meetings.

**Bank's Response:** *Complied with.*

The Chairman or one member of the Committee should be a Member of a recognised professional accounting body.

**Bank's Response:** *Complied with.*

#### Functions

Shall include,

(i) Oversight of the preparation, presentation and adequacy of disclosures in the Financial Statements of a listed company, in accordance with the Sri Lanka Accounting Standards.

**Bank's Response:** *Complied with.*

(ii) Oversight of the company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.

**Bank's Response:** *Complied with.*

(iii) Oversight over the processes to ensure that the company's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.

**Bank's Response:** *Complied with.*

(iv) Assessment of the independence and performance of the company's external auditors.

**Bank's Response:** *Complied with.*

(v) To make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.

**Bank's Response:** *Complied with.*

#### Disclosures in the Annual Report

The names of the Directors (or persons in the parent company's committee in the case of a group company) comprising the Audit Committee should be disclosed in the Annual Report.

**Bank's Response:** *Complied with.*

The Committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.

**Bank's Response:** *Complied with.*

The Annual Report shall contain a report by the Audit Committee, setting out the manner of compliance by the company in relation to the above, during the period to which the Annual Report relates.

**Bank's Response:** *Complied with.*

Corporate Governance

**Note 1**

On perusal of the declarations the Board noted that,

- (a) Mr. L.J.A. Fernando is an independent Director.
- (b) The specified criteria categorise the following Directors as non-independent Directors.

Name of Director	Specific criteria, with the application of which, the Director shall not be considered independent
Mr. M.J.C. Amarasuriya	Served the Board for a period exceeding 9 years.
Mr. B.R.L. Fernando	Served the Board for a period exceeding 9 years. Business connection with CIC Group.
Dr. H.S. Wanasinghe	Served the Board for a period exceeding 9 years.
Mr. A.N. Fonseka	Business connection/being a Director of the DFCC Bank.
Mr. D.S. Weerakkody	Business connection/being a Director of the DFCC Bank.

According to rule 6.3 (b), in the event a Director does not qualify as 'independent' against any of the criteria, but if the Board, taking into account all the circumstances, is of the opinion that the Director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination in the Annual Report.

When applying rule 6.3 (b) the Board considered all related issues and the contribution made by such Director, including application of the following tests to determine whether the Directors, whose names are given in (b) above could be considered independent.

On the above basis, the Board determined that the following Directors too could be considered independent:

- Mr. M.J.C. Amarasuriya
- Mr. B.R.L. Fernando
- Dr. H.S. Wanasinghe
- Mr. A.N. Fonseka
- Mr. D.S. Weerakkody

**Note 2 - Tests carried out to determine 'independent' status**

- (i) Whether a Director uses his position (e.g. long standing position or other influential position) to influence the Board to take decisions,
  - to his benefit or
  - according to his wishes
  - against the wishes of the majority of the other Directors or
  - against the interests of the Bank
- (ii) Whether he uses his position to prevent the other Directors from expressing their views and opinions at the Board meetings or at any other discussions.
- (iii) Whether the views of the others (Directors, professionals etc.) are disregarded or ignored.
- (iv) Whether the matters are only referred to such Director for a decision, generally or as a practice, without referring these matters to other Directors.

- (v) Whether the other Directors feel that their presence and their contribution is immaterial.
- (vi) Whether the Directors are not given an opportunity to assess the performance of the Board, which includes the performance of every single Director.
- (vii) One reason for non-existence of team spirit is undue influence of one or more Directors. The test to be used is whether there is adequate team spirit in the Board.
- (viii) Whether there is a practice to refer matters, which can be dealt with at a lower level, to such Director.
- (ix) Whether third parties deal with such Director on matters which can be easily finalised by any other party at a lower level.
- (x) With regard to facilities given to any group (e.g. CIC group), whether the Director concerned participates in the related Board decisions.

Corporate Governance

**Bank's Adherence with The Code of Best Practice on Corporate Governance Issued Jointly by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.**

Subject	Corporate Governance Principle
<b>A. General</b>	
Chairman and CEO	<p>If Chairman and CEO is one and the same person, disclose the Name of the Chairman/CEO and Senior Independent Director appointed and justification of the decision to combine the positions.</p> <p><b>Bank's Response:</b> <i>The posts of the Chairman and the Chief Executive Officer are held by two individuals.</i></p>
Board Balance	<ul style="list-style-type: none"> <li>● Should identify the Independent Non-Executive Directors.</li> </ul> <p><b>Bank's Response:</b> <i>Identified.</i></p> <ul style="list-style-type: none"> <li>● If a Non-Executive Director is identified as 'Independent', notwithstanding the existence of any of the following factors, the reason for such determination should be disclosed.</li> <li>● A Director is not considered independent if he/she: <ul style="list-style-type: none"> <li>● has been employed by the Company during the period of two years immediately preceding appointment as Director;</li> <li>● currently has/had during the period of two years immediately preceding appointment as Director, a Material Business Relationship with the Company, whether directly or indirectly;</li> <li>● has a close family member who is a Director, Chief Executive Officer (and/or an equivalent position) in the Company;</li> <li>● has a Significant Shareholding in the Company;</li> <li>● has served on the Board of the Company continuously for a period exceeding nine years from the date of the first appointment;</li> <li>● is employed in another company or business: <ul style="list-style-type: none"> <li>- in which a majority of the other Directors of the Company are employed or are Directors; or</li> <li>- in which a majority of the other Directors of the Company have a Significant Shareholding or Material Business Relationship; or</li> <li>- that has a Significant Shareholding in the Company or with which the Company has a Business Connection;</li> </ul> </li> <li>● is a Director of another company: <ul style="list-style-type: none"> <li>- in which a majority of the other Directors of the Company are employed or are Directors; or</li> <li>- that has a Business Connection in the Company or Significant Shareholding;</li> </ul> </li> <li>● has Material Business Relationship or a Significant Shareholding in another company or business: <ul style="list-style-type: none"> <li>- in which a majority of the other Directors of the Company are employed or are Directors; and/or</li> <li>- which has a Business Connection with the Company or Significant Shareholding in the same.</li> </ul> </li> </ul> </li> </ul> <p><b>Bank's Response:</b> <i>Please refer Note 2 on page 51 of this Annual Report for the tests carried out to determine the independence of Directors.</i></p>

Corporate Governance

Subject	Corporate Governance Principle
Appointment of New Directors	<p>When new Directors are appointed, the following details should be disclosed.</p> <ul style="list-style-type: none"> <li>● a brief resume of each such Director;</li> <li>● the nature of his expertise in relevant functional areas;</li> <li>● the names of companies in which the Director holds directorships or memberships in board committees; and</li> <li>● whether such Director can be considered independent.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. The Colombo Stock Exchange is kept informed about new appointments and also the required information is published in a few selected newspapers.</i></p>
Nomination Committee	<p>The Chairman and members of the Nomination Committee should be identified.</p> <p><b>Bank's Response:</b> <i>Complied with. Please refer page 63 of this Annual Report for the details of the Nomination Committee.</i></p>
Appraisal of Board Performance	<p>Should disclose how performance evaluations have been conducted.</p> <p><b>Bank's Response:</b> <i>Board's performance is evaluated annually, by each and every Director anonymously against the following criteria:</i></p> <p><b>Key Functions</b></p> <ul style="list-style-type: none"> <li>(i) (a) <i>Discharge of statutory regulatory duties</i></li> <li style="padding-left: 20px;">(b) <i>Discharge of other responsibilities of the Board</i></li> <li>(ii) (a) <i>Corporate Governance</i></li> <li style="padding-left: 20px;">(b) <i>Risk Management monitoring</i></li> <li>(iii) <i>Seeking and contributing views and opinions on strategic decision making.</i></li> <li>(iv) <i>Leveraging the skills, expertise, of individual Board Members in furtherance of business.</i></li> <li>(v) <i>Understanding the compensation philosophy - 'to retain and motivate staff in a manner appropriate for the business'.</i></li> <li>(vi) <i>Understanding the succession plans to ensure comprehensive staff succession - 'to ensure talent availability and address expectations of high potential and high quality staff'.</i></li> <li>(vii) <i>Overall view of Management of the business by the Board of Directors.</i></li> </ul>
Board Related Disclosures	<p>The following details pertaining to each Director should be disclosed.</p> <ul style="list-style-type: none"> <li>● name, qualification and brief profile;</li> <li>● the nature of his/her expertise in relevant functional areas;</li> <li>● immediate family and/or material business relationships with other Directors of the Company;</li> <li>● names of other listed companies in Sri Lanka in which the Director concerned serves as a Director;</li> <li>● names of companies in which the Director concerned serves as a Director and/or the fact that he/she holds other directorships in the Group Companies;</li> <li>● number/percentage of board meetings of the Company attended during the year;</li> <li>● names of the Committees in which the Director serves as the Chairman or a member; and</li> <li>● number/percentage of committee meetings attended during the year.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer pages 70 to 74, 65 to 67 and page 59 of this Annual Report for Sections on 'Information on Board of Directors', 'Directors' interests in contracts with the Company' and 'Board Committees' respectively.</i></p>

## Corporate Governance

Subject	Corporate Governance Principle
Disclosure of Remuneration	<ul style="list-style-type: none"> <li>• A Statement of Remuneration Policy and details of remuneration of the Board as a whole.</li> <li>• Details of remuneration of the Board as a whole</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer page 62 of this Annual Report for the 'Human Resources and Remuneration Committee Report' and Note 5 to the Financial Statements on page 124 of this Annual Report.</i></p>
Major Transactions	<p>All Major Transactions entered into by the Company should be disclosed.</p> <p><b>Bank's Response:</b> <i>Complied with. Disclosures made in this Annual Report, where appropriate.</i></p>
Audit Committee	<ul style="list-style-type: none"> <li>• Names of the Members of the Audit Committee should be disclosed.</li> <li>• Basis for determining the independence of auditors.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer pages 60 and 61 of this Annual Report for the 'Audit Committee Report'.</i></p>
Code of Business Conduct and Ethics	<ul style="list-style-type: none"> <li>• Should disclose whether the Company has a Code of Business Conduct &amp; Ethics for Directors and members of the Senior Management team.</li> <li>• Should also disclose an affirmative declaration that they have abided by such Code.</li> <li>• The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with.</i></p>
Going Concern	<ul style="list-style-type: none"> <li>• Should report that the Company is a going concern, with supporting assumptions and qualifications as necessary.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer page 95 of this Annual Report for the 'Statement of Directors' Responsibility'.</i></p>
Subject	Disclosure
<b>B. Remuneration Committee Report</b>	
Members of Remuneration Committee	<ul style="list-style-type: none"> <li>• The names of members of Remuneration Committee should be disclosed in the Remuneration Committee Report.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer page 62 of this Annual Report for the 'Human Resources and Remuneration Committee Report'.</i></p>
<b>C. Directors' Report</b>	
Directors' Report	<p>Should contain the following declarations made by the Directors:</p> <ul style="list-style-type: none"> <li>• The Company has not engaged in any activities, which contravenes laws and regulations;</li> <li>• The Directors have declared all material interest in contracts involving the Company and refrained from voting on matters in which they were materially interested;</li> <li>• The Company has made all endeavours to ensure the equitable treatment of shareholders;</li> <li>• The business is a going concern with supporting assumptions or qualifications as necessary; and</li> <li>• They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence herewith.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer pages 57, 65 to 67 and 95 of this Annual Report for this information.</i></p>

Corporate Governance

Subject	Disclosure
<b>D. Financial Statements</b>	
Financial Statements	<ul style="list-style-type: none"> <li>The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer page 95 of this Annual Report for the Report on 'Statement of Directors' Responsibility'.</i></p> <hr/> <ul style="list-style-type: none"> <li>Auditors should also have a statement about their reporting responsibility.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer page 97 of this Annual Report for the 'Auditors' Report'.</i></p>
<b>E. Management Report</b>	
Management Report	<p>Should include a 'Management Discussion and Analysis Report' discussing at least the following issues:</p> <ul style="list-style-type: none"> <li>industry structure and developments;</li> <li>opportunities and threats;</li> <li>risks and concerns;</li> <li>internal control systems and their adequacy;</li> <li>social and environmental protection activities carried out by the Company;</li> <li>financial performance;</li> <li>material developments in human resources/industrial relations; and</li> <li>prospects for the future.</li> </ul> <p><b>Bank's Response:</b> <i>Complied with. Please refer pages 12 to 27 of this Annual Report for the Section on 'Management Report' and Section on 'Sustainability Supplement' on pages 28 to 35.</i></p>
<b>F. Corporate Governance Report</b>	
Corporate Governance Report	<p>Should disclose the manner and extent to which the Company has complied with the principles and provisions of the Code.</p> <p><b>Bank's Response:</b> <i>Complied with.</i></p>
<b>G. Audit Committee Report</b>	
Audit Committee Report	<p>Should set out the work carried out by the Committee.</p> <p><b>Bank's Response:</b> <i>Complied with. Please refer pages 60 to 61 of this Annual Report for the 'Audit Committee Report'.</i></p>

Corporate Governance

**Bank's Adherence with the Corporate Governance Rules as Required by Section 3 (8) of the Banking Act Direction No. 11 of 2007 Issued by the Central Bank of Sri Lanka****Corporate Governance Disclosure Requirements****(i) The Board shall ensure that:**

- Annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards; and

**Bank's Response:** *Complied with. Please refer 'Statement of Directors' Responsibility' on page 95 of this Annual Report.*

- Such statements are published in the newspaper in an abridged form, in Sinhala, Tamil and English.

**Bank's Response:** *Complied with.*

**(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report:**

- A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.

**Bank's Response:** *Complied with. Please refer 'Statement of Directors' Responsibility' on page 95 of this Annual Report.*

- A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

**Bank's Response:** *Complied with. Please refer 'Statement of Directors' Responsibility' on page 95 of this Annual Report.*

- The External Auditors' certification on the effectiveness of the internal control mechanism as referred to in Direction 3 (8) (ii) (b), in respect of any statements prepared or published after December 31, 2008.

**Bank's Response:** *Complied with. Please refer 'Auditors' Report' on page 97 of this Annual Report.*

- Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank.

**Bank's Response:** *Complied with. Please refer the Section on 'Information on Board of Directors' on pages 72 to 74, Report on 'Annual Corporate Governance' published in the Annual Report as per Direction 3 (1) (xvi) of the Banking Act Directions No.11 of 2007 as shown below, Section on 'Directors' Interests in Contracts with the Company' on pages 65 to 67, Note 38 to the Financial Statements on 'Related Party Disclosures' and Note 5 to the Financial Statements for remuneration paid, of this Annual Report.*

- Total net accommodation as defined in 3 (7) (iii) of the Direction, granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital.

**Bank's Response:** *Complied with. Please refer Note 38 to the Financial Statements on 'Related Party Disclosures' in this Annual Report.*

- The aggregate values of remuneration paid by the Bank to its key management personnel and the aggregate values of the transactions of the Bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.

**Bank's Response:** *Complied with. Please refer Note 38 to the Financial Statements on 'Related Party Disclosures' in this Annual Report.*

### Corporate Governance Disclosure Requirements

- A report setting out details of the compliance with prudential requirements, regulations, laws and internal control and measures taken to rectify any material non-compliances.

**Bank's Response:** *There were no material non-compliances. Please refer 'Statement of Directors' Responsibility' on page 95 of this Annual Report for details on compliance measures.*

- A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to disclosed to the public, together with the measures taken by the Bank to address such concerns.

**Bank's Response:** *There were no lapses in the risk management and non-compliance with Directions issued by the Central Bank identified for disclosure to the public.*

#### Annual Corporate Governance Report to be Published in the Annual Report as per Direction 3 (1) (xvi) of the Banking Act Directions No. 11 of 2007, subsequently amended Responsibilities of the Board

The Board has taken necessary steps to ensure the safety and soundness of the Bank, as required by such Direction No. 3 (1) (i) of the said Direction.

Mr. M.J.C. Amarasuriya is the Chairman and Mr. A.L. Gooneratne is the Chief Executive Officer and their functions and responsibilities have been clearly defined by the Board.

The Board meets regularly, generally once a month, and during the year 2008 there were 15 meetings including emergency meetings of the Board, with the active participation, in person, by all members of the Board. During the year 2008, all the Directors attended over two-third of the number of meetings that were held except for the Directors who were entitled to participate only at a lesser number of meetings.

All directors are at liberty to make recommendations and give proposals to be included in the Agenda under any of the relevant subjects or under any other business. The Board papers are dispatched one week prior to the general board meetings and depending on the urgency, adequate notice is given for emergency meetings.

Mrs. R.R. Dunuwille, Attorney-at-Law and an Associate of the Institute of Chartered Secretaries and Administrators functions as the Company Secretary of the Bank. The Company Secretary complies with the requirements, as per the Direction aforesaid, with the supervision and the guidance of the Board. The Directors are permitted to seek independent professional advice, as and when required and the Company Secretary takes the initiative in this connection. The Company Secretary attends all the Board meetings by invitation and prepares the minutes for the approval of the Board of Directors.

The minutes are kept under the custody of the Managing Director, to whom the Company Secretary reports, through the Chief Financial Officer. The minutes are recorded in sufficient detail, containing a summary of data and information used by the Board in its deliberations, all related matters considered by the Board, key points of the discussions, recommendations of the Chief Executive Officer and other relevant Officers and the final decisions of the Board. The Directors do not participate in the decision making process on matters, in which they have an interest and avoid conflicts of interests in their activities with the Bank. Such Directors' presence is disregarded in counting the quorum for such issues.

The Board has put in place systems and controls to facilitate the effective discharge of Board Functions. The Board has complied with the capital adequacy requirements. The Board has also put in place effective systems to secure the integrity of information, internal controls and risk management.

The Directors also assessed the Board's overall performance at the end of the year to ensure that the Board responsibilities are satisfactorily discharged. From 2009, arrangements are being made to adopt a scheme of self-assessment, to be undertaken by each Director, annually.

#### Board's Composition

At present, there are 9 Directors on the Board, whose names are listed out elsewhere in the Annual Report. All the Directors are persons with a good record of accomplishment and have the necessary skills and experience to direct and lead the Bank.

The sub-direction 3 (2) (iv) specifies the criteria for 'independence of Directors' and it is also mentioned that this sub-direction shall be applicable from January 1, 2010 onwards. The Board has noted the contents of the sub-direction for future reference.

New appointments and re-elections of Directors to the Board are considered and recommended by the Nomination Committee and based on

## Corporate Governance

such recommendations, final decisions are made by the Board, in a formal and transparent manner. All Directors appointed to the Board, other than the nominee Directors are subject to re-election by shareholders at the first general meeting after their appointment. During the year 2008, the Board announced all resignations of Directors and the reasons for such resignations and whether or not there were any matters that needed to be brought to the attention of the shareholders, in connection with such resignations. No director or an employee of another Bank has been appointed as a director, unless the Bank is an associate of that Bank.

**Fitness and Propriety of Directors**

The provisions of Section 42 of the Banking Act No. 30 of 1988 and the criteria set out in the Directions No. 11 of 2007, subsequently amended, are applied to determine the fitness and propriety of the Directors. Accordingly, the Board is of the view that each and every Director is a fit and proper person to serve as a Director of the Bank.

**Management Functions Delegated by the Board**

The Board is empowered by the Articles of Association to delegate to the Chief Executive Officer any of the powers vested with the Board, upon such terms and conditions and with such restrictions as the Board may think fit. The Chief Executive Officer shall have powers, within the limitations applicable, to delegate such office/powers as he may think necessary, for the management/operations of the Bank. The business of the Bank is managed by the Board either by themselves or through the Chief Executive Officer, with the assistance of the Corporate Management, Senior Management and the other Executive and general staff of the Bank. The delegation of powers of the Board are subject to the general laws, regulations

and directions applicable to the Bank, to ensure that the delegation of authority would not in any way reduce the Board's ability to discharge its functions fully and effectively, such delegated powers are reviewed periodically by the Board.

**Chairman and Chief Executive Officer**

Mr. M.J.C. Amarasuriya, who is a Non-Executive Independent Director, in terms of the directions under reference, plays the role of the Chairman of the Bank and Mr. A.L. Gooneratne performs the role of the Chief Executive Officer. The Board is aware that there are no relationships whatsoever, including financial, business, family any other material/relevant relationship between the Chairman and the Chief Executive Officer, other than being common Directors of a few companies. Similarly, no relationships prevail among the other members of the Board, other than being common Directors of certain companies.

The Chairman provides leadership to the Board by ensuring that the Board functions effectively and facilitates the effective discharge of Board functions. The Board consistently follows proper procedure to deliberate key issues substantially and in a timely manner and ensures that all Directors make an effective contribution, within their respective capabilities, for the benefit of the Bank.

The Agenda for each Board Meeting is finalised by the Company Secretary depending on the matters to be taken up at the meeting, under supervision of the Chief Executive Officer and finally, the Chairman.

The Bank ensures that the Directors receive adequate information in a timely manner. On urgent matters, every effort is made to provide the information, as early as possible.

The Board papers are prepared by the employees to provide adequate information to the Board to deliberate on all key issues concerning the Bank.

All the Directors bring independent judgment to bear on issues of strategy, conduct of bank operations and performance. The Chairman takes all possible action to ensure that the Board acts in the best interests of the Bank.

At general meetings, the shareholders are given the opportunity to take up matters for which clarification is needed. Further, matters are adequately clarified by the Chairman or Chief Executive Officer or any other Officer. In addition, all the correspondence addressed to the Board of Directors by the shareholders or any other party is referred to the Board and necessary action is taken to address the issues in a timely manner.

The Chief Executive Officer is responsible for the implementation of strategy and responsible for the day-to-day management of the Bank. The Chairman does not directly supervise any key management personnel and other Senior or General Executive Officers.

**Sub-Committees**

The following sub-committees have been appointed by the Board requiring each such committee to report to the Board:

1. Board Audit Committee
2. Board Human Resources and Remuneration Committee
3. Board Nomination Committee
4. Board Integrated Risk Management Committee
5. Board Credit Committee
6. Board Strategic Planning Committee

A report, published elsewhere in the Annual Report deals with the above committees.

**Related Party Transactions**

Suitable mechanisms are in place to avoid any conflicts of interest, referred to in the direction.

● BOARD SUB-COMMITTEES



Number of Meetings Held/Attended

Committee	Main Board		Audit Committee		Human Resources & Remuneration Committee		Nomination Committee		Integrated Risk Management Committee		Credit* Committee	Strategic** Committee
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Eligible to Attend
Mr. M.J.C. Amarasuriya	15	14			3	2	4	3				
Mr. B.R.L. Fernando	15	12	9	7			4	4	4	4		
Mr. A.L. Gooneratne	15	15			3	3	4	4	4	4		
Dr. H.S. Wanasinghe	15	15	9	9	3	3						
Mr. A.N. Fonseka <i>(Resigned w.e.f. 31.01.2009)</i>	15	15	9	7					4	4		
Mr. Lalin J.A. Fernando	15	15			3	3	4	4	4	3		
Mr. P.M. Martelli <i>(Appointed w.e.f. 16.10.2008)</i> or Mr. P. Kjellerhaug <i>(Alternate Director)</i>	4	2										
Mr. D.S. Weerakkody	15	15	9	5	3	3						
Mr. R.M.S. Fernando <i>(Appointed w.e.f. 19.12.2008)</i>	1	1										
Deshamanya Ken Balendra <i>(Resigned w.e.f. 16.04.2008)</i>	4	4										
Mr. I.M. Malas <i>(Resigned w.e.f. 10.07.2008)</i> or Mr. G. Galludec <i>(Alternate Director)</i>	8	4										

\* The Committee did not meet during the year but approved facility papers by circulation.

\*\* The Committee did not meet during the year.

Committee/Composition As at December 31, 2008	Main Board	Audit	Human Resources & Remuneration	Nomination	Integrated Risk Management	Credit	Strategic Planning
Mr. M.J.C. Amarasuriya	★		★	★		★	★
Mr. B.R.L. Fernando	◆	★		◆	★	◆	◆
Mr. A.L. Gooneratne	◆	●	◆	●	◆	◆	◆
Mr. Dr. H.S. Wanasinghe	◆	◆	◆				
Mr. A.N. Fonseka	◆	◆			◆		
Mr. L.J.A. Fernando	◆		◆	◆	◆		
Mr. P.M. Martelli	◆						
Mr. D.S. Weerakkody	◆	◆	◆				◆
Mr. R.M.S. Fernando	◆						

★ Chairman ◆ Member ● By invitation

Reports of the Audit, Human Resources and Remuneration, Nomination and Integrated Risk Management Board Sub-Committees are given on pages 60 to 64 of this Annual Report.

## ● BOARD AUDIT COMMITTEE REPORT

### The Composition of the Committee

In accordance with the currently accepted Best Practice and Corporate Governance Guidelines, the Board appointed Audit Committee comprises of the following Non-Executive Directors of the Bank:

- Mr. B.R.L. Fernando (*Chairman*)
- Dr. H.S. Wanasinghe
- Mr. A.N. Fonseka
- Mr. D.S. Weerakkody

The Chairman of the Committee, a Non-Executive Director, is a senior Chartered Accountant. Additionally, Mr. A.T.P. Edirisinghe, a senior practicing Chartered Accountant with a wealth of experience in Audit, Accounting Standards and Financial Reporting, serves on the Committee in the capacity of a Consultant. The Committee is responsible and reports to the Board of Directors. The Managing Director and the Chief Financial Officer attend committee meetings by invitation. The Bank's Deputy General Manager - Inspection, functions as the Secretary of the Committee.

### Terms of Reference

The Charter of the Audit Committee clearly defines the terms of reference of the Audit Committee. The Charter is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments and concerns are adequately addressed. The role and functions of the Committee are further regulated by the rules governing the Audit Committee as specified by Section 3 (6) (ii) of the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', 'Rules on Corporate Governance' of the Listing Rules of the Colombo Stock Exchange and 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission.

The main objective of the Audit Committee is to assist the Board of Directors to effectively carry out its responsibilities relating to financial and other connected affairs of the Bank. The Committee is empowered to:

- Examine any matter relating to the financial and other connected affairs of the Bank
- Monitor all Internal and External Audit and Inspection Programmes
- Review Internal and External Audit Reports and follow up on recommendations
- Review the efficiency of Internal Control Systems and Procedures, in place
- Review the quality of Accounting Policies and their adherence to Statutory and Regulatory Compliance
- Review the Bank's Annual Report and Accounts and Interim Financial Statements prepared for disclosure, before submission to the Board
- Ensure that a well managed sound financial reporting system is in place to provide timely reliable information to the Board of Directors, Regulatory Authorities, Management and all other stakeholders
- Ensure Bank's policies are firmly committed to the highest standards of good corporate governance practices and operations conform to the highest ethical standards, in the best interests of all stakeholders

### Meetings

The Committee held nine meetings during the year under review. The attendance of Committee Members at meetings is stated in the table on page 59. Managing Director/CEO, Chief Financial Officer and Deputy General Manager - Inspection attended the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at meetings as and

when required. The proceedings of the Audit Committee meetings are regularly reported to the Board of Directors.

### Activities

The Committee carried out the following activities:

#### Financial Reporting

The Committee reviewed the effectiveness of the financial reporting system in place to ensure that the information provided to the stakeholders is reliable and is in strict adherence and compliance to the requirements of the Sri Lanka Accounting Standards and disclosure requirements. The Annual Accounts and Interim Financial Statements prepared for disclosure, were reviewed by the Committee prior to submission to the Board for approval. Having assessed the internal financial controls, the Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Bank's assets are safeguarded and that the financial position of the Bank is well monitored.

#### Regulatory Compliance

The Bank's procedures in place to ensure Compliance with Mandatory Banking and other Statutory Requirements were under close scrutiny. Through the quarterly statements submitted by the Corporate Management, the Committee monitors the due compliance with all requirements.

#### Managing Risks

The Committee reviewed the effectiveness of the procedures in place for identifying, assessing and managing all significant risks. Bank's adherence to risk management measures approved by the Board is reviewed biannually. The members of the Corporate Management were invited to make presentations on Risk Management

Board Audit Committee Report

measures adopted in their areas of responsibility. Risk rating guidelines with an appropriate Risk Grading Matrix has been formulated for identifying and assessing the operational risks.

**Internal Audit and Inspection**

The Bank continued to engage the services of five firms of Chartered Accountants, approved by the Central Bank of Sri Lanka, to assist the Bank's Inspection Department, in carrying out branch inspections. The Committee regularly reviewed and monitored the internal audit and inspection functions and the performance of the Inspection Department. Over 250 Audit and Inspection reports on Branches and Head Office Departments were examined to observe operational deficiencies and the recommendations were followed up. Members of the Committee also undertook visits to some of the Branches in order to be better appraised of branch operations.

**External Audit**

The Committee met with the Auditors prior to commencement and at the conclusion of the Annual Audit to discuss the audit scope, approach and methodology to be adopted and the findings of the audit. Non-Executive Directors had separate meetings with Auditors to ensure they had no cause to compromise on their independence. Auditors' Management Letter together with the Management's response thereto and the Audited Financial Statements were reviewed with the Auditors. The Committee reviewed the non-audit

services provided by the Auditors to ensure that such services do not fall within the restricted services and provision of such services does not impair the External Auditors independence and objectivity.

**Internal Controls**

The Committee regularly examined major decisions taken by the 'Assets and Liabilities Committee', 'Credit Policy and Credit Risk Management Committee', all exceptional items and unexpected losses charged to the Income Statement, long outstanding items in Bank's Chart of Accounts, credit quality and adherence to bad debts classification and provisioning policies. Credit monitoring procedures were reviewed and further strengthened.

The effectiveness of the internal control procedures in place for selected processes were carefully evaluated.

**Good Governance**

Highest standards in Corporate Good Governance and strict adherence to the requirements of Bank's Code of Ethics are ensured through close monitoring. Through the Code of Ethics all levels of staff have been educated and encouraged to resort to whistle blowing, when they suspect wrong doings or other improprieties. The Committee also ensures that appropriate procedures are in place to conduct independent investigations into all such incidents.

**The Charter of the Audit Committee**

The Charter was revised during the year with the concurrence of the Board.

**Evaluation of the Committee**

The other Members of the Board of Directors, through the annual evaluation conducted, has assessed the effectiveness of the Committee as satisfactory.

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be reappointed as Auditors for the financial year ending December 31, 2009 subject to the approval of shareholders at the next Annual General Meeting.

**B.R.L. Fernando**

*Chairman - Audit Committee*

Colombo  
February 18, 2009

## ● BOARD HUMAN RESOURCES & REMUNERATION COMMITTEE REPORT

### Composition of the Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee comprises of five members, consisting of an Executive Director and four Non-Executive Directors. The Human Resources and Remuneration Committee is headed by the Non-Executive Director/Chairman, Mr. M.J.C. Amarasuriya and committee members include Managing Director, Mr. A.L. Goonaratne, Dr. H.S. Wanasinghe, Mr. Lalin J.A. Fernando and Mr. D.S. Weerakkody. The Committee Members are nominated by the Board of Directors of the Bank. The Managing Director who is responsible for the overall management of the Bank provides information to the Committee and participates in its deliberations. The Managing Director does not attend in relation to matters that can affect him.

### Charter of the Human Resources and Remuneration Committee

The Committee is responsible for determining the compensation of the Chairman, Deputy Chairman, Managing Director and Members of the Board of Directors of the Bank. The Committee also determines the compensation and benefits of the Key Management Personnel and establishes performance parameters in setting their individual targets. In addition, they lay down guidelines and parameters for the compensation structures for all Executive Staff of the Bank and oversee the implementation of these policies.

The primary objective of compensation packages is to attract and retain a highly qualified and experienced workforce and reward their performance. In this regard, the Committee sets the criteria such as qualifications, experience and key attributes required and the eligibility, to be considered for appointment or promotion to the

post of Managing Director and the Key Management Personnel.

The Committee in fulfilling above tasks reviews information concerning executive pay to bring it in line with the market rates and practices. In this connection, the Committee periodically determines the basis for revising remuneration, benefits and other payments of performance-based incentives. The compensation and benefits structure of the Bank harmonises and strengthens the performance driven culture of the Bank. During the year 2008, the Committee obtained the services of local and international companies to conduct salary surveys in order to benchmark the compensation package with the external market to ascertain the base pay and other benefits to make it attractive to the staff.

The Human Resources and Remuneration Committee recognises rewards as one of the key drivers influencing employee behaviour, thereby impacting on business results. The Committee engaged Hewitt Associates (India) to carry out a comprehensive assessment of the Bank's compensation and benefits programme to make it more effective. Key deliverables of this project included a detailed diagnostic study of the current salaries and benefits programme, a fresh strategy around salaries and benefits for the Bank, design of pay ranges for different grades and rationalising benefits in line with market practices and organisational imperatives.

### Human Resources and Remuneration Committee meetings

The Committee held three meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 59 of this Annual Report.

Members of the Senior Management of the Bank were invited to participate at meetings as and when required. The proceedings of the Committee meetings are regularly reported to the Board of Directors.

### Methodology used by the Human Resources and Remuneration Committee

The Committee evaluates the performance of the Managing Director and Key Management Personnel against the pre-agreed targets and goals. The Bank's variable pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay or bonuses payable on achievement of the targets is set at the level perceived as correct to provide necessary incentives for executives at all levels including the members of the Corporate Management. The Committee makes appropriate adjustments to the bonus payable in the event of over or under achievement against pre-determined targets.

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise. Further, the Committee assesses and recommends to the Board on promotions of the Key Management Personnel and addresses their succession arrangements.

**M.J.C. Amarasuriya**

*Chairman - Human Resources and Remuneration Committee*

Colombo  
February 18, 2009

## ● BOARD NOMINATION COMMITTEE REPORT

### Composition of the Nomination Committee

The Nomination Committee comprises of four Members, which is headed by the Chairman, who is a Non-Executive Director and the Managing Director, Mr. A.L. Goonaratne, who attends meetings by invitation. The Committee Members are appointed by the Board of Directors of the Bank. The other members are Messrs B. R. L. Fernando and L.J.A. Fernando. Mrs. R.R. Dunuwille, the Company Secretary of the Bank, functions as the Secretary of the Committee.

### Charter of the Nomination Committee

The mandate of the Committee includes inter-alia the following:

- To supplement a procedure to select/appoint new Directors/Chief Executive Officer and Key Management Personnel
- To consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities
- To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Chief Executive Officer and the key management positions

- To ensure that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold office
- To consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel
- To make recommendations on matters referred to it by the Board

### Nomination Committee Meetings

The Committee held four meetings during the year under review. The attendance of Committee Members at meetings is stated in the table on page 59 of this Annual Report. The proceedings of the Committee meetings are regularly reported to the Board of Directors.

### Methodology Adopted by the Nomination Committee

The Committee continues to work closely with the Board in reviewing regularly, the skills needed for the Bank and the Board. The Committee is satisfied that the representation of skills on the Board is appropriate for the Bank's current board level needs.

**M.J.C. Amarasuriya**  
*Chairman - Nomination Committee*

Colombo  
February 18, 2009

## ● BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

### **Composition of Board Integrated Risk Management Committee**

The Board Integrated Risk Management Committee consists of four members and is headed by the Deputy Chairman, Mr. B.R.L. Fernando, who is a Non-Executive Director. The Committee includes the Managing Director, Mr. A.L. Gooneratne, Mr. L.J.A. Fernando and Mr. A.N. Fonseka. The Chief Financial Officer, Mr. K.D.N. Buddhipala and Risk Management Consultant, Mr. D.J. Kelly attend meetings by invitation. Mr. Buddhipala also functions as the Secretary of the Committee.

### **Charter of the Board Integrated Risk Management Committee**

The Board Integrated Risk Management Committee was established by the Board of Directors on December 27, 2007 as required by the Directions of the Monetary Board for Corporate Governance for Licensed Commercial Banks and follows the rules laid down in paragraph 3 (6) (v) of those Directions. The specific responsibilities of the Committee within the Bank's overall Risk Governance framework are described on page 36 of the Risk Management section of this Annual Report.

During the course of 2008, the Committee drafted a Charter, which when fully implemented will enable it to comply with the disclosure and governance standards implicit under Pillar 3 of the Basel II Accord in due course.

### **Board Integrated Risk Management Committee Meetings**

The Committee held four meetings during the year under review. The attendance of Committee Members at meetings is stated in the table on page 59 of this Annual Report. The proceedings of the Committee Meetings are regularly reported to the Board of Directors.

### **Methodology adopted by the Board Integrated Risk Management Committee**

The Committee works closely with the Board in fulfilling its statutory, fiduciary and regulatory responsibilities for Risk Management.



**B.R.L. Fernando**

*Chairman - Board Integrated Risk Management Committee*

Colombo  
February 18, 2009

## ● DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

Related Party Disclosures as required by the Sri Lanka Accounting Standard No. 30 on Related Party Disclosures (Revised 2005) is detailed in Note 38 to the Financial Statements. In addition, the Bank carries out transactions in the ordinary course of business in an arm's length basis with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities, as detailed below:

Company	Relationship	Accommodation Granted/Deposits	Limit As at 31.12.08 Rs. '000	Balance Outstanding As at 31.12.08 Rs. '000	Balance Outstanding As at 31.12.07* Rs. '000
<b>(a) Mr. M.J.C. Amarasuriya</b>					
Pelwatte Sugar Industries PLC	Chairman	Loans & Advances	175,000	<b>115,137</b>	227,810
		Deposits		<b>1,115</b>	2,807
Serendib Flour Mills (Pvt) Ltd.	Chairman	Loans & Advances	3,299,223	<b>249,684</b>	331,074
		Off Balance Sheet Accommodations	4,020,000	<b>724,805</b>	-
		Deposits		<b>175,833</b>	34,224
<b>(b) Mr. B.R.L. Fernando</b>					
Chemical Industries (Colombo) PLC	Chairman	Loans & Advances	100,000	<b>67,990</b>	6,349
		Off Balance Sheet Accommodations	100,000	<b>2,161</b>	40,882
		Deposits		<b>7,836</b>	123
Chemanex PLC	Chairman	Loans & Advances	40,000	<b>37,593</b>	-
		Off Balance Sheet Accommodations	43,000	<b>9,289</b>	4,822
		Deposits		<b>1,909</b>	7,960
CIC Agri Business (Pvt) Ltd.	Chairman	Loans & Advances	1,114,000	<b>785,931</b>	655,510
		Off Balance Sheet Accommodations	5,000	<b>10,785</b>	14,678
CIC Agri Produce Marketing (Pvt) Ltd.	Chairman	Deposits		<b>727</b>	580
CIC Feeds (Pvt) Ltd.	Chairman	Loans & Advances	1,032,295	<b>756,440</b>	543,778
		Off Balance Sheet Accommodations	5,000	<b>4,677</b>	253,816
		Deposits		<b>543</b>	31
CIC Seeds (Pvt) Ltd.	Chairman	Loans & Advances	19,600	<b>9,600</b>	9,600
		Off Balance Sheet Accommodations	10,000	-	66,483
		Deposits		<b>8,863</b>	4,637
CIC Agri Biotech (Pvt) Ltd.	Chairman	Loans & Advances	15,000	<b>2,240</b>	8,172
		Off Balance Sheet Accommodations	15,000	<b>313</b>	113
		Deposits		<b>1,176</b>	639
CIC Vetcare (Pvt) Ltd.	Chairman	Loans & Advances	80,000	<b>80,119</b>	73,313
		Off Balance Sheet Accommodations	30,000	<b>9,491</b>	37,835
		Deposits		<b>729</b>	1,138
CIC Cropguard (Pvt) Ltd.	Chairman	Deposits		<b>498</b>	-
CIC Poultry Farms Ltd.	Chairman	Loans & Advances	20,500	<b>20,561</b>	3,540
		Off Balance Sheet Accommodations	20,000	-	4,313
CISCO Speciality Packaging (Pvt) Ltd.	Chairman	Loans & Advances	125,000	<b>41,157</b>	48,024
		Off Balance Sheet Accommodations	25,000	-	3,638
Akzo Nobel Paints Lanka (Pvt) Ltd.	Chairman	Deposits		<b>14,564</b>	5,834
Premier Electronics (Pvt) Ltd.	Director	Deposits		<b>563</b>	429
Rainwear (Pvt) Ltd.	Director	Loans & Advances (US\$)	295	<b>209</b>	142

\* Comparative figures for 2007 are disclosed only if there are outstandings as at December 31, 2008.

## Directors' Interests in Contracts with the Company

Company	Relationship	Accommodation Granted/Deposits	Limit As at 31.12.08 Rs. '000	Balance Outstanding As at 31.12.08 Rs. '000	Balance Outstanding As at 31.12.07* Rs. '000
<b>(b) Mr. B.R.L. Fernando (Contd.)</b>					
The Light House Hotel PLC	Director	Loans & Advances	10,000	10,062	4,955
		Deposits		624	631
Link Natural Products (Pvt) Ltd.	Director	Deposits		703	659
Kelani Valley Canneries Ltd.	Director	Loans & Advances	20,000	21,669	22,206
		Off Balance Sheet Accommodations	7,000	1,000	-
		Deposits		3,562	3,127
<b>(c) Mr. A.N. Fonseka (Resigned w.e.f. January 31, 2009)</b>					
DFCC Stock Brokers (Pvt) Ltd.	Chairman	Deposits		500	487
Lanka Industrial Estates Ltd.	Chairman	Deposits		12,872	5,365
National Asset Management Ltd.	Director	Deposits		366	361
<b>(d) Mr. D.S. Weerakkody</b>					
Chartered Institute of Management Accountants	Former Council Member	Deposits		7,957	6,322
<b>(e) Deshamanya Ken Balendra (Resigned w.e.f. April 23, 2008)</b>					
Brandix Lanka Ltd.	Chairman	Loans & Advances (US\$)	9,800	4,798	4,856
		Deposits (US\$)		604	3
Brandix Intimate Apparels Ltd.	Director	Loans & Advances (US\$)	300	-	-
		Off Balance Sheet Accommodations (SEK)		370	-
		Deposits		4,457	246
Brandix Casual Wear Ltd.	Director	Loans & Advances (US\$)	650	561	563
		Off Balance Sheet Accommodations (US\$)		1,500	-
		Deposits		14,110	4,817
Brandix Apparels Ltd.	Director	Deposits		405	310
		Deposits (US\$)		20	20
Phoenix Ventures Ltd.	Director	Loans & Advances	200,000	25,000	-
		Deposits		271	216
Chevron Lubricants Lanka PLC	Director	Loans & Advances	150,000	-	-
		Off Balance Sheet Accommodations	100,000	-	-
		Deposits (US\$)		160	309

\* Comparative figures for 2007 are disclosed only if there are outstandings as at December 31, 2008.

Directors' Interests in Contracts with the Company

Company	Relationship	Accommodation Granted/Deposits	Limit As at 31.12.08 Rs. '000	Balance Outstanding As at 31.12.08 Rs. '000	Balance Outstanding As at 31.12.07* Rs. '000
<b>(f) Mr. R.M.S. Fernando (Appointed w.e.f. December 19, 2008)</b>					
Orient Financial Services Corporation Ltd.	Chairman	Loans & Advances	1,460,797	<b>413,793</b>	652,762
		Deposits		<b>156</b>	-
United Motors Lanka PLC	Chairman	Loans & Advances	256,265	<b>132,749</b>	270,746
		Off Balance Sheet Accommodations	45,000	<b>61,132</b>	55,604
		Deposits		<b>19</b>	1,048
Unimo Enterprises (Pvt) Ltd.	Director	Loans & Advances	125,000	<b>68,142</b>	139,040
		Off Balance Sheet Accommodations	150,000	<b>94,865</b>	78,042
		Deposits		<b>47</b>	-
Orient Motor Company Ltd.	Director	Loans & Advances	15,000	<b>7,559</b>	17,302
UML Property Developments Ltd.	Director	Deposits		<b>442</b>	393
Piramal Glass Ceylon PLC	Director	Loans & Advances	200,000	<b>149,309</b>	732
		Off Balance Sheet Accommodations	110,000	<b>54,691</b>	10,151
		Deposits		<b>139</b>	-
Kelani Tyres PLC	Director	Loans & Advances	6,000	<b>4,683</b>	5,497
Alucop Cables Ltd.	Director	Loans & Advances	658,560	<b>568,840</b>	499,364
		Off Balance Sheet Accommodations	400,000	<b>219,518</b>	150,924
		Deposits		<b>964</b>	792
Sierra Cables PLC	Director	Deposits		<b>3,323</b>	113

\* Comparative figures for 2007 are disclosed only if there are outstandings as at December 31, 2008.

## ● BOARD OF DIRECTORS



M.J.C. Amarasuriya  
A.L. Gooneratne  
A.N. Fonseka

B.R.L. Fernando  
Dr. H.S. Wanasinghe  
L.J.A. Fernando



D.S. Weerakkody  
P.M. Martelli  
Mrs. S.N. Wickramasinghe

R.M.S. Fernando  
P. Kjellerhaug  
Mrs. R.R. Dunuwille (*Company Secretary*)

## ● BOARD OF DIRECTORS - PROFILES

### **M.J.C. Amarasuriya** - *Chairman*

He was first appointed to the Board on May 15, 1986 and appointed Chairman on January 1, 1995. He holds 447,097 Voting shares and 151,881 Non-Voting Shares.

He is the Chairman of Pelwatte Sugar Industries Ltd., Serendib Flour Mills (Pvt) Ltd., Equity Investments Lanka Ltd., Unawatuna Beach Resorts Ltd. and the Lions Clubs International Foundation. Immediate Past President of the International Association of Lions Clubs and Past Chairman of United Motors Lanka PLC, Joint Business Forum of Chambers of Commerce and Industry, Employers' Organisation and Trade Associations of Sri Lanka (JBIZ), the Employers' Federation of Ceylon, National Agribusiness Council International Chamber of Commerce, Sri Lanka, Commercial Fund Management (Pvt) Ltd. and Regional Industries Services Committee of the North Western Province. He was the Former Deputy Chairman of Hayleys PLC.

### **B.R.L. Fernando** - *Deputy Chairman*

He was first appointed to the Board on January 1, 1995 and appointed Deputy Chairman on April 6, 2006. He holds 8,414 Non-Voting shares. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka. He is the Chairman of Chemical Industries (Colombo) PLC, Akzo Nobel Paints Lanka (Pvt) Ltd., Chemanex PLC, CIC Agri Business (Pvt) Ltd., CIC Seeds (Pvt) Ltd., CIC Agri Biotech (Pvt) Ltd., CIC Feeds (Pvt) Ltd., CIC Vetcare (Pvt) Ltd., CIC Poultry Farms Ltd., CIC Crop Guard (Pvt) Ltd., CISCO Speciality Packaging (Pvt) Ltd., CIC Environmental Management Liquid (Pvt) Ltd., CIC Bio Security Breeder Farms Ltd., Crop Management Services (Pvt) Ltd. and Mercantile Service Provident Society.

He is a Director of Rainwear (Pvt) Ltd., First Guardian Equities (Pvt) Ltd., Link Natural Products (Pvt) Ltd., Commercial Development Company PLC, Kelani Valley Canneries, Commercial Bank Primary Dealer Ltd., Premier Electronics (Pvt) Ltd., CIC Mahaweli Livestock Dairies (Pvt) Ltd. and Catholic Business Persons and Professional Association. He is a Trustee of the Employers' Federation of Ceylon. He is also a Committee Member of the Japan-Sri Lanka Technical and Cultural Association.

### **A.I. Gooneratne** - *Managing Director*

He was first appointed to the Board as the Managing Director on January 6, 1997. He joined the Bank in March 1983 and held several senior positions prior to his appointment as the General Manager/Chief Executive in March 1996. He holds 806,216 Voting and 38,028 Non-Voting Shares. He is a Fellow of The Institute of Chartered Accountants, England & Wales and a Fellow of The Institute of Chartered Accountants, Sri Lanka. He was the Past Chairman of the Financial Ombudsman, Sri Lanka (Guarantee) Ltd., the Sri Lanka Banks' Association (Guarantee) Ltd., a Board Member of the Sri Lanka Banks' Association and a Director of Financial Services Bureau. He represents the Bank's interests on the Boards of all of its Associate and Subsidiary Companies.

### **Dr. H.S. Wanasinghe**

He was first appointed to the Board on January 5, 1990. He is a Senior Visiting Fellow of the Institute of Policy Studies, a Member of Council of Fellows of the Marga Institute, a Member of the Board of Directors of the Centre for Policy Alternatives and Transparency International, Sri Lanka. He is a Director

of Commercial Development Company PLC. He served the United Nations Economic and Social Commission for Asia and the Pacific for 15 years and on his return to Sri Lanka in 1986 served as the Chairman of the Presidential Committee on Administrative Reforms, the Presidential Taxation Commission and the Public Investment Management Board. Before joining the United Nations, he served as a Member of the Ceylon Civil Service for 24 years.

### **A.N. Fonseka**

He was first appointed to the Board on January 31, 2000. He holds 1,077 Non-Voting Shares. He is the Chief Executive Officer of DFCC Bank PLC and Chairman of DFCC Consulting (Pvt) Ltd., DFCC Stockbrokers (Pvt) Ltd., Lanka Industrial Estates Ltd., Lanka Ventures Ltd., Synapsys Ltd., Acuity Partners (Pvt) Ltd. and the Colombo Stock Exchange. He is a Director of Commercial Bank Primary Dealer Ltd., National Asset Management Ltd., ONEzero Company Ltd., and Credit Information Bureau of Sri Lanka. He is a Member of the Governing Board of the National Institute of Business Management. He resigned from the Board on January 31, 2009.

### **L.J.A. Fernando**

He was first appointed to the Board on April 25, 2003. He is Founder & Managing Director of Standard Trading Company (Pvt) Ltd. He is a Director of L.F. Holdings (Pvt) Ltd., L.F. Teas (Pvt) Ltd., STC Logistics (Pvt) Ltd., STC Trading House (Pvt) Ltd., Horana Plantations Ltd., Ceylon Plantation Management Ltd., Unidil Packaging (Pvt) Ltd., Research International (Pvt) Ltd., Marlinkspike Property Developers (Pvt) Ltd., and The Solutions (Pvt) Ltd. He counts over 37 years experience in the Tea Trade.

**D.S. Weerakkody**

He was first appointed to the Board on July 29, 2005. He holds 1,000 Voting Shares. He holds a Master's Degree in Business Administration (MBA) from the University of Leicester, England and is an Associate of the Chartered Institute of Management Accountants, UK. He is an Honorary Member of the Institute of Personnel Management Sri Lanka. He is Managing Director of Cornucopia Lanka Ltd., Director/Advisor of HR Cornucopia India, Director of DFCC Bank PLC, and SmithKline Beecham Sri Lanka. He is a Committee member of the Sri Lanka Tennis Association. He was the Former Chairman/CEO of the Employees' Trust Fund Board, Sri Lanka and the Advisor to the Prime Minister of Sri Lanka from January 2003 - April 2004. He was a Council Member and Chairman Employer Relations of the Chartered Institute of Management Accountants (CIMA) Sri Lanka Division. He has received extensive training in leadership, international relations, change management and human resource management in Singapore, UK, Japan, India and USA.

**R.M.S. Fernando**

He was first appointed to the Board on December 19, 2008. He holds 3,466 Non-Voting shares. He has a Bachelor of Laws (Hons) Degree from the University of Ceylon and is a Fellow of The Chartered Institute of Management Accountants, UK, a Fellow of The Chartered Institute of Bankers, UK, and Companion of The Chartered Institute of Management, UK. He is Chairman of United Motors Lanka PLC, Orient Financial Services Ltd., Latex Green Ltd., Wealth Trust Corporation

(Pvt) Ltd. and Director of Kelani Tyres PLC, Sierra Cables PLC, Piramal Glass Ceylon PLC, ICICI International (Pvt) Ltd., (Mauritius), Prasac Microfinance - Cambodia, Sarvodaya Economic Enterprise Development Ltd. He was Past Chief Executive Officer and Director of The National Development Bank of Sri Lanka. He was the Former Secretary to the Ministry of Enterprise Development, Industrial Policy, Investment Promotion & Constitutional Affairs (2002 to 2004).

**P.M. Martelli**

He was appointed to the Board on October 16, 2008. He has a Postgraduate Degree in Energy Economics from Enrico Mattei in Milan, Italy. He was Director of the South Asia Department at the International Finance Corporation, the private sector arm of the World Bank Group. He was/is Senior Regional Manager for Mexico and Central America in Latin America and the Caribbean Department and Head of Treasury & Finance of the Merloni Group in Italy.

**P. Kjellerhaug**

He was appointed to the Board on October 16, 2008. He has a M.Sc in Chemical Engineering, from the Norwegian Institute of Technology, a BBA/MSc from the Norwegian School of Economics, Norway and a MBA from INSEAD, France.

He is the Regional Manager of the South Asia Department at the International Finance Corporation, the private sector arm of the World Bank Group.

**Mrs. S.N. Wickramasinghe**

She joined the Board on February 1, 2009. She is an Attorney at Law and a Fellow of the Chartered Management Institute, UK. She is presently the Chairperson of the Unit Trust Management Company Ltd. - Ceybank Unit Trust. She previously worked at Hatton National Bank PLC as a Deputy General Manager and at the Lankaputhra Development Bank as General Manager/CEO.

She was a Member of the Securities and Exchange Commission of Sri Lanka (SEC) and the Treasurer at the Banker's Club.

She was the Vice-President of Chartered Management Institute, UK.

**Mrs. R.R. Dunuwille -  
Company Secretary**

She is an Attorney-at-Law and Chartered Secretary (UK).

**Acknowledgements**

**The Chairman and the Board of Directors would like to acknowledge the contribution**

**made by** Mr. A.N. Fonseka, Deshamanya Ken Balendra, Mr. G. Galudec and Mr. I.M. Malas. All four of them made a strong contribution to the success of the Bank during their tenure as Directors and the Bank is immensely grateful for this.

**The Chairman and the Board of Directors would like to warmly welcome the new members of**

**the Board:** Mr. P.M. Martelli, Mr. P. Kjellerhaug, Mr. R.M.S. Fernando and Mrs. S. N. Wickramasinghe.

## ● INFORMATION ON BOARD OF DIRECTORS

### Directorate

#### List of Directors

The following were the Directors of the Bank as at the end of the year:

Mr. M.J.C. Amarasuriya	- Chairman
Mr. B.R.L. Fernando	- Deputy Chairman
Mr. A.L. Gooneratne	- Managing Director
Dr. H.S. Wanasinghe	- Director
Mr. A.N. Fonseka	- Director & Alternate Director to Mr. D.S. Weerakkody (Resigned w.e.f. January 31, 2009)
Mr. L.J.A. Fernando	- Director
Mr. D.S. Weerakkody	- Director
Mr. P.M. Martelli	- Director (Appointed w.e.f. October 16, 2008)
Mr. P. Kjellerhaug	- Alternate Director to Mr. P.M. Martelli (Appointed w.e.f. October 16, 2008)
Mr. R.M.S. Fernando	- Director (Appointed w.e.f. December 19, 2008)

#### Resignations/New Appointments during the year:

- Deshamanya Ken Balendra resigned on April 16, 2008
- Mr. G. Galudec resigned on May 31, 2008
- Mr. I.M. Malas resigned on July 10, 2008
- Mr. P.M. Martelli was appointed as the Nominee Director of IFC on October 16, 2008 and Mr. Per Kjellerhaug was appointed on October 16, 2008 as the Alternate Director to Mr. Martelli
- Mr. R.M.S. Fernando was appointed on December 19, 2008 to fill the casual vacancy on the Board.

#### Resignations/New appointments after December 31, 2008:

1. Mr. A.N. Fonseka relinquished his duties with effect from January 31, 2009, as a Director and also as the Alternate Director to Mr. D. S. Weerakkody.
2. Mrs. S. N. Wickramasinghe nominated by DFCC Bank, in place of Mr. A.N. Fonseka was appointed to the Board on February 1, 2009.

#### Recommendations for Re-election Mr. M.J.C. Amarasuriya

In accordance with Articles 85 and 86 of Articles of Association of the Company, Mr. M.J.C. Amarasuriya retired by rotation at the last Annual General Meeting.

In terms of the provisions of the Banking Act Directions No. 11 of 2007 (Corporate Governance for Licensed Commercial Banks in Sri Lanka), which were applicable at the time of the last Annual General Meeting, the total period of service of a Director, other than a Director who held the position of the Chief Executive Officer, could not exceed 9 years, up to January 1, 2008, subject to the transitional provisions indicated in the aforesaid Directions. According to the transitional provisions, the longest serving Director, out of the Directors, whose period of service had exceeded 9 years, was required to vacate office on December 31, 2008. The longest serving Director on our Board was Mr. Amarasuriya and as per the provisions of the Directions No. 11 of 2007 applicable at that time, Mr. Amarasuriya was permitted to hold the office of a Director only upto December 31, 2008. Therefore, it was resolved at the last Annual General Meeting that Mr. Amarasuriya be re-elected a Director of the Bank, subject to the application of the said Direction.

The Banking Act Directions No. 11 of 2007 were amended on August 15, 2008 and the amendment changed the entire situation, since the amended provisions permitted Mr. Amarasuriya to act as a Director even after December 31, 2008, subject to the other regulations

applicable. The following general exemption is currently applicable in this connection, subject to the other provisions of the Directions, Companies Act No. 7 of 2007 and the Articles of Association of Commercial Bank:

**3 (2) (ii) (B)** A director who has completed nine years as at January 1, 2008, or who completes such term at any time prior to December 31, 2008 may continue for a further maximum period of 3 years commencing January 1, 2009.

**3 (9) (v)** If for any reason such as ill health or other incapacity, the Monetary Board considers that exemptions referred to in Directions 3 (2) (ii) B, 3 (3) (i) A and 3 (3) (ii) A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

Since the resolution adopted at the last Annual General Meeting, authorised Mr. Amarasuriya's re-election, subject to the provisions of the said Directions and the amended provisions permitted Mr. Amarasuriya to act as a Director after December 31, 2008, subject to the compliance with other laws applicable, it is possible for Mr. Amarasuriya to continue to serve on the Board, until such time he is required to be re-elected by rotation. In terms of Article 85 of the Articles of Association of the Bank, 2 Directors are required to retire by rotation. When considering these 2 Directors, we are not permitted to consider any Director who is due to be considered for re-election, after such Director's appointment to fill a casual vacancy on the Board or a Director whose re-election is scheduled to be considered due to the fact that such Director is over 70 years of age. As explained below, Mr. R.M.S. Fernando, who was appointed to fill the casual vacancy on the Board will be considered for re-election at the Annual General Meeting. Further, re-election of Dr. H.S. Wanasinghe, who has already reached 70 years of age, several

Information on Board of Directors

years ago, will also be considered at the meeting. However, the re-election of Dr. Wanasinghe and Mr. R.M.S. Fernando needs to be disregarded, when identifying the 2 Directors who shall retire by rotation, since the 2 Directors to retire by rotation shall be the Directors who have been longest in office, since their last re-election. The longest serving Director after re-election is Mr. B.R.L. Fernando. The next longest serving directors are Messrs M.J.C. Amarasuriya and L.J.A. Fernando, who were re-elected at the last Annual General Meeting. According to Article 86 as between persons who were last re-elected on the same day, the Director to retire shall, unless they otherwise agree among themselves, be determined by lot. Having considered the procedure applicable under Article 86 it has been agreed that Mr. Amarasuriya's re-election be proposed at the forthcoming Annual General Meeting.

Mr. Amarasuriya, being eligible for re-election is recommended by the Board of Directors for re-election, from the conclusion of the forthcoming Annual General Meeting of the Company, subject to the application of aforesaid Directions No. 11 of 2007, Companies Act No. 7 of 2007 and the Articles of Association of the Bank.

**Dr. H.S. Wanasinghe**

In terms of the provisions of the aforesaid Directions No. 11 of 2007 applicable at the last Annual General Meeting, if a Director was over 75 years of age as at January 1, 2008, such a Director could continue to serve as a Director only upto December 31, 2008. Therefore, Dr. Wanasinghe was permitted to hold office of a Director up to December 31, 2008. Due to this reason, the shareholders resolved at the last Annual General Meeting that Dr. Wanasinghe be re-elected as a Director of the Bank, subject to the application of the said Direction. However, as mentioned above, the Directions were amended on August

15, 2008 and the amended provisions permit Dr. Wanasinghe to act as a Director after December 31, 2008, subject to the other regulations applicable.

Further, the following provisions too are applicable for Dr. Wanasinghe.

**3 (3) (i) (A)** A Director who has reached the age of 70 years as at January 1, 2008 or who would reach the age of 70 years prior to December 31, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.

**3 (2) (ii) (B)** A Director who has completed 9 years as at January 1, 2008, or who completes such a term at anytime prior to December 31, 2008 may continue for a further maximum period of 3 years commencing from January 1, 2009.

**3 (9) (v)** If for any reason such as ill health or other incapacity, the Monetary Board considers that exemptions referred to in Directions 3 (2) (ii) (B), 3 (3) (i) (A) and 3 (3) (ii) (A) should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.

In addition, a Special Notice has been received by the Company from Union Investment Ltd., a shareholder of the Bank, informing their intention to move a resolution stating that Section 210 of the Companies Act No. 7 of 2007 shall not apply to Dr. Wanasinghe (Resolution is stated on page 172 under Notice of Meeting).

Accordingly, Dr Wanasinghe is being proposed to be re-elected to the Board of Commercial Bank.

Dr. Wanasinghe, being eligible for re-election is recommended by the Board of Directors for re-election, from the conclusion of the forthcoming Annual General Meeting of the Company, subject to the application of Directions No. 11 of 2007 aforesaid, Companies Act No. 7 of 2007 and the Articles of Association of the Bank.

**Mr. R.M.S. Fernando**

Mr. R.M.S. Fernando who was appointed to the Board to fill the casual vacancy which prevailed at the time of appointment is required to retire in terms of Article 92 of the Articles of Association of the Company. Mr. R.M.S. Fernando being eligible for re-election is recommended by the Board of Directors for re-election.

**Mr. B.R.L. Fernando**

The Company has been advised by Messrs Julius & Creasy that it will be necessary to review the remaining members of the Board, excluding Dr. Wanasinghe and Mr. Ranjit Fernando and determine the two Directors, who are to retire by rotation at the forthcoming Annual General Meeting. In the circumstances Mr. B.R.L. Fernando, the next longest serving Director is also required to retire by rotation at the forthcoming Annual General Meeting. Mr. B.R.L. Fernando being eligible for re-election is recommended by the Board of Directors for re-election.

**Directors' Meetings**

Details of Directors' meetings are presented on page 59 of the Annual Report.

**Directors' Responsibility for Financial Reporting**

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes thereto appearing on pages 98 to 164 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

Information on Board of Directors

### Directors' Interests in Ordinary Shares

Individual shareholdings of Directors were as follows:

	As at 31.12.2008	As at 31.12.2007
Mr. M.J.C. Amarasuriya	447,097	447,097
	151,881	151,881
	<b>(Non-Voting)</b>	(Non-Voting)
Mr. B.R.L. Fernando	8,414	8,414
	<b>(Non-Voting)</b>	(Non-Voting)
Mr. A.L. Gooneratne	806,216	806,216
	38,028	38,028
	<b>(Non-Voting)</b>	(Non-Voting)
Mr. L.J.A. Fernando	Nil	Nil
Mr. A.N. Fonseka	1,077	1,077
	<b>(Non-Voting)</b>	(Non-Voting)
Mr. G. Galludec	N/A	Nil
Deshamanya Ken Balendra	N/A	Nil
Mr. Iyad M. Malas	N/A	Nil
Dr. H.S. Wanasinghe	Nil	Nil
Mr. D.S. Weerakkody	1,000	Nil
Mr. R.M.S. Fernando	3,466	3,466
	<b>(Non-Voting)</b>	(Non-Voting)

### Percentage Shareholding of the Directors

Ordinary Voting Shares	0.54%	0.54%
Ordinary Non-Voting Shares	1.26%	1.26%

Directors' shareholdings have not changed subsequently from the date of the Balance Sheet up to January 18, 2009, being one month prior to the date of Notice of the Annual General Meeting.

### Directors' Interests in Cumulative Redeemable Preference Shares

There were no Cumulative Redeemable Preference Shares registered in the name of any Director as at the beginning of the year.

### Directors' Interests in Debentures

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

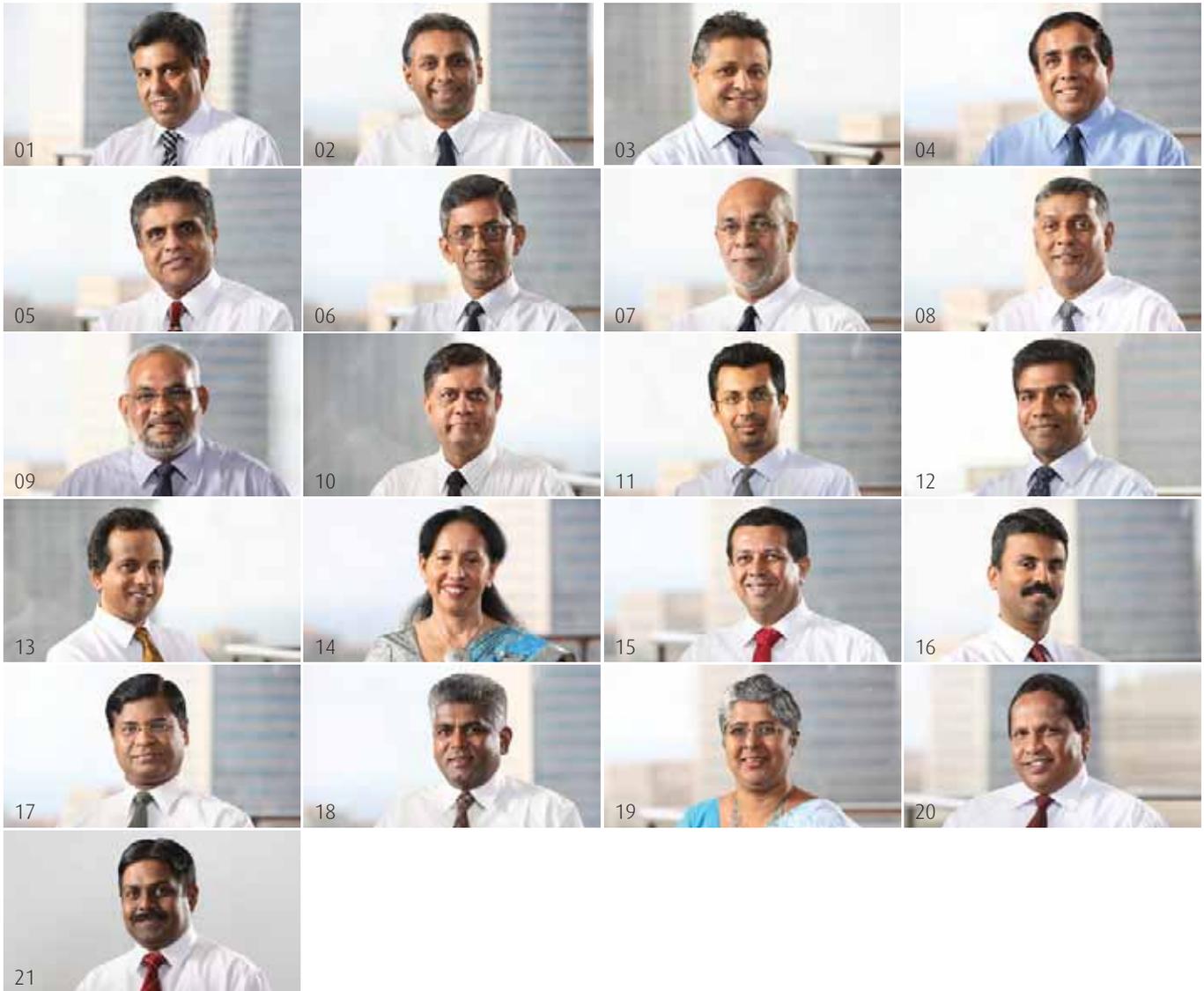
### Directors' Interests in Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 65 to 67 of this Annual Report. These interests have been declared at Directors' Meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

### Adherence of Laws and Regulations

The Company has not engaged in any activities, which contravene laws and regulations.

● CORPORATE MANAGEMENT TEAM

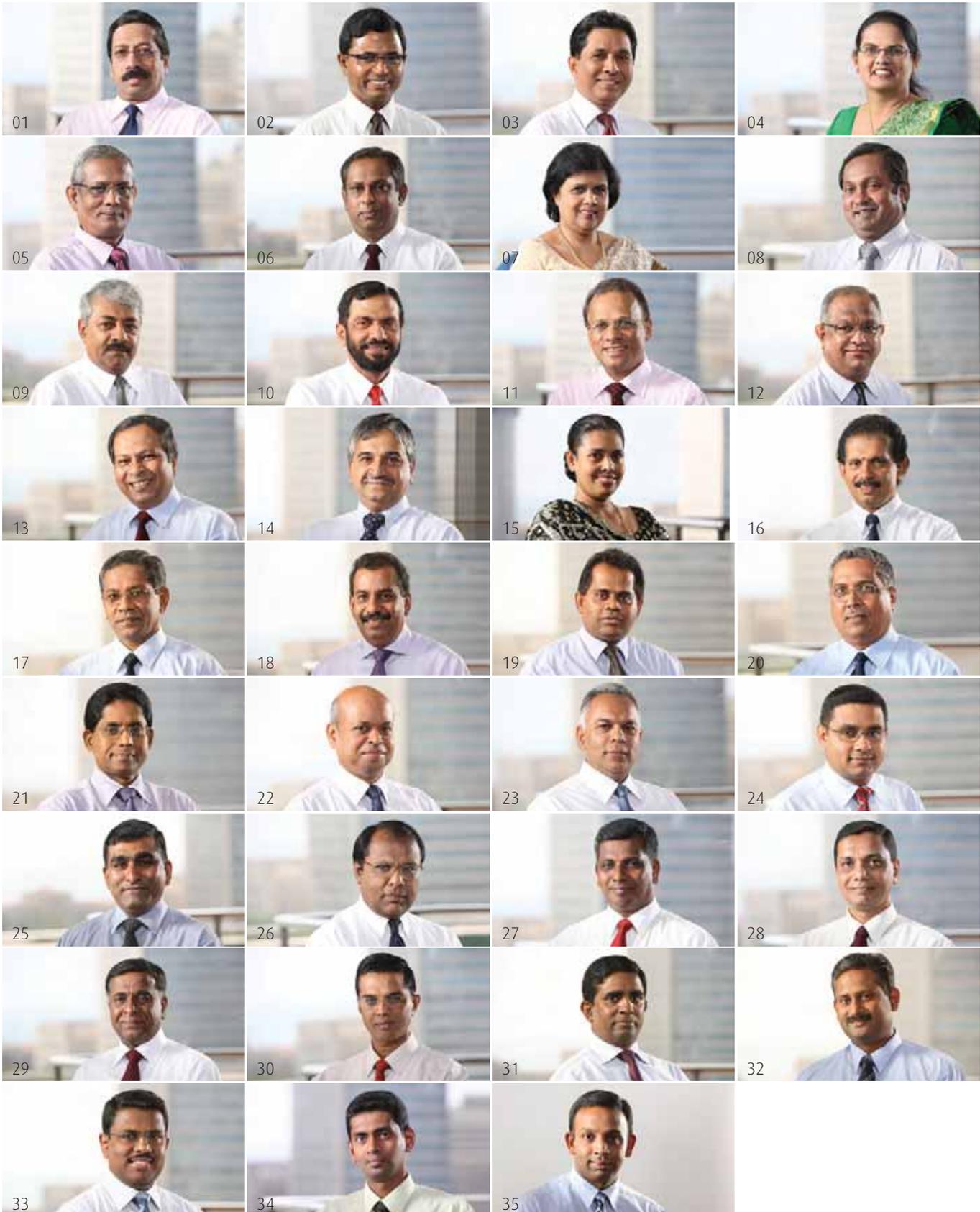


- 01. A.L. Gooneratne - (Managing Director/  
Chief Executive Officer)
- 02. W.M.R.S. Dias - (Chief Operating Officer)
- 03. G.L.C. Amarasiri - (Chief HR Officer/  
Deputy General Manager - Human  
Resource Management)
- 04. B.H.M.G. Dharmasiri -  
(Deputy General Manager -  
Corporate Banking)
- 05. S.D. Bandaranayake - (Deputy General  
Manager - Operations)
- 06. M.A. Pemasiri - (Deputy General Manager  
- Properties & Services)
- 07. Delip Fernando - (Deputy General  
Manager - Inspection)

- 08. K.D. Nimal Luxshman -  
(Deputy General Manager -  
Personal Banking)
- 09. Jegan Durairatnam - (Deputy General  
Manager - International)
- 10. D.S. Weeratunga - (Head of Global Treasury)
- 11. Dudeepa Ratwatte -  
(Head of Global Markets)
- 12. Nandika Buddhipala - (Chief Financial Officer)
- 13. Rohan Muttiah - (Chief Information Officer)
- 14. Mrs. Marion Abeywardena - (Asst. General  
Manager - Corporate Banking I)
- 15. Vimal Fernando - (Asst. General Manager -  
Personal Banking I)

- 16. Ajith Wijayasundara - (Asst. General  
Manager - Information Technology)
- 17. Chandana Gunasekera - (Asst. General  
Manager - SME/Personal Banking II)
- 18. Richard Rodrigo - (Asst. General Manager  
- Planning & Implementation)
- 19. Mrs. Carmelita De Silva - (Asst. General  
Manager - Corporate Banking II)
- 20. Felician Perera - (Asst. General  
Manager - Recoveries)
- 21. S. Renganathan - (Chief Risk Officer/  
Asst. General Manager - Integrated  
Risk Management)

● SENIOR MANAGEMENT TEAM



- |  |  |   |
|--|--|---|
| 01. S. Raghavan ( <i>Head of Exports</i> )                                 | 15. Mrs. R.R. Dunuwille ( <i>Company Secretary</i> )                       | 27. Amitha Munasinghe ( <i>Chief Manager - Information Systems Audit and Business Continuity Planning</i> ) |
| 02. Palitha Narangoda ( <i>Market Risk Specialist</i> )                    | 16. Lakshman Perera ( <i>Chief Manager - Card Centre</i> )                 | 28. Chanura Wijetilleke ( <i>Chief Manager - Union Place Branch</i> )                                       |
| 03. Palitha Perera ( <i>Head of Operations</i> )                           | 17. Anura Ratnayake ( <i>Chief Manager - Operations - Foreign Branch</i> ) | 29. Upali Bandara ( <i>Regional Manager - Central</i> )   |
| 04. Mrs. Sandra Walgama ( <i>Senior Regional Manager - Colombo South</i> ) | 18. V.S. Rajasooriyar ( <i>Regional Manager - North Eastern</i> )          | 30. S. Shanmugarajah ( <i>Chief Manager - ICBS Unit</i> )   |
| 05. C.M. Abeysekera ( <i>Head of Corporate Banking III</i> )               | 19. Vajira Thotagammana ( <i>Chief Manager - IT Operations</i> )           | 31. P. U. de Silva ( <i>Chief Manager - City Office</i> )   |
| 06. Naveen Sooriyarachchi ( <i>Head of Corporate Finance</i> )             | 20. Ivan Fernando ( <i>Regional Manager - Colombo Metro</i> )              | 32. Saman Kalansuriya ( <i>Chief Manager - Leasing</i> )  |
| 07. Mrs. Sarojini Dunuwille ( <i>Head of Legal</i> )                       | 21. Sivam Yoganandasivam ( <i>Chief Manager - IT</i> )                     | 33. K. A. Prins Perera ( <i>Chief Dealer - Foreign Exchange &amp; Corporate Sales</i> )                     |
| 08. Hilary Fernando ( <i>Head of Treasury Processing</i> )                 | 22. Leel Rodrigo ( <i>Regional Manager - South Eastern</i> )               | 34. Sanath Wijesuiya ( <i>Chief Dealer - Fixed Income Securities</i> )                                      |
| 09. Nugent Kapuwatte ( <i>Head of Lease Promotion</i> )                    | 23. Ajith Naranpanawe ( <i>Regional Manager - North Western</i> )          | 35. Asela Wijesiriwardena ( <i>Chief Dealer - Assets &amp; Liability Management</i> )                       |
| 10. Noel Wickramasinghe ( <i>Head of Logistics</i> )                       | 24. Sanath Manatunga ( <i>Chief Manager - Corporate Banking</i> )          |   |
| 11. Duminda Kurukulasuriya ( <i>Head of Imports</i> )                      | 25. Prasanna Indrajith ( <i>Chief Manager - Finance</i> )                  |   |
| 12. B.W.R. Srikantha ( <i>Senior Regional Manager - Colombo North</i> )    | 26. Colvin Karunaratne ( <i>Chief Manager - Exports</i> )                  |   |
| 13. Niran De Costa ( <i>Senior Regional Manager - Colombo Inner</i> )      |  |   |
| 14. Roshan Perera ( <i>Regional Manager - Greater Colombo</i> )            |  |   |

● MANAGEMENT COMMITTEE - BANGLADESH



- |   |   |
|---|---|
| 01. Mr. S. Renganathan - ( <i>Country Manager</i> )   | 06. Mr. A.K. Nandy - ( <i>Deputy General Manager - Head of Chittagong Branch</i> )              |
| 02. Mr. D. Das Gupta - ( <i>Senior General Manager</i> )  | 07. Mr. Mohamed Rashid - ( <i>Assistant General Manager - Internal Control and Compliance</i> ) |
| 03. Mr. S. Prabagar - ( <i>Chief Operating Officer</i> )  | 08. Mr. Binoy Gopal Roy - ( <i>Assistant General Manager - Finance and Accounts</i> )           |
| 04. Mr. S. Kutubuddin Ahmed - ( <i>General Manager - Risk, Compliance and Corporate Affairs</i> ) |   |
| 05. Mr. Golam Mortuza - ( <i>Deputy General Manager - International Trade</i> )                   |   |

# Events 2008

## January

- CBC's ATM Network Reaches Milestone 300



Commercial Bank's Automated Teller Machine (ATM) network, the largest on-line 24-hour cash dispensing system in the country, reached another milestone with the commissioning of its 300th ATM.

## February

- The Bank illuminated the pathway leading to the Bodiya and Dagabo at Ridi Viharaya by constructing series of electric lamps.
- The Bank also made a contribution to upgrade the facilities of the ENT Unit of the Colombo General Hospital.

## March

- The Bank's 164th & 165th Branches were opened at Wadduwa & Ward Place
- CBC gets a Gold at the HRM Awards 2007



CBC received a Gold Award at the 'HRM Awards 2007 - Super 10' organised by the Association of Human Resources Professionals, together with Hewitt Associates, India, the world's foremost provider of Human Resources consulting and outsourcing services.

- CBC Offers Instant ATM/Debit Cards

CBC introduced an Instant Over-the-Counter ATM cum Debit Card to those who open accounts with the Commercial Bank.

- CBC, Union Assurance Gears up for Over-the-Counter Cash Services

Union Assurance customers could collect their motor claims, in cash, over-the-counter from over 160 Commercial Bank branches spread throughout the island.

## April

- Commercial Bank - Sri Lanka's Best Bank for the Record 10th Successive Year



CBC for the record 10th successive year, was adjudged Sri Lanka's 'Best Bank' by one of the world's most respected financial publications, Global Finance (USA).

## May

- Commercial Bank Launches 'Super Saver'



A new savings account with an interest rate of 12%, was launched by CBC having identified the need among dynamic savers for a high yielding Savings Account with full operational flexibility.

## June

- CBC's CSR Trust paves the way to Sri Pada



The Corporate Social Responsibility Trust (CSR Trust) of the Commercial Bank commenced a project to rehabilitate and reconstruct the stretch between Seethangangula and Thenna.

## July

- The Bank's 166th Branch was opened at Biyagama



## August

- The Bank's 167th Branch was opened at Puttalam



## September

- Commercial Bank - Bangladesh gets a Credit Rating Upgrade

Commercial Bank - Bangladesh, was awarded a rating of AA+ for long term credit, an upgrade from the previous rating of AA, by Credit Rating Information and Services Ltd. (CRISL).

- CBC Awarded over Rs. 2 Mn to Arunala Scholarship Winners of 2008



## October

- The Bank's 168th Branch was opened at Pelmadulla
- 'Global Quality Award' by MasterCard Worldwide



CBC was awarded the 'Global Quality Award' by MasterCard Worldwide, recognising the Bank's excellence in operational achievements.

- Commercial Bank on 'Top 1000 World Banks' - 'The Banker' Magazine

CBC Ranked 155th in the world in terms of Financial Soundness & 950th on Tier-1 Capital, CBC became the first Sri Lankan Bank to be ranked among the Top 1000 Banks of the world on Capital Adequacy and Soundness.

## November

- CBC Annual Report 2007 Wins SAFA Awards
- Joint Overall Winner (Platinum Award)
- Banking Sector Winner (Gold Award) by the South Asian Federation of Accountants (SAFA)
- Bank of the Year 2008 - Sri Lanka' - The Banker Magazine



The prestigious UK-based magazine, 'The Banker', has awarded 'Bank of the Year 2008 - Sri Lanka' award to Commercial Bank of Ceylon PLC.

- CBC launches Pawning from the Kotikawatte Branch



## December

- The Bank's 169th outlet was opened at Arpico Service Point - Negombo
- Kandy City Office (170th) was opened in Kandy



- Chartered Accountants Annual Report Awards - 2008



The Institute of Chartered Accountants of Sri Lanka has awarded the CBC Annual Report 2007 in several categories:

- Excellence in Annual Financial Reporting - Gold Award (Joint)
- Banking Sector Winner - Gold Award
- Management Commentary Award - Silver Award (Joint)

# Investor Relations Supplement

## Quarterly Performance - 2008 Compared to 2007

### Summary of the Income Statements

#### Group

	2008					2007				
	1st Quarter 31-March Rs. Mn	2nd Quarter 30-June Rs. Mn	3rd Quarter 30-Sept Rs. Mn	4th Quarter 31-Dec Rs. Mn	Total 31-Dec Rs. Mn	1st Quarter 31-March Rs. Mn	2nd Quarter 30-June Rs. Mn	3rd Quarter 30-Sept Rs. Mn	4th Quarter 31-Dec Rs. Mn	Total 31-Dec Rs. Mn
Net Interest Income	2,991.9	3,077.8	3,282.5	3,543.3	<b>12,895.5</b>	2,432.4	2,990.1	3,107.7	3,056.7	11,586.9
Non-Interest Income	1,390.4	1,749.3	1,775.2	1,831.7	<b>6,746.6</b>	1,091.7	1,133.6	1,312.7	1,148.3	4,686.3
Less: Operating Expenses	(2,591.7)	(2,965.0)	(3,170.1)	(3,508.2)	<b>(12,235.0)</b>	(1,947.9)	(2,281.3)	(2,522.6)	(2,755.5)	(9,507.3)
Profit from Operations	1,790.6	1,862.1	1,887.6	1,866.8	<b>7,407.1</b>	1,576.2	1,842.4	1,897.8	1,449.5	6,765.9
Add: Share of profit of Associates	3.5	0.7	5.2	(0.3)	<b>9.1</b>	1.6	1.9	0.3	21.2	25.0
Profit before taxation	1,794.1	1,862.8	1,892.8	1,886.5	<b>7,416.2</b>	1,577.8	1,844.3	1,898.1	1,470.7	6,790.9
Less: Income tax expense	(768.9)	(769.8)	(954.5)	(802.6)	<b>(3,295.8)</b>	(548.6)	(700.2)	(793.7)	(595.9)	(2,638.4)
Profit after taxation	1,025.2	1,093.0	938.3	1,063.9	<b>4,120.4</b>	1,029.2	1,144.1	1,104.4	874.8	4,152.5
Profit as % of the total	24.9	26.5	22.8	25.8	<b>100.0</b>	24.8	27.6	26.6	21.1	100.0

#### Bank

Net Interest Income	2,981.5	3,067.2	3,272.7	3,531.1	<b>12,832.5</b>	2,426.9	2,982.4	3,098.2	3,044.4	11,551.9
Non-Interest Income	1,385.1	1,929.4	1,775.4	1,837.1	<b>6,927.0</b>	1,101.7	1,126.7	1,308.3	1,183.3	4,720.0
Less: Operating Expenses	(2,603.1)	(2,976.9)	(3,181.1)	(2,498.2)	<b>(12,259.3)</b>	(1,960.1)	(2,294.5)	(2,535.4)	(2,777.1)	(9,567.1)
Profit before taxation	1,763.5	2,019.7	1,867.0	1,870.0	<b>7,520.2</b>	1,568.5	1,814.6	1,871.1	1,450.6	6,704.8
Less: Income tax expense	(763.2)	(761.0)	(946.1)	(781.5)	<b>(3,251.8)</b>	(541.4)	(693.8)	(787.6)	(578.4)	(2,601.2)
Profit after taxation	1,000.3	1,258.7	920.9	1,088.5	<b>4,268.4</b>	1,027.1	1,120.8	1,083.5	872.2	4,103.6
Profit as % of the total	23.4	29.5	21.6	25.5	<b>100.0</b>	25.0	27.3	26.4	21.3	100.0

### Summary of the Balance Sheets

#### Group

	2008					2007				
	As at 31-March Rs. Mn	As at 30-June Rs. Mn	As at 30-Sep Rs. Mn	As at 31-Dec Rs. Mn		As at 31-March Rs. Mn	As at 30-June Rs. Mn	As at 30-Sep Rs. Mn	As at 31-Dec Rs. Mn	
Net Loans & Advances	177,815.2	177,135.6	177,830.7	<b>180,197.1</b>		150,713.2	160,480.1	165,974.8	174,172.1	
Investments	55,954.1	52,667.6	56,801.6	<b>56,595.2</b>		34,820.6	46,786.7	48,164.3	52,466.9	
Other Assets	45,161.2	46,379.5	47,613.7	<b>44,774.7</b>		48,975.5	43,592.0	44,691.7	41,746.2	
	278,930.5	276,182.7	282,246.0	<b>281,567.0</b>		234,509.3	250,858.8	258,830.8	268,385.2	
Deposits	186,099.1	191,498.2	195,796.8	<b>199,865.2</b>		168,750.9	169,331.9	174,516.5	183,087.9	
Other Liabilities	67,408.7	59,778.4	60,993.9	<b>55,448.8</b>		48,653.7	58,080.3	60,143.1	60,915.6	
Shareholders' Funds	25,422.7	24,906.1	25,455.3	<b>26,253.0</b>		17,104.7	23,446.6	24,171.2	24,381.7	
	278,930.5	276,182.7	282,246.0	<b>281,567.0</b>		234,509.3	250,858.8	258,830.8	268,385.2	

#### Bank

Net Loans & Advances	177,927.5	177,242.1	177,966.2	<b>180,401.2</b>		150,830.6	160,596.7	166,090.7	174,323.6	
Investments	55,984.6	52,861.7	56,981.5	<b>56,767.1</b>		34,894.5	46,851.7	48,220.5	52,510.0	
Other Assets	44,533.6	45,747.7	46,968.7	<b>44,045.4</b>		48,713.3	43,277.0	44,389.0	41,106.0	
	278,445.7	275,851.5	281,916.4	<b>281,213.7</b>		234,438.4	250,725.4	258,700.2	267,939.6	
Deposits	186,104.3	191,512.0	195,818.2	<b>199,881.0</b>		168,875.4	169,362.7	174,542.5	183,110.1	
Other Liabilities	67,389.3	59,737.4	60,964.2	<b>55,441.5</b>		48,635.3	58,116.4	60,207.7	60,893.5	
Shareholders' Funds	24,952.1	24,602.1	25,134.0	<b>25,891.2</b>		16,927.7	23,246.3	23,950.0	23,936.0	
	278,445.7	275,851.5	281,916.4	<b>281,213.7</b>		234,438.4	250,725.4	258,700.2	267,939.6	

### Stock Exchange Listing

The following securities of Commercial Bank of Ceylon PLC are listed on the main board of the Colombo Stock Exchange (CSE).

Shares	Debentures	
	Fixed Rate	Floating Rate
Ordinary Voting Shares	December 2006/2011	December 2006/2011
Ordinary Non-Voting Shares	December 2006/2013	December 2006/2013
	December 2006/2016	December 2006/2016

The Audited Income Statement for the year ended December 31, 2008 and the Audited Balance Sheet as at December 31, 2008 will be submitted to the Colombo Stock Exchange within three months from the Balance Sheet date.

The Stock Exchange ticker symbol for Commercial Bank's shares is 'COMB'.

Details of trading activities are published in most daily newspapers, generally under the above abbreviation.

### Information on Share Trading

	Ordinary Shares		11.25% Cumulative Redeemable Preference Shares	
	2008	2007	2008	2007
Number of transactions	9,195	14,428	N/A	5
Number of shares traded	12,381,000	17,862,280	N/A	20,200
Value of shares traded (Rs.)	1,223,717,750	2,566,873,961	N/A	181,800

11.25% Cumulative Preference Shares amounting to Rs. 1.000 billion allotted on May 13, 2003 were redeemed on May 12, 2008.

### Earnings per Share and Price Earnings Ratio - Bank

	2008	2007
Earnings Per Share (Rs.)	16.96	16.84
Price Earnings Ratio (Times)	3.95	8.73

### Market Capitalisation and Market Prices

#### (a) Market Capitalisation

As at December 31,

	Shareholders' Funds Rs. Mn	Com Bank Market Capitalisation Rs. Mn	Capitalisation of the CSE Rs. Mn	As % of CSE Market Capitalisation	Market Capitalisation Ranking
2004	13,911	10,388	381,913	2.72	6
2005	15,768	17,991	583,786	3.08	4
2006	15,843	25,368	834,763	3.04	5
2007	23,937	34,234	820,652	4.17	4
2008	25,891	15,630	488,813	3.20	4

#### (b) Market Prices

	Ordinary Shares				11.25% Cumulative Redeemable Preference Shares	
	Voting		Non-Voting		2008 Rs.	2007 Rs.
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.		
Highest	149.75	250.00	89.50	144.50	N/A	9.00
Lowest	66.25	128.00	48.00	60.00	N/A	9.00
Year end	67.00	147.00	49.00	74.50	N/A	9.00

### Information on Dividends on Ordinary Shares

The details of the dividends paid/proposed are as follows:

	2008 Rs.	2007 Rs.
First interim dividend paid	1.50	1.50
Second interim dividend paid	1.50	1.50
Third interim dividend paid	-	1.50
Final dividend proposed/paid	4.00	2.50
	<b>7.00</b>	<b>7.00</b>

The Board of Directors of the Bank has recommended a final dividend of Rs. 4.00 per ordinary share for the year ended December 31, 2008 for approval by the shareholders at the 40th Annual General Meeting (AGM).

### Shareholder Base

The total number of shareholders as at December 31, 2008 was 10,031 compared to the 9,877 as at December 31, 2007.

### Distribution and Composition of Shareholders

Shares	Ordinary Voting Shares				Ordinary Non-Voting Shares			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Up to 1,000	3,390	49.00	1,021,465	0.44	1,916	61.57	571,647	3.55
1,001 5,000	2,100	30.35	5,367,305	2.31	788	25.32	1,846,597	11.45
5,001 10,000	618	8.93	4,369,071	1.87	176	5.66	1,247,119	7.73
10,001 50,000	618	8.93	12,562,455	5.38	184	5.91	4,124,794	25.59
50,001 100,000	79	1.14	5,533,016	2.37	27	0.87	1,743,951	10.82
100,001 500,000	82	1.19	16,881,531	7.24	18	0.58	3,478,823	21.58
500,001 1,000,000	10	0.14	7,111,299	3.05	2	0.06	1,395,905	8.66
Over 1,000,000	22	0.32	180,435,084	77.34	1	0.03	1,711,961	10.62
<b>Total</b>	<b>6,919</b>	<b>100.00</b>	<b>233,281,226</b>	<b>100.00</b>	<b>3,112</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>

### Composition of Shareholders

#### Ordinary Voting Shares

	As at December 31, 2008				As at December 31, 2007			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Resident	6,709	96.96	152,670,950	65.44	6,378	96.81	152,822,964	65.61
Non-Resident	210	3.04	80,610,276	34.56	210	3.19	80,108,213	34.39
<b>Total</b>	<b>6,919</b>	<b>100.00</b>	<b>233,281,226</b>	<b>100.00</b>	<b>6,588</b>	<b>100.00</b>	<b>232,931,177</b>	<b>100.00</b>

	As at December 31, 2008				As at December 31, 2007			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Individuals	6,509	94.07	44,985,021	19.28	6,164	93.56	46,018,267	19.76
Institutions	410	5.93	188,296,205	80.72	424	6.44	186,912,910	80.24
<b>Total</b>	<b>6,919</b>	<b>100.00</b>	<b>233,281,226</b>	<b>100.00</b>	<b>6,588</b>	<b>100.00</b>	<b>232,931,177</b>	<b>100.00</b>

As per Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2008 was 56.21% (46.55% as at December 31, 2007).

### Ordinary Non-Voting Shares

	As at December 31, 2008				As at December 31, 2007			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Resident	3,044	97.81	14,218,820	88.20	3,218	97.84	14,989,588	92.98
Non-Resident	68	2.19	1,901,977	11.80	71	2.16	1,131,209	7.02
Total	3,112	100.00	16,120,797	100.00	3,289	100.00	16,120,797	100.00

	As at December 31, 2008				As at December 31, 2007			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Individuals	2,947	94.70	9,576,731	59.41	3,099	94.22	9,760,898	60.55
Institutions	165	5.30	6,544,066	40.59	190	5.78	6,359,899	39.45
Total	3,112	100.00	16,120,797	100.00	3,289	100.00	16,120,797	100.00

As per Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2008 was 88.08% (88.02% as at December 31, 2007).

### Twenty Largest Shareholders

As at December 31,

Ordinary Voting Shares	2008		2007(*)	
	No. of Shares	%	No. of Shares	%
DFCC Bank	67,090,868	28.76	67,090,868	28.80
HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation GNA-C61V	33,800,000	14.49	33,800,000	14.51
Galleon Diversified Fund Ltd.	12,175,622	5.22	12,175,622	5.23
Sri Lanka Insurance Corporation Ltd. - Life Fund	12,014,808	5.15	12,014,808	5.16
Sri Lanka Insurance Corporation Ltd. - General Fund	10,331,082	4.43	10,331,082	4.44
Mr. A.M.A. Almeshaal	7,283,633	3.12	7,283,633	3.13
Distilleries Company of Sri Lanka PLC	5,182,614	2.22	5,182,614	2.22
National Savings Bank	4,624,928	1.98	4,624,928	1.99
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global Asia Pacific Equity Fund	3,554,187	1.52	4,768,186	2.05
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global - Asian Smaller Companies Fund	2,870,500	1.23	1,705,600	0.73
Mr. Y.S.H.I.K. Silva	2,740,316	1.17	2,617,816	1.12
HSBC Intl. Nominees Ltd. - HSBC Bank PLC - First State Asian Equity Plus Fund	2,717,500	1.16	2,717,500	1.17
Northern Trust Co. S/A Murray Johnstone International Delaware Business Trust	2,679,040	1.15	2,679,040	1.15
HSBC Intl. Nominees Ltd. - JPMCB - Scottish ORL SML TR GTI 6018	2,240,233	0.96	2,240,233	0.96
HSBC Intl. Nominees Ltd. - SSBTL - Aberdeen Asia Smaller Companies Investment Trust XCB9	1,993,333	0.85	1,993,333	0.86
Hatton National Bank PLC	1,430,574	0.61	1,430,574	0.61
Freudenberg Shipping Agencies PLC	1,390,400	0.60	1,343,400	0.58
HSBC Ltd. - National Equity Fund	1,389,133	0.60	1,525,333	0.65
Employees Trust Fund Board	1,283,221	0.55	725,421	0.31
Bank of New York - Bear Stearns Securities Corporation	1,262,000	0.54	732,700	0.31
Sub Total	178,053,992	76.31	176,982,691	75.98
Other Shareholders	55,227,234	23.69	55,948,486	24.02
Total	233,281,226	100.00	232,931,177	100.00

(\*) Comparative shareholdings as at December 31, 2007 of the twenty largest shareholders as at December 31, 2008

As at December 31, Ordinary Non-Voting Shares	2008		2007(*)	
	No. of Shares	%	No. of Shares	%
Sri Lanka Insurance Corporation Ltd. - General Fund	1,711,961	10.62	1,711,961	10.62
Bank of New York - Bear Stearns Securities Corporation	762,000	4.73	-	-
Akbar Brothers Ltd. A/C No. 1	633,905	3.93	568,005	3.52
Beta Holdings Ltd.	500,000	3.10	444,053	2.75
Ellawala Exports (Pvt) Ltd.	403,000	2.50	308,706	1.91
M.J.F. Exports Ltd.	278,677	1.73	278,677	1.73
The Gilpin Fund Ltd.	253,466	1.57	346,666	2.15
Mr. J.D. Bandaranayake	249,742	1.55	249,742	1.55
Mohamed Faizer Hashim	177,692	1.10	177,692	1.10
Dr. A.K.A. Jayawardene	173,354	1.08	126,054	0.78
The Associated Newspapers of Ceylon Ltd. (T 00018)	166,610	1.03	277,682	1.72
Mahendra Jayanthipal Chandima Amarasuriya	151,881	0.94	151,881	0.94
Jayalath Githal De Mel	149,566	0.93	133,766	0.83
JB Cocoshell (Pvt) Ltd.	145,200	0.90	264,100	1.64
Gold Investment Ltd.	137,598	0.85	95,398	0.59
Employees Trust Fund Board	132,270	0.82	196,570	1.22
Mr. G.R. Mallawaarachy	127,100	0.79	728	0.00
Alpex Marine (Pvt) Ltd.	121,333	0.75	121,333	0.75
The Associated Newspapers of Ceylon Ltd. (CDS 01970)	111,072	0.69	-	-
Mr. W.R.H. Perera	100,172	0.62	87,672	0.54
Sub Total	6,486,599	40.23	5,540,686	34.37
Other Shareholders	9,634,198	59.77	10,580,111	65.63
<b>Total</b>	<b>16,120,797</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>

(\*) Comparative shareholdings as at December 31, 2007 of the twenty largest shareholders as at December 31, 2008

## Directors' Shareholding

Name As at December 31,	Ordinary - Voting		Ordinary - Non-Voting	
	2008	2007	2008	2007
Mr. M.J.C. Amarasuriya	447,097	447,097	151,881	151,881
Mr. B.R.L. Fernando	-	-	8,414	8,414
Mr. A.L. Gooneratne	806,216	806,216	38,028	38,028
Dr. H.S. Wanasinghe	-	-	-	-
Mr. A.N. Fonseka (Resigned w.e.f. January 31, 2009)	-	-	1,077	1,077
Mr. Lalin J.A. Fernando	-	-	-	-
Mr. P.M. Martelli (Appointed on October 16, 2008)	-	-	-	-
Mr. D.S. Weerakkody	1,000	-	-	-
Mr. P. Kjellerhaug (Appointed on October 16, 2008)	-	-	-	-
Mrs. S.N. Wickramasinghe (Appointed on February 01, 2009)	-	-	-	-
Mr. R.M.S. Fernando	-	-	3,466	3,466
Mr. K. Balendra (Resigned w.e.f. April 16, 2008)	N/A	-	N/A	-
Mr. I.M. Malas (Resigned w.e.f. July 10, 2008)	N/A	-	N/A	-
Mr. G. Galudec (Resigned w.e.f. May 31, 2008)	N/A	-	N/A	-

## Information on Debentures of the Bank

Debenture categories	CSE Listing	Interest payable frequency	Balance as at 31.12.2008 Rs. Mn	Market Values		
				Highest Rs.	Lowest Rs.	Year End Rs.
<b>Fixed rate</b>						
May 2003/May 2008 - 10.00% p.a.	Listed	Quarterly	-	Not traded during the year		
				Not traded during the year		
Oct. 2005/Oct. 2010 - 12.00% p.a.	Not listed	Annually	284.000	-	-	-
May 2006/May 2011 - 12.00% p.a.	Not listed	Annually	15.000	-	-	-
May 2006/May 2016 - 13.25% p.a.	Not listed	Annually	505.000	-	-	-
Dec. 2006/Dec. 2011 - 13.50% p.a.	Listed	Annually	527.800	Not traded during the year		
				711.89	711.89	711.89
						(as at 20.08.07)
Dec. 2006/Dec. 2013 - 13.75% p.a.	Listed	Annually	0.250	Not traded during the year		
Dec. 2006/Dec. 2016 - 14.00% p.a.	Listed	Annually	467.260	Not traded during the year		
				Not traded during the year		
<b>Floating rate</b>						
May 2003/May 2008 - 3 Months TB rate (Net) + 2% p.a.	Listed	Quarterly	-	Not traded during the year		
				Not traded during the year		
Oct. 2004/Oct. 2009 - 3 Months TB rate (Net) + 2% p.a.	Not listed	Quarterly	1,000.000	-	-	-
Oct. 2005/Oct. 2010 - 3 Months TB rate (Net) + 2% p.a.	Not listed	Quarterly	120.000	-	-	-
Oct. 2005/Oct. 2010 - 3 Months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	905.000	-	-	-
May 2006/May 2011 - 3 Months TB rate (Net) + 2% p.a.	Not listed	Quarterly	15.000	-	-	-
May 2006/May 2011 - 3 Months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	465.000	-	-	-
Dec. 2006/Dec. 2011 - 12 Months TB rate (Gross) + 1% p.a.	Listed	Annually	131.020	Not traded during the year		
Dec. 2006/Dec. 2013 - 12 Months TB rate (Gross) + 1% p.a.	Listed	Annually	0.300	Not traded during the year		
Dec. 2006/Dec. 2016 - 12 Months TB rate (Gross) + 1% p.a.	Listed	Annually	0.400	Not traded during the year		
				Not traded during the year		
			<b>4,436.030</b>			

(The comparative information for 2007 have been highlighted)

**3 Months TB rate (Gross)** - three months Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

**3 Months TB rate (Net)** - three months Treasury Bill rate after 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

**12 Months TB rate (Gross)** - twelve months Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

Interest Rates		Interest rate of Comparable Government Security %	Other Ratios as at date of last trade	
Coupon Rate %	Effective Annual Yield %		Interest Yield %	Yield to Maturity
10.00	10.38	- (Matured on 12.05.08)	10.38 (as at 13.09.06)	9.80 (as at 13.09.06)
10.00	10.38	20.00	10.38 (as at 13.09.06)	9.80 (as at 13.09.06)
12.00	12.00	21.00	-	-
12.00	12.00	19.00	-	-
12.00	12.00	20.50	-	-
12.00	12.00	18.50	-	-
13.25	13.25	Indicative 17.00	-	-
13.25	13.25	Indicative 17.50	-	-
13.50	13.50	21.00	13.50 (as at 20.08.07)	13.25 (as at 20.08.07)
13.50	13.50	18.50	-	-
13.75	13.75	20.00	-	-
13.75	13.75	18.00	-	-
14.00	14.00	Indicative 17.00	-	-
14.00	14.00	Indicative 17.50	-	-
21.85	23.71	- (Matured on 12.05.08)	11.10 (as at 05.10.05)	13.05 (as at 05.10.05)
17.74	18.97	20.00	11.10 (as at 05.10.05)	13.05 (as at 05.10.05)
20.55	22.19	20.25	-	-
17.74	18.97	20.00	-	-
20.55	22.19	21.00	-	-
17.74	18.97	19.00	-	-
21.61	23.43	21.00	-	-
18.49	19.81	19.00	-	-
20.55	22.19	21.00	-	-
17.74	18.97	18.50	-	-
21.61	23.43	21.00	-	-
18.49	19.81	18.50	-	-
21.61	23.43	21.00	-	-
15.42	15.42	18.50	-	-
21.61	23.43	20.00	-	-
15.42	15.42	18.00	-	-
21.61	23.43	Indicative 17.00	-	-
15.42	15.42	Indicative 17.50	-	-

Other Ratios	2008	2007
Debt Equity Ratio (%)	<b>17.82</b>	29.94
Interest Cover (Times)	<b>8.69</b>	7.07
Liquid Assets Ratio (%) [Minimum 20%]	<b>24.82</b>	24.24

**Share Price Trend****Ordinary Voting Shares**

Year	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Highest Price (Rs.)	<b>149.75</b>	250.00	192.50	269.00	170.00	226.00	230.00	155.00	120.00	121.00
Lowest Price (Rs.)	<b>66.25</b>	128.00	123.00	120.00	130.00	130.00	120.00	70.50	70.50	90.00
Last traded Price (Rs.)	<b>67.00</b>	147.00	190.00	135.50	159.75	144.00	200.00	127.00	93.00	115.00

**Information on Movement in Share Capital**

Year	Issue	Basis	No. of Shares Issued/ (Redeemed)	No. of Shares		
				Voting - Ordinary	Non-Voting - Ordinary	Cumulative Redeemable Preference
1987	As at 31st December 1987	-	-	3,000,000	-	-
1988	Bonus Issue Voting	2 for 3	2,000,000	5,000,000	-	-
1990	Bonus Issue Voting	1 for 1	5,000,000	10,000,000	-	-
1993	Rights Issue Voting	1 for 4	2,500,000	12,500,000	-	-
1996	Bonus Issue Voting	3 for 5	7,500,000	20,000,000	-	-
	Rights Issue Voting	1 for 4	5,000,000	25,000,000	-	-
	Share Swap Non-Voting	-	894,275	25,000,000	894,275	-
	Bonus Issue Non-Voting	3 for 5	536,565	25,000,000	1,430,840	-
	Rights Issue Non-Voting	1 for 4	357,710	25,000,000	1,788,550	-
1998	Bonus Issue Voting	3 for 10	7,500,000	32,500,000	1,788,550	-
	Bonus Issue Non-Voting	3 for 10	536,565	32,500,000	2,325,115	-
2001	Bonus Issue Voting	1 for 5	6,500,000	39,000,000	2,325,115	-
	Bonus Issue Non-Voting	1 for 5	465,023	39,000,000	2,790,138	-
	Issue of Cumulative Redeemable Preference Shares -		90,655,500	39,000,000	2,790,138	90,655,500
2003	Bonus Issue Voting	1 for 3	13,000,000	52,000,000	2,790,138	90,655,500
	Rights Issue Voting	1 for 4	13,000,000	65,000,000	2,790,138	90,655,500
	Bonus Issue Non-Voting	1 for 3	930,046	65,000,000	3,720,184	90,655,500
	Rights Issue Non-Voting	1 for 4	930,046	65,000,000	4,650,230	90,655,500
	Issue of Cumulative Redeemable Preference Shares -		100,000,000	65,000,000	4,650,230	190,655,500
2004	ESOP	-	29,769	65,029,769	4,650,230	190,655,500
2005	ESOP	-	1,361,591	66,391,360	4,650,230	190,655,500
	Bonus Issue Voting	1 for 1	66,389,162	132,780,522	4,650,230	190,655,500
	Bonus Issue Non-Voting	1 for 1	4,650,230	132,780,522	9,300,460	190,655,500
2006	ESOP	-	737,742	133,518,264	9,300,460	190,655,500
	Redemption of Cumulative Redeemable Preference Shares	-	(90,655,500)	133,518,264	9,300,460	100,000,000
2007	Rights Issue Voting	3 for 10	40,288,996	173,807,260	9,300,460	100,000,000
	Bonus Issue Voting	1 for 3	58,204,268	232,011,528	9,300,460	100,000,000
	ESOP	-	919,649	232,931,177	9,300,460	100,000,000
	Rights Issue Non-Voting	3 for 10	2,790,138	232,931,177	12,090,598	100,000,000
	Bonus Issue Non-Voting	1 for 3	4,030,199	232,931,177	16,120,797	100,000,000
<b>2008</b>	<b>Redemption of Cumulative Redeemable Preference Shares</b>	-	<b>(100,000,000)</b>	<b>232,931,177</b>	<b>16,120,797</b>	-
	<b>ESOP</b>	-	<b>350,049</b>	<b>233,281,226</b>	<b>16,120,797</b>	-

The Bank's AA+ credit rating was reconfirmed by Fitch Rating Lanka Ltd. in 2008 and in Bangladesh the Bank was upgraded to a AA+ rating by Credit Rating Information Services Ltd.

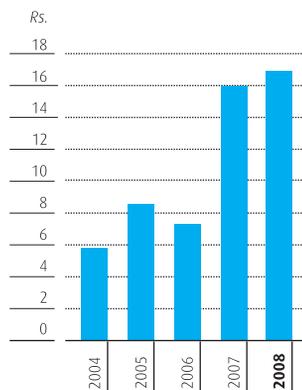
The Bank's share was subject to huge variations as a result of a volatile market in Sri Lanka and fluctuated between a low of Rs. 66.25 in December 2008 to a high of Rs. 149.75 in January 2008. It ended the year at Rs. 67.00.

### 'Best Bank' for 10 Years Running

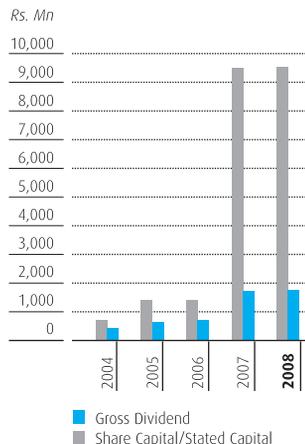
For a record 10th year running, the Bank was ranked as Sri Lanka's 'Best Bank' by one of the world's most respected financial publications, 'Global Finance' of USA.

The ranking is based on a comprehensive evaluation of the Bank's performance including growth in assets, profitability, strategic relationships, customer service, competitive pricing and innovative products. Among the other indicators the publication looked at were market share, return on equity and earnings, key capabilities and services offered, geographical range, recent or planned significant developments such as new launches, customer service endorsements and the use of cutting edge technology.

### Earnings per Share



### Share Capital/Stated Capital & Gross Dividend on Ordinary Shares



### In the 'Top 1,000' Banks

The Bank also became the first Sri Lankan Bank to be ranked among the Top 1,000 Banks of the world on the basis of capital adequacy and soundness.

The Bank was ranked at No. 950 based on its Tier One Capital, a significant benchmark for assessing the stability of a bank. For 'Financial Soundness', the Bank was ranked 155th. The ranking was compiled by 'The Banker', a premier magazine for the world's investment, retail and commercial banking sectors.

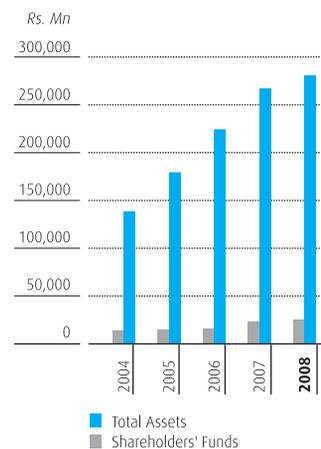
### 'Best Annual Report'

The Bank's Annual Report 2007 was the joint winner of the Best Annual Report in the Overall Category in 2008 organised by The Institute of Chartered Accountants of Sri Lanka.

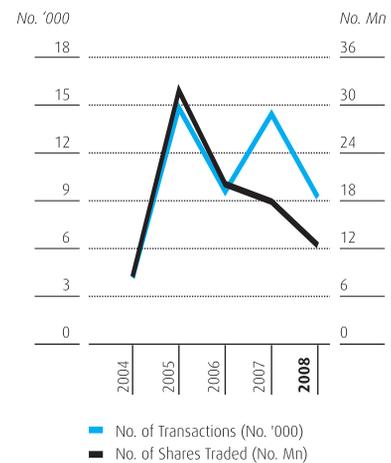
In addition the Bank won a Gold for the Best Report in the Banking Sector and a Silver (Joint) for the Best Management Commentary.

At the Annual SAFA Awards, the Bank's Annual Report won a Platinum Award (Joint) in the Overall Category and a Gold in the Banking Sector category.

### Shareholders' Funds and Total Assets



### Share Trading



### Last Traded Price



# US\$

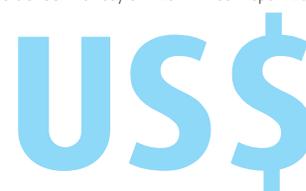
## ● INCOME STATEMENT

For the year ended December 31,	Group			Bank		
	2008 US\$ '000	2007 US\$ '000	Change %	2008 US\$ '000	2007 US\$ '000	Change %
Income	<b>389,717</b>	324,488	20.10	<b>391,093</b>	324,635	20.47
Interest income	<b>329,906</b>	281,296	17.28	<b>329,683</b>	281,134	17.27
Less: Interest expenses	<b>215,583</b>	174,504	23.54	<b>215,742</b>	174,665	23.52
Net interest income	<b>114,323</b>	106,792	7.05	<b>113,941</b>	106,469	7.02
Foreign exchange profit	<b>23,345</b>	14,238	63.96	<b>23,345</b>	14,238	63.96
Fees and commission income	<b>24,069</b>	21,953	9.64	<b>24,070</b>	21,959	9.61
Other income	<b>12,397</b>	7,001	77.07	<b>13,995</b>	7,304	91.61
	<b>174,134</b>	149,984	16.10	<b>175,351</b>	149,970	16.92
Less: Operating Expenses						
Personnel expenses	<b>32,494</b>	30,263	7.37	<b>32,214</b>	30,133	6.91
Premises, equipment and establishment expenses	<b>17,696</b>	14,743	20.03	<b>17,630</b>	14,966	17.80
Provision for staff retirement benefits	<b>2,594</b>	2,480	4.60	<b>2,594</b>	2,480	4.60
Loan losses and provisions	<b>20,197</b>	16,382	23.29	<b>20,197</b>	16,382	23.29
Other overhead expenses	<b>35,485</b>	23,756	49.37	<b>36,048</b>	24,215	48.87
	<b>108,466</b>	87,624	23.79	<b>108,683</b>	88,176	23.26
Profit from operations	<b>65,668</b>	62,360	5.30	<b>66,668</b>	61,794	7.89
Add: Share of profit of Associates	<b>81</b>	231	(64.94)	-	-	-
<b>Profit before taxation</b>	<b>65,749</b>	62,591	5.05	<b>66,668</b>	61,794	7.89
Less: Income Tax Expense	<b>29,218</b>	24,317	20.15	<b>28,828</b>	23,974	20.25
<b>Profit after taxation</b>	<b>36,531</b>	38,274	(4.55)	<b>37,840</b>	37,820	0.05
<b>Attributable to:</b>						
Equity holders of the parent	<b>36,518</b>	38,242	(4.51)	<b>37,840</b>	37,820	0.05
Minority Interest	<b>13</b>	32	(59.38)	-	-	-
	<b>36,531</b>	38,274	(4.55)	<b>37,840</b>	37,820	0.05
Basic Earnings per Share (US\$)	<b>0.15</b>	0.16	(6.25)			
Diluted Earnings per Share (US\$)	<b>0.14</b>	0.16	(12.50)			
Dividend per Ordinary Share (US\$)				<b>0.06</b>	0.06	-

Exchange Rate of 1 US\$ was Rs. 112.80 as at 31.12.2008 (Rs. 108.50 as at 31.12.2007).

## US\$ ACCOUNTS

THE INCOME STATEMENT AND THE BALANCE SHEET GIVEN ON PAGES 88 AND 89 ARE SOLELY FOR THE CONVENIENCE OF SHAREHOLDERS, INVESTORS, BANKERS AND OTHER USERS OF FINANCIAL STATEMENTS AND DO NOT FORM PART OF THE FINANCIAL STATEMENTS.



● **BALANCE SHEET**

As at December 31,	Group			Bank		
	2008 US\$ '000	2007 US\$ '000	Change %	2008 US\$ '000	2007 US\$ '000	Change %
<b>ASSETS</b>						
Cash and short-term funds	213,785	149,385	43.11	213,783	149,384	43.11
Balances with Central Banks	91,511	106,687	(14.22)	91,511	106,687	(14.22)
Government Treasury Bills and Bonds	331,589	380,335	(17.02)	313,505	378,509	(17.17)
Securities purchased under resale agreements	30,146	35,061	(14.02)	30,146	35,061	(14.02)
Dealing Securities	517	1,910	(72.93)	517	1,910	(72.93)
Investments held for sale	-	3,499	-	-	1,894	-
Investment Securities	10,613	16,185	(34.43)	10,613	16,185	(34.43)
Treasury Bonds maturing after one year	144,237	81,058	77.94	144,237	81,058	77.94
Bills of Exchange	27,118	29,447	(7.91)	27,118	29,447	(7.91)
Loans and advances	1,487,541	1,476,288	0.76	1,488,107	1,476,350	0.80
Lease receivable within one year	26,676	32,826	(18.74)	26,991	33,200	(18.70)
Lease receivable from one to five years	56,009	66,613	(15.92)	56,938	67,571	(15.74)
Lease receivable over five years	148	100	48.00	148	100	48.00
	<b>2,403,890</b>	<b>2,379,394</b>	<b>1.03</b>	<b>2,403,614</b>	<b>2,377,356</b>	<b>1.10</b>
Investments in Associates	629	578	8.82	393	409	(3.91)
Investments in Subsidiaries	-	-	-	3,845	3,997	(3.80)
Interest and fees receivable	20,754	19,538	6.22	20,754	19,538	6.22
Other assets	28,717	33,676	(14.73)	28,092	33,462	(16.05)
Property, Plant & Equipment	38,499	36,839	4.51	32,994	31,499	4.75
Leasehold Property	1,042	1,096	(4.93)	719	755	(4.77)
Intangible assets	2,631	2,475	6.30	2,619	2,475	5.82
<b>Total Assets</b>	<b>2,496,162</b>	<b>2,473,596</b>	<b>0.91</b>	<b>2,493,030</b>	<b>2,469,491</b>	<b>0.95</b>
<b>LIABILITIES AND EQUITY</b>						
Deposits from customers	1,771,855	1,687,446	5.00	1,771,995	1,687,651	5.00
Preference Dividends payable	-	1,037	-	-	1,037	-
Borrowings	120,741	172,833	(30.14)	120,741	172,833	(30.14)
Securities sold under repurchase agreements	221,273	214,175	3.31	222,297	215,135	3.33
Other liabilities	89,486	89,780	(0.33)	89,568	89,913	(0.38)
Tax Liabilities	14,745	15,477	(4.73)	14,757	15,651	(5.71)
Deferred tax	5,996	6,561	(8.61)	4,813	5,091	(5.46)
Debentures	39,327	61,571	(36.13)	39,327	61,571	(36.13)
<b>Total Liabilities</b>	<b>2,263,423</b>	<b>2,248,880</b>	<b>0.65</b>	<b>2,263,498</b>	<b>2,248,882</b>	<b>0.65</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>						
Stated capital	84,646	96,911	(12.66)	84,646	96,911	(12.66)
Statutory Reserve Fund	16,382	15,064	8.75	16,375	15,057	8.75
Reserves	131,472	112,522	16.84	128,511	108,641	18.29
Shareholders' Funds	232,500	224,497	3.56	229,532	220,609	4.04
Minority Interest	239	219	9.13	-	-	-
<b>Total Equity</b>	<b>232,739</b>	<b>224,716</b>	<b>3.57</b>	<b>229,532</b>	<b>220,609</b>	<b>4.04</b>
<b>Total Liabilities and Equity</b>	<b>2,496,162</b>	<b>2,473,596</b>	<b>0.91</b>	<b>2,493,030</b>	<b>2,469,491</b>	<b>0.95</b>
Commitments and contingencies	1,026,672	1,071,082	(4.15)	1,026,672	1,071,082	(4.15)
Net Assets Value per Ordinary Share (US \$)	0.93	0.91	8.14	0.92	0.89	8.24

Exchange Rate of 1 US\$ was Rs. 112.80 as at 31.12.2008 (Rs. 108.50 as at 31.12.2007).

## ● THE LAST DECADE IN SUMMARY

Bank (Rs. Mn)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	CAGR %
<i>For the year ended December 31,</i>											
<b>Operating Results</b>											
Income	4,744	6,096	8,203	8,364	10,059	12,290	16,100	24,470	35,223	<b>44,115</b>	24.98
Interest income	3,762	4,796	6,510	6,613	7,931	9,584	13,034	19,532	30,503	<b>37,188</b>	
Interest expenses	(2,158)	(2,776)	(4,174)	(3,747)	(4,218)	(4,878)	(7,226)	(11,955)	(18,951)	<b>(24,336)</b>	
Foreign Exchange profit	274	421	563	464	397	874	587	1,439	1,545	<b>2,633</b>	
Commission and other income	517	600	732	1,097	1,731	1,832	2,479	3,499	3,175	<b>4,294</b>	
Operating expenses and provisions	(1,586)	(1,891)	(2,306)	(2,902)	(3,887)	(4,908)	(5,232)	(8,301)	(9,567)	<b>(12,259)</b>	
Profit before income tax	809	1,150	1,325	1,525	1,954	2,504	3,642	4,214	6,705	<b>7,520</b>	24.98
Income tax on profit	(151)	(214)	(315)	(321)	(477)	(819)	(1,278)	(2,201)	(2,601)	<b>(3,252)</b>	
Net profit for the year	658	936	1,010	1,204	1,477	1,685	2,364	2,013	4,104	<b>4,268</b>	20.56
<i>As at December 31,</i>											
<b>Assets</b>											
Cash and short-term funds	4,050	5,456	4,272	1,835	9,002	12,136	18,663	13,739	16,208	<b>24,115</b>	
Balances with Central Banks	2,644	2,583	3,091	3,244	5,233	6,320	9,045	12,574	11,576	<b>10,322</b>	
Government Treasury Bills and Bonds	2,614	1,067	649	8,654	16,530	6,122	11,410	12,040	41,068	<b>35,363</b>	
Commercial paper	745	331	1,170	1,080	546	560	408	423	-	-	
Securities purchased under resale agreements	-	-	1,064	832	6,184	399	808	4,593	3,804	<b>3,400</b>	
Dealing Securities	-	-	-	-	-	110	182	145	207	<b>58</b>	
Investments held for sale	-	-	-	-	-	-	-	218	205	-	
Investments held to maturity	300	208	462	905	2,006	2,340	3,091	1,394	1,756	<b>1,197</b>	
Treasury Bonds maturing after one year	959	382	4,658	782	-	13,778	9,808	20,025	8,795	<b>16,270</b>	
Bills of Exchange	1,873	2,331	2,368	2,552	2,495	2,799	2,790	3,204	3,195	<b>3,059</b>	
Loans and advances	24,787	31,703	36,730	47,350	60,585	82,605	108,884	137,846	160,184	<b>167,858</b>	20.60
Lease receivable	1,047	1,263	1,519	1,921	3,364	5,317	7,088	9,482	10,945	<b>9,484</b>	
	39,019	45,324	55,983	69,155	105,945	132,486	172,177	215,683	257,943	<b>271,126</b>	
Investments in Associates	78	78	78	78	78	109	107	44	44	<b>44</b>	
Investments in Subsidiaries	274	424	424	424	429	429	434	434	434	<b>434</b>	
Other assets	1,253	2,478	1,251	2,149	2,167	2,553	4,177	4,336	5,751	<b>5,512</b>	
Property, Plant & Equipment and Intangible Assets	1,263	1,306	1,410	1,546	1,661	2,896	3,182	3,477	3,768	<b>4,098</b>	
<b>TOTAL ASSETS</b>	<b>41,887</b>	<b>49,610</b>	<b>59,146</b>	<b>73,352</b>	<b>110,280</b>	<b>138,473</b>	<b>180,077</b>	<b>223,974</b>	<b>267,940</b>	<b>281,214</b>	20.98
<b>Liabilities</b>											
Deposits from customers	30,128	37,523	46,306	54,585	75,185	98,730	127,601	157,496	183,110	<b>199,881</b>	20.83
Dividends payable	98	108	163	118	190	230	230	113	113	-	
Borrowings	1,350	2,317	1,862	4,200	5,406	9,090	13,387	18,944	18,752	<b>13,620</b>	
Securities sold under repurchase agreements	3,371	1,430	228	1,938	10,580	9,050	11,389	14,330	23,342	<b>25,075</b>	
Other liabilities	2,168	2,643	3,263	4,218	4,843	3,735	6,331	9,122	10,308	<b>10,646</b>	
Tax payable	4	42	79	39	148	483	818	1,446	1,698	<b>1,665</b>	
Debentures	500	500	500	500	2,244	3,244	4,553	6,680	6,680	<b>4,436</b>	
	37,619	44,563	52,401	65,598	98,596	124,562	164,309	208,131	244,003	<b>255,323</b>	
<b>Shareholders' Funds</b>											
Share Capital/Stated Capital	348	348	1,324	1,324	2,603	2,603	3,327	2,428	10,515	<b>9,548</b>	
Statutory Reserve fund	1,009	1,009	1,009	1,009	1,009	1,009	1,421	1,429	1,634	<b>1,847</b>	
Reserves	2,911	3,690	4,412	5,421	8,072	10,299	11,020	11,986	11,788	<b>14,496</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>	<b>41,887</b>	<b>49,610</b>	<b>59,146</b>	<b>73,352</b>	<b>110,280</b>	<b>138,473</b>	<b>180,077</b>	<b>223,974</b>	<b>267,940</b>	<b>281,214</b>	20.98
Commitments and contingencies	15,445	17,880	19,749	24,082	38,158	43,942	47,154	56,418	59,954	<b>115,809</b>	

CAGR - Compounded Annual Growth Rate.

The Last Decade in Summary

Bank	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Ratios</b>										
Return on average shareholders' funds (%)	16.21	20.09	17.13	16.61	15.20	13.16	15.93	12.73	20.63	17.13
Income growth (%)	19.25	28.49	34.56	1.96	20.26	22.17	31.00	51.99	43.95	25.25
Return on average assets (%)	1.72	2.05	1.86	1.82	1.61	1.35	1.48	1.00	1.67	1.55
Dividend per share (Rs.)	4.00	4.00	4.50	5.00	5.00	6.00	4.50	5.00	7.00	7.00
Ordinary share dividend cover (times)	4.73	5.91	5.20	5.20	3.70	3.48	3.34	2.54	2.29	2.42
Gross dividends to ordinary shareholders (Rs. Mn)	139.30	156.71	188.06	208.95	348.25	420.00	639.36	714.00	1,743.13	1,745.81
Advances to deposits and refinance (%)	89.75	91.81	85.51	92.59	86.16	89.52	90.64	92.49	91.75	87.12
Property, Plant & Equipment to shareholders' funds (%)	29.72	25.87	20.90	19.93	14.22	20.81	20.75	21.33	15.74	15.83
Total assets to shareholders' funds (times)	9.81	9.83	8.77	9.46	9.44	9.95	11.42	14.14	11.19	10.86
Capital Funds to Liabilities including Contingent Liabilities (%)	8.04	8.08	9.35	8.65	8.54	8.26	7.46	6.05	7.87	6.98
Cost/Income Ratio (%)	58.66	54.75	55.27	55.46	55.87	56.78	54.28	61.10	47.87	50.46
Liquid assets to liabilities (%)	22.19	27.22	27.72	27.88	23.95	23.17	24.51	22.64	24.24	24.83
(As specified in the Banking Act No. 30 of 1988)										
Group Capital Adequacy (%) Tier I	14.90	14.97	15.72	14.94	13.43	10.78	9.68	7.62	10.00	10.55
Tier I & II	17.14	16.62	16.20	15.07	15.46	13.16	12.08	11.58	12.98	13.13
<b>Share Information</b>										
Market value of a share (Rs.)	115	93	127	200	144	160	135	190	147	67
Earnings per share (Rs.)	3	4	4	5	5	6	9	9	17	17
Price earnings ratio (times)	6	4	5	8	8	8	9	15	9	4
Net assets value per share (Rs.)	18	21	25	29	69	51	98	70	97	104
Earnings yield (%)	16	29	18	13	13	13	11	5	11	25
Dividend payout ratio (%)	21	17	22	18	27	29	30	39	44	41
<b>Other Information</b>										
No. of employees	1,996	2,067	2,259	2,399	2,648	2,863	3,168	3,415	3,745	4,041
No. of delivery points - Sri Lanka	67	81	100	109	116	125	134	150	163	170
No. of delivery points - Bangladesh	-	-	-	-	4	4	5	7	9	11
No. of Automated Teller Machines	67	79	109	143	166	188	223	278	301	346

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## **Financial Calendar - 2008/09**

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Final Dividend for 2007 paid on April 14, 2008  
Two Interim Dividends for 2008 paid on August 28, 2008 and December 16, 2008  
Annual Report and Accounts for 2008 signed on February 18, 2009  
Fortieth Annual General Meeting to be held on March 30, 2009  
Final Dividend for 2008 proposed to be paid on March 30, 2009

## **Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka - 2008/09**

---

For the three months ended March 31, 2008 (unaudited) in May 2008  
For the six months ended June 30, 2008 (unaudited) in July 2008  
For the nine months ended September 30, 2008 (unaudited) in November 2008  
Annual Report and Accounts for 2008 (audited) in March 2009

## **Proposed Financial Calendar - 2009/10**

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Interim Dividends for 2009 to be paid in second-half 2009  
Annual Report and Accounts for 2009 to be signed in February 2010  
Forty First Annual General Meeting to be held in March 2010  
Final Dividend for 2009 to be proposed and paid in March 2010

## **Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka - 2009/10**

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For the three months ending March 31, 2009 (unaudited) in May 2009  
For the six months ending June 30, 2009 (unaudited) in August 2009  
For the nine months ending September 30, 2009 (unaudited) in November 2009  
Annual Report and Accounts for 2009 (audited) in March 2010



## ● STATEMENT OF DIRECTORS' RESPONSIBILITY

In terms of Sections 150 (1), 151 (1), 152 (1) and 153 (1) of the Companies Act No. 07 of 2007, the Directors of the Company are responsible for ensuring that the Company and the Group keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the state of affairs of the Company at the Balance Sheet date and of the profit or loss for the year ending on that Balance Sheet date, in compliance with the Act. The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer, the person responsible for their preparation, as required by the Act. Financial Statements of the Bank and the Group have been signed by three Directors and the Company Secretary of the Bank on February 18, 2009 as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act. Under Section 148 (1) of the Companies Act, the Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Company's transactions and also determine the Company's financial position with reasonable accuracy at any time are maintained by the Company enabling the preparation of Financial Statements, in accordance with the Act and further enabling the Financial Statements to be readily and properly audited.

Accordingly, the Directors have caused the Bank and the Group to maintain proper books of accounts and review the financial reporting system at their regular meetings and through the Audit Committee, the Report of which Committee is given on page 60 of this Annual Report. The Board of Directors also reviews Interim Financial Statements prior to their release with the assistance of the Audit Committee.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that in preparing the Financial Statements exhibited on pages 98 to 164 inclusive, appropriate accounting policies have been selected and applied on a consistent basis while reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected.

The Financial Statements for the year 2008, prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

The Directors also have taken reasonable measures to safeguard the assets of the Bank and the Group and to prevent and detect frauds and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audit and financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records.

The Board of Directors wish to confirm that as required under Section 56 (2) of the Companies Act No. 7 of 2007, they have authorised distribution of the dividends paid and now proposed after being satisfied that the Bank and all its Subsidiaries would satisfy the solvency test after such distributions are made in accordance with Section 57 of the Companies Act No. 7 of 2007 and have obtained in respect of dividends paid and proposed, in respect of which approval is now sought, certificates of solvency from its Auditors.

The Board of Directors also wish to confirm that as required under Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report and ensured that a copy thereof is sent to every shareholder of the Company, within the stipulated period of time. The Directors also wish to confirm that all shareholders in each category have been treated equitably in accordance with the original terms of issue.

Further, the Board of Directors wish to confirm that the Bank and its quoted subsidiaries have met all the requirements under Section 8 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange.

The Bank's External Auditors, Messrs Ernst & Young who were re-appointed in accordance with a resolution passed at the last Annual General Meeting were provided with every opportunity to undertake the inspections they considered appropriate. They carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them by the Board of Directors of the Bank together with all the financial records, related data and minutes of shareholders' and Directors' meetings and expressed their opinion which appears as reported by them on page 97 of this Annual Report.

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and the Government and other statutory bodies that were due in respect of the Company and its Subsidiaries as at the Balance Sheet date have been paid or where relevant provided for. The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the Corporate Governance Code issued jointly by the ICASL and the SEC, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements.

By Order of the Board,



**Mrs. R.R. Dunuwille**  
Company Secretary

Colombo  
February 18, 2009

## ● MANAGING DIRECTOR'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of the Commercial Bank Group are prepared in conformity with the requirements of the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka which is also in compliance with the disclosure requirements of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks.

The Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year. Significant Accounting Policies and estimates that involve a high degree of judgement and complexity were discussed with the Bank's external auditors and the Audit Committee. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of the operations and the cash flows of the Group during the period under review. We also confirm that the Group has adequate resources to continue in operation and have applied the going Concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures of the Bank and all of its subsidiaries. We ensure that effective Internal Controls and Procedures are in place, ensuring material information relating to the Group are made known to us for safeguarding assets, preventing and detecting fraud and/or error. We have evaluated the Internal Controls and Procedures of the Group for the financial period under review and are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses

in the design or operation of internal controls and fraud that involves management or other employees. The Bank's Internal Audit Department also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Bank's Board Audit Committee, *inter alia*, reviewed all the Internal and External Audit and Inspection programmes, the efficiency of Internal Control Systems and Procedures and also reviewed the quality of Accounting Policies and their adherence to Statutory and Regulatory requirements, the details of which are given in the Audit Committee Report on pages 60 to 61 of this Annual Report. The Board Audit Committee regularly examined the major decisions taken by the Assets and Liabilities Committee and Credit Policy and Portfolio Review Committee of the Bank, during the year. The Bank has engaged the services of five firms of Chartered Accountants approved by the Central Bank of Sri Lanka to strengthen the audit and inspection functions. The continuous inspection and audit functions, engagement of firms of Chartered Accountants and effective functioning of Board Audit Committee, ensure that the Internal Controls and Procedures are followed consistently.

The Financial Statements of the Group were audited by Messrs Ernst & Young, Chartered Accountants and their report is given on page 97 of this Annual Report. The Audit Committee pre- approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka on permitted non-audit services or impair Messrs Ernst & Young's independence.

We confirm that the Bank and all its subsidiaries have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note No. 34.2 of the Financial Statements in this Annual Report.



**A.L. Gooneratne**

*Managing Director*



**K.D.N. Buddhipala**

*Chief Financial Officer*

Colombo  
February 18, 2009

**AUDITORS' REPORT**



**Chartered Accountants**

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF CEYLON PLC**  
**Report on the Financial Statements**

We have audited the accompanying Financial Statements of Commercial Bank of Ceylon PLC ("Bank"), the consolidated Financial Statements of the Bank and its subsidiaries, which comprise the Balance Sheets as at December 31, 2008 and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of Significant Accounting Policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate Accounting Policies; and making accounting estimates that are reasonable in the circumstances.

**Scope of Audit and Basis of Opinion**

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 plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the Accounting Principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended December 31, 2008 and the Financial Statements give a true and fair view of the Bank's state of affairs as at December 31, 2008 and its profit and Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated Financial Statements give a true and fair view of the state of affairs as at December 31, 2008 and the profit and Cash Flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

**Report on Other Legal and Regulatory Requirements**

In our opinion, these Financial Statements also comply with the requirements of Section 151(2) and Sections 153 (2) to 153 (7) of the Companies Act No. 7 of 2007.

February 18, 2009  
Colombo.

## ● INCOME STATEMENT

For the year ended December 31,	Note	Group			Bank		
		2008 Rs. '000	2007 Rs. '000	Change %	2008 Rs. '000	2007 Rs. '000	Change %
<b>Income</b>		<b>43,960,022</b>	35,206,860	24.86	<b>44,115,249</b>	35,222,918	25.25
Interest income	1	37,213,374	30,520,562	21.93	37,188,224	30,503,072	21.92
Less: Interest expenses	2	24,317,771	18,933,715	28.44	24,335,704	18,951,118	28.41
Net interest income		12,895,603	11,586,847	11.30	12,852,520	11,551,954	11.26
Foreign exchange profit		2,633,321	1,544,832	70.46	2,633,321	1,544,832	70.46
Fees and commission income	3	2,714,980	2,381,902	13.98	2,715,061	2,382,538	13.96
Other income	4	1,398,347	759,564	84.10	1,578,643	792,476	99.20
		19,642,251	16,273,145	20.70	19,779,545	16,271,800	21.56
Less: Operating expenses	5						
Personnel expenses		3,665,365	3,283,541	11.63	3,633,738	3,269,390	11.14
Premises, equipment and establishment expenses		1,996,149	1,599,623	24.79	1,988,614	1,623,797	22.47
Provision for staff retirement benefits	6	292,659	269,128	8.74	292,659	269,128	8.74
Loan losses and provisions	7	2,278,212	1,777,476	28.17	2,278,212	1,777,476	28.17
Other overhead expenses		4,002,703	2,577,539	55.29	4,066,180	2,627,280	54.77
		12,235,088	9,507,307	28.69	12,259,403	9,567,071	28.14
Profit from operations		7,407,163	6,765,838	9.48	7,520,142	6,704,729	12.16
Add: Share of profit of Associates	8	9,085	25,011	(63.68)	–	–	–
<b>Profit before taxation</b>		<b>7,416,248</b>	6,790,849	9.21	<b>7,520,142</b>	6,704,729	12.16
Less: Income tax expense	9	3,295,842	2,638,396	24.92	3,251,770	2,601,164	25.01
<b>Profit after taxation</b>		<b>4,120,406</b>	4,152,453	(0.77)	<b>4,268,372</b>	4,103,565	4.02
<b>Attributable to:</b>							
Equity holders of the parent		4,118,884	4,149,021	(0.73)	4,268,372	4,103,565	4.02
Minority interest		1,522	3,432	(55.65)	–	–	–
		4,120,406	4,152,453	(0.77)	4,268,372	4,103,565	4.02
Dividend per Ordinary Share (Rs.)					7.00	7.00	–
Basic Earnings per Share (Rs.)	10	16.36	17.04	(3.99)			
Diluted Earnings per Share (Rs.)	10	16.23	16.91	(4.02)			

The Significant Accounting Policies and the Notes from pages 104 to 164 form an integral part of these Financial Statements.

**BALANCE SHEET**

As at December 31,	Note	Group			Bank		
		2008 Rs. '000	2007 Rs. '000	Change %	2008 Rs. '000	2007 Rs. '000	Change %
<b>ASSETS</b>							
Cash and short-term funds	13	24,114,911	16,208,247	48.78	24,114,706	16,208,208	48.78
Balances with Central Banks	14	10,322,411	11,575,579	(10.83)	10,322,411	11,575,579	(10.83)
Government Treasury Bills and Bonds	15	35,598,418	41,266,310	(13.73)	35,363,325	41,068,234	(13.89)
Securities purchased under resale agreements		3,400,455	3,804,120	(10.61)	3,400,455	3,804,120	(10.61)
Dealing Securities	16	58,290	207,267	(71.88)	58,290	207,267	(71.88)
Investments held for sale	17	-	379,631	-	-	205,477	-
Investment Securities	18	1,197,139	1,756,089	(31.83)	1,197,139	1,756,089	(31.83)
Treasury Bonds maturing after one year		16,269,926	8,794,841	84.99	16,269,926	8,794,841	84.99
Bills of Exchange	19.1	3,058,875	3,195,051	(4.26)	3,058,875	3,195,051	(4.26)
Loans & advances	19.2	167,794,679	160,177,214	4.76	167,858,457	160,184,019	4.79
Lease receivable within one year	19.3(a)	3,009,024	3,561,584	(15.51)	3,044,589	3,602,230	(15.48)
Lease receivable from one to five years	19.3(b)	6,317,865	7,227,459	(12.59)	6,422,569	7,331,505	(12.40)
Lease receivable over five years	19.3(c)	16,665	10,830	53.88	16,665	10,830	53.88
		271,158,658	258,164,222	5.03	271,127,407	257,943,450	5.11
Investments in Associates	20	70,988	62,720	13.18	44,331	44,331	-
Investments in Subsidiaries	21	-	-	-	433,681	433,681	-
Interest and fees receivable		2,341,033	2,119,836	10.43	2,341,033	2,119,836	10.43
Other assets	22	3,239,409	3,653,902	(11.34)	3,168,995	3,630,317	(12.71)
Property, Plant & Equipment	23	4,342,645	3,997,053	8.65	3,721,775	3,417,594	8.90
Leasehold Property	24	117,584	118,965	(1.16)	81,072	81,943	(1.06)
Intangible assets	25	296,723	268,532	10.50	295,391	268,487	10.02
<b>Total Assets</b>		<b>281,567,040</b>	<b>268,385,230</b>	<b>4.91</b>	<b>281,213,685</b>	<b>267,939,639</b>	<b>4.95</b>
<b>LIABILITIES AND EQUITY</b>							
Deposits from customers	26	199,865,203	183,087,880	9.16	199,880,986	183,110,135	9.16
Preference dividend payable		-	112,500	-	-	112,500	-
Borrowings	27	13,619,600	18,752,411	(27.37)	13,619,600	18,752,411	(27.37)
Securities sold under repurchase agreements		24,959,644	23,238,005	7.41	25,075,091	23,342,102	7.42
Other liabilities	28	10,093,920	9,741,091	3.62	10,103,282	9,755,560	3.56
Tax liabilities		1,663,249	1,679,306	(0.96)	1,664,563	1,698,132	(1.98)
Deferred tax	29	676,396	711,917	(4.99)	542,904	552,322	(1.71)
Debentures	30	4,436,030	6,680,440	(33.60)	4,436,030	6,680,440	(33.60)
<b>Total Liabilities</b>		<b>255,314,042</b>	<b>244,003,550</b>	<b>4.64</b>	<b>255,322,456</b>	<b>244,003,602</b>	<b>4.64</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT</b>							
Stated capital	31	9,548,123	10,514,807	(9.19)	9,548,123	10,514,807	(9.19)
Statutory Reserve Fund	32	1,847,916	1,634,497	13.06	1,847,097	1,633,678	13.06
Reserves	33	14,830,011	12,208,587	21.47	14,496,009	11,787,552	22.98
<b>Shareholders' Funds</b>		<b>26,226,050</b>	<b>24,357,891</b>	<b>7.67</b>	<b>25,891,229</b>	<b>23,936,037</b>	<b>8.17</b>
<b>Minority Interest</b>		<b>26,948</b>	<b>23,789</b>	<b>13.28</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Equity</b>		<b>26,252,998</b>	<b>24,381,680</b>	<b>7.68</b>	<b>25,891,229</b>	<b>23,936,037</b>	<b>8.17</b>
<b>Total Liabilities and Equity</b>		<b>281,567,040</b>	<b>268,385,230</b>	<b>4.91</b>	<b>281,213,685</b>	<b>267,939,639</b>	<b>4.95</b>
<b>Commitments and Contingencies</b>	34	<b>115,808,578</b>	<b>116,212,442</b>	<b>(0.35)</b>	<b>115,808,578</b>	<b>116,212,442</b>	<b>(0.35)</b>
Net assets value per Ordinary Share (Rs.)		105.16	93.79	12.12	103.81	92.09	12.73

The Significant Accounting Policies and the Notes to the Financial Statements from pages 104 to 164 form an integral part of these Financial Statements.

**Certification**

I certify that the above Financial Statements give a true and fair view of the state of affairs as at December 31, 2008 and its profit for the year ended December 31, 2008.



**K.D.N. Buddhipala**  
Chief Financial Officer

The Board of Directors is responsible for the preparation and the presentation of these Financial Statements.  
Approved and signed for and on behalf of the Board



**M.J.C. Amarasuriya**  
Chairman



**B.R.L. Fernando**  
Deputy Chairman



**A.L. Gooneratne**  
Managing Director



**Mrs. R.R. Dunuwille**  
Company Secretary

February 18, 2009  
Colombo

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## ● STATEMENT OF CHANGES IN EQUITY

For the year ended December 31,

	Note	Attributable to equity					
		Ordinary Voting Shares Rs. '000	Ordinary Non-Voting Shares Rs. '000	Share Premium Rs. '000	Cumulative. Red. Preference Shares Rs. '000	Stated Capital Rs. '000	Statutory Reserve Fund Rs. '000
<b>GROUP</b>							
Balance as at 31.12.2006		1,335,183	93,003	1,728,793	1,000,000	–	1,429,319
Final dividend for 2006		–	–	–	–	–	–
Issue of ordinary shares under Employee Share Option Plan		9,196	–	67,368	–	–	–
Rights issue of ordinary shares		402,890	27,901	5,310,449	–	–	–
Bonus issue of ordinary shares		582,043	40,302	–	–	–	–
Balance of CRRF transferred to General Reserve		–	–	–	–	–	–
Share issue expenses written-off		–	–	(82,321)	–	–	–
Transferred to Stated Capital		(2,329,312)	(161,206)	(7,024,289)	(1,000,000)	10,514,807	–
Realised revaluation surplus on disposal of property		–	–	–	–	–	–
Surplus on revaluation of property		–	–	–	–	–	–
Deferred tax effect on revaluation surplus on property		–	–	–	–	–	–
Net unrealised loss from translation of Financial Statements of Bangladesh operation		–	–	–	–	–	–
Net profit for 2007		–	–	–	–	–	–
Transfers during the year		–	–	–	–	–	205,178
Dividends for 2007	11	–	–	–	–	–	–
Balance as at 31.12.2007		–	–	–	–	10,514,807	1,634,497
Final dividend for 2007		–	–	–	–	–	–
Redemption of preference shares		–	–	–	–	(1,000,000)	–
Issue of ordinary shares under Employee Share Option Plan		–	–	–	–	33,316	–
Deferred Tax on re-classification of revaluation surplus to retained earnings		–	–	–	–	–	–
Surplus on revaluation of property		–	–	–	–	–	–
Deferred tax effect on revaluation surplus on property		–	–	–	–	–	–
Net unrealised gain from translation of Financial Statements of Bangladesh operation		–	–	–	–	–	–
Net profit for 2008		–	–	–	–	–	–
Transfers during the year		–	–	–	–	–	213,419
Dividends for 2008	11	–	–	–	–	–	–
<b>Balance as at 31.12.2008</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>9,548,123</b>	<b>1,847,916</b>
<b>BANK</b>							
Balance as at 31.12.2006		1,335,183	93,003	1,728,793	1,000,000	–	1,428,500
Final dividend for 2006		–	–	–	–	–	–
Issue of ordinary shares under Employee Share Option Plan		9,196	–	67,368	–	–	–
Rights issue of ordinary shares		402,890	27,901	5,310,449	–	–	–
Bonus issue of ordinary shares		582,043	40,302	–	–	–	–
Balance of CRRF transferred to General Reserve		–	–	–	–	–	–
Share issue expenses written-off		–	–	(82,321)	–	–	–
Transferred to Stated Capital		(2,329,312)	(161,206)	(7,024,289)	(1,000,000)	10,514,807	–
Realised revaluation surplus on disposal of property		–	–	–	–	–	–
Net unrealised loss from translation of Financial Statements of Bangladesh operation		–	–	–	–	–	–
Net profit for 2007		–	–	–	–	–	–
Transfers during the year		–	–	–	–	–	205,178
Dividends for 2007	11	–	–	–	–	–	–
Balance as at 31.12.2007		–	–	–	–	10,514,807	1,633,678
Final dividend for 2007		–	–	–	–	–	–
Redemption of preference shares		–	–	–	–	(1,000,000)	–
Issue of ordinary shares under Employee Share Option Plan		–	–	–	–	33,316	–
Net unrealised gain from translation of Financial Statements of Bangladesh operation		–	–	–	–	–	–
Net profit for 2008		–	–	–	–	–	–
Transfers during the year		–	–	–	–	–	213,419
Dividends for 2008	11	–	–	–	–	–	–
<b>Balance as at 31.12.2008</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>9,548,123</b>	<b>1,847,097</b>

\* Composition of the unappropriated profit carried forward is given in Note 12 to the Financial Statements.

holders of the parent

Primary Dealer Special Risk Reserve Rs. '000	Capital Redemption Reserve Rs. '000	Other Reserves				Unappropriated* Profit/(Loss) carried forward Rs. '000	Total Rs. '000	Minority Interest Rs. '000	Total Equity Rs. '000
		Revaluation Reserve Rs. '000	General Reserve Rs. '000	Foreign currency Translation Reserve Rs. '000					
6,244	906,555	1,288,177	7,971,914		(416,049)	673,321	16,016,460	11,023	16,027,483
-	-	-	-	-	-	(501,426)	(501,426)	-	(501,426)
-	-	-	-	-	-	-	76,564	-	76,564
-	-	-	-	-	-	-	5,741,240	-	5,741,240
-	(622,345)	-	-	-	-	-	-	-	-
-	(284,210)	-	284,210	-	-	-	-	-	-
-	-	-	-	-	-	-	(82,321)	-	(82,321)
-	-	-	-	-	-	-	-	-	-
-	-	(1,482)	-	-	-	1,482	-	-	-
-	-	311,968	-	-	-	-	311,968	17,982	329,950
-	-	(109,189)	-	-	-	-	(109,189)	(6,294)	(115,483)
-	-	-	-	(11,436)	-	-	(11,436)	-	(11,436)
-	-	-	-	-	-	4,149,021	4,149,021	3,432	4,152,453
17,414	-	-	2,022,243	-	-	(2,244,835)	-	-	-
-	-	-	-	-	-	(1,232,990)	(1,232,990)	(2,354)	(1,235,344)
23,658	-	1,489,474	10,278,367		(427,485)	844,573	24,357,891	23,789	24,381,680
-	-	-	-	-	-	(623,295)	(623,295)	-	(623,295)
-	-	-	-	-	-	-	(1,000,000)	-	(1,000,000)
-	-	-	-	-	-	-	33,316	-	33,316
-	-	-	-	-	-	18,183	18,183	1,048	19,231
-	-	39,302	-	-	-	-	39,302	2,265	41,567
-	-	4,970	-	-	-	-	4,970	286	5,256
-	-	-	-	65,689	-	-	65,689	-	65,689
-	-	-	-	-	-	4,118,884	4,118,884	1,522	4,120,406
25,151	-	-	2,240,454	-	-	(2,479,024)	-	-	-
-	-	-	-	-	-	(788,890)	(788,890)	(1,962)	(790,852)
48,809	-	1,533,746	12,518,821		(361,796)	1,090,431	26,226,050	26,948	26,252,998
6,244	906,555	1,288,177	7,971,914		(416,049)	500,521	15,842,841	-	15,842,841
-	-	-	-	-	-	(501,426)	(501,426)	-	(501,426)
-	-	-	-	-	-	-	76,564	-	76,564
-	-	-	-	-	-	-	5,741,240	-	5,741,240
-	(622,345)	-	-	-	-	-	-	-	-
-	(284,210)	-	284,210	-	-	-	-	-	-
-	-	-	-	-	-	-	(82,321)	-	(82,321)
-	-	-	-	-	-	-	-	-	-
-	-	(1,482)	-	-	-	1,482	-	-	-
-	-	-	-	(11,436)	-	-	(11,436)	-	(11,436)
-	-	-	-	-	-	4,103,565	4,103,565	-	4,103,565
17,414	-	-	2,022,243	-	-	(2,244,835)	-	-	-
-	-	-	-	-	-	(1,232,990)	(1,232,990)	-	(1,232,990)
23,658	-	1,286,695	10,278,367		(427,485)	626,317	23,936,037	-	23,936,037
-	-	-	-	-	-	(623,295)	(623,295)	-	(623,295)
-	-	-	-	-	-	-	(1,000,000)	-	(1,000,000)
-	-	-	-	-	-	-	33,316	-	33,316
-	-	-	-	65,689	-	-	65,689	-	65,689
-	-	-	-	-	-	4,268,372	4,268,372	-	4,268,372
25,151	-	-	2,240,454	-	-	(2,479,024)	-	-	-
-	-	-	-	-	-	(788,890)	(788,890)	-	(788,890)
48,809	-	1,286,695	12,518,821		(361,796)	1,003,480	25,891,229	-	25,891,229

## ● CASH FLOW STATEMENT

For the year ended December 31,	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Cash Flows from Operating Activities</b>				
Interest and commission receipts	39,615,247	32,353,653	39,594,347	32,340,181
Interest payments	(23,392,005)	(18,078,925)	(23,409,938)	(18,096,328)
Recoveries on loans previously provided/written-off	699,798	352,256	699,798	352,256
Foreign exchange profit and other receipts	2,747,408	1,647,999	2,719,361	1,631,224
Cash payments to employees and suppliers	(9,413,590)	(7,284,868)	(9,497,580)	(7,378,199)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>10,256,858</b>	<b>8,990,115</b>	<b>10,105,988</b>	<b>8,849,134</b>
(Increase)/Decrease in operating assets:				
Balances with Central Banks	1,253,168	998,072	1,253,168	998,072
Funds advanced to customers	(8,303,182)	(25,519,765)	(8,355,732)	(25,569,072)
Other operating assets	414,493	(946,509)	461,322	(932,357)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	16,777,323	25,693,965	16,770,851	25,613,978
Other operating liabilities	(572,937)	1,201,135	(578,044)	1,213,620
<b>Net cash flow from operating activities before income tax</b>	<b>19,825,723</b>	<b>10,417,013</b>	<b>19,657,553</b>	<b>10,173,375</b>
Income tax paid	(3,230,881)	(2,339,369)	(3,207,016)	(2,312,477)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>16,594,842</b>	<b>8,077,644</b>	<b>16,450,537</b>	<b>7,860,898</b>
<b>Cash Flows from Investing Activities</b>				
Dividends received	219,095	63,877	262,632	106,777
Interest received	96,646	203,664	96,646	203,664
Government Treasury Bills and Bonds	(1,749,487)	(17,781,411)	(1,712,470)	(17,764,797)
Securities purchased under resale agreements	403,665	788,969	403,665	788,969
Securities sold under repurchase agreements	1,721,639	8,920,942	1,732,989	9,012,096
Commercial paper	–	422,783	–	422,783
(Additions)/Disposals of Dealing Securities	118,651	(111,309)	118,651	(111,309)
Additions to Investment Securities	407,528	(1,244,702)	407,528	(1,244,802)
Income from Associates	676	2,772	–	–
Proceeds from sale of investments	752,342	947,073	752,342	947,073
Purchase of Property, Plant & Equipment	(880,702)	(633,062)	(815,813)	(563,407)
Purchase of Intangible Assets	(91,184)	(144,553)	(89,897)	(143,486)
Proceeds from sale of Property, Plant & Equipment	117,889	23,440	102,589	11,904
<b>Net cash inflow/(outflow) from investing activities</b>	<b>1,116,758</b>	<b>(8,541,517)</b>	<b>1,258,862</b>	<b>(8,334,535)</b>

## Cash Flow Statement

For the year ended December 31,	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Cash Flows from Financing Activities</b>				
Dividends paid to minority shareholders	(1,962)	(2,354)	–	–
Proceeds from issue of shares	33,316	5,817,804	33,316	5,817,804
Redemption of Debentures	(2,244,410)	–	(2,244,410)	–
Redemption of Preference shares	(1,000,000)	–	(1,000,000)	–
Share/Debenture issue expenses incurred	–	(82,321)	–	(82,321)
Net increase/(decrease) in other borrowings	(5,067,195)	(1,058,032)	(5,067,122)	(1,057,931)
Dividends paid to equity holders	(1,524,685)	(1,734,416)	(1,524,685)	(1,734,416)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(9,804,936)</b>	<b>2,940,681</b>	<b>(9,802,901)</b>	<b>2,943,136</b>
<b>Net increase in cash and cash equivalents</b>	<b>7,906,664</b>	<b>2,476,808</b>	<b>7,906,498</b>	<b>2,469,499</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>16,208,247</b>	<b>13,731,439</b>	<b>16,208,208</b>	<b>13,738,709</b>
<b>Cash and cash equivalents at end of the period (Refer Note 13)</b>	<b>24,114,911</b>	<b>16,208,247</b>	<b>24,114,706</b>	<b>16,208,208</b>
<b>Reconciliation of Operating Profit</b>				
<b>Profit before taxation</b>	<b>7,416,248</b>	<b>6,790,849</b>	<b>7,520,142</b>	<b>6,704,729</b>
<b>Add/(Less):</b>				
Accrued interest on loans & advances	(221,197)	(480,943)	(221,197)	(480,943)
Accrued interest on deposits and borrowings	925,766	854,790	925,766	854,790
Investment income	(316,417)	(270,313)	(359,278)	(310,441)
Share of (profit)/loss of Associates	(9,085)	(25,011)	–	–
Notional tax credit on interest on Government Treasury Bills and Bonds	(91,910)	(67,868)	(87,741)	(64,486)
Capital (gain)/loss on sale of shares	(221,289)	(42,953)	(395,443)	(51,666)
(Profit)/Loss on sale of Property, Plant & Equipment	(20,052)	(9,509)	(10,704)	(7,583)
Depreciation of Property, Plant & Equipment	478,841	391,447	419,676	358,754
Amortisation of Intangible Assets	62,993	51,993	62,993	51,629
Amortisation of Leasehold Property	1,452	1,523	942	1,013
Loan losses & provisions	2,278,212	1,777,476	2,278,212	1,777,476
(Gain)/Loss on Mark to Market Valuation on Treasury Bills and Bonds	(9,222)	(7,722)	(9,222)	(7,722)
(Gain)/loss on Mark to Market Valuation on shares	30,326	48,938	30,326	48,938
Capital (gain)/loss on Treasury Bills and Bonds	(48,484)	(25,354)	(48,484)	(25,354)
Dividends received from Associates	676	2,772	–	–
<b>Operating profit before changes in operating assets and liabilities</b>	<b>10,256,858</b>	<b>8,990,115</b>	<b>10,105,988</b>	<b>8,849,134</b>

## ● SIGNIFICANT ACCOUNTING POLICIES

### 1. CORPORATE INFORMATION

#### 1.1 General

Commercial Bank of Ceylon PLC (the 'Bank') is a public limited liability Company listed on the Colombo Stock Exchange incorporated on June 25, 1969 and domiciled in Sri Lanka. It is a Licensed Commercial Bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The registered office of the Bank is at 'Commercial House', No. 21, Bristol Street, Colombo 1. The ordinary shares of the Bank have a primary listing on the Colombo Stock Exchange. The staff strength of the Bank as at December 31, 2008 is 4,041 (3,745 as at December 31, 2007).

#### 1.2 Consolidated Financial Statements

The Consolidated Financial Statements of the Bank for the year ended December 31, 2008 comprise the Bank (parent company) and its Subsidiaries (together referred to as the 'Group') and the Group's interest in its Associates.

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

#### 1.3 Approval of Financial Statements by Directors

The Financial Statements for the year ended December 31, 2008 were authorised for issue on February 18, 2009, in accordance with a resolution of the Board of Directors passed on February 18, 2009.

### 2. PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

#### 2.1 Bank

The Bank provides a comprehensive range of financial services encompassing accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel-related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, issuing of debit cards, telebanking facilities, internet banking, money remittance facilities, dealing in Government Securities, bullion trading, export and domestic factoring, pawning etc.

#### 2.2 Subsidiaries

The principal activities of the Bank's Subsidiaries, namely, Commercial Development Company PLC and ONEzero Company Ltd. are property development and providing IT related services and training, respectively. Commercial Bank Primary Dealer Ltd., whose principal business activity was dealing in Government Securities as a Primary Dealer, ceased its operations as at September 30, 2005, consequent to the Bank obtaining the licence to operate as a Primary Dealer. The proceedings for voluntary winding up of this Company are in progress. Further, X-pertise Ltd., whose principal business activity was development of human resource, too ceased its operations as at September 30, 2007, consequent to the decision to transfer its operations to the Bank. The proceedings for voluntary winding up of this Company too are in progress.

#### 2.3 Associates

The principal activities of the Bank's Associates, namely, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd., are fund management and insurance brokering, respectively. The Bank disposed its 30% stake in the equity of Commercial Leasing Company PLC, on April 30, 2008 and on May 22, 2008, whose principal activity is leasing and factoring. The Bank's investment in this Company was classified as an Investment held for Sale in accordance with the requirements of the Sri Lanka Accounting Standard No. 38 (Revised 2006) on Non-current Assets Held for Sale and Discontinued Operations, due to the Bank's decision to dispose its interest in this Company.

There were no significant changes in the nature of the principal activities of the Bank and the Group during the financial year under review.

Significant Accounting Policies

### 3. ACCOUNTING POLICIES

#### 3.1 Basis of Preparation

The Financial Statements of the Group are prepared under the historical cost convention, except Government Treasury Bills and Bonds, Dealing Securities and land and buildings which are stated at valuation as explained in Notes 15, 16 and 23 to the Financial Statements. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity. Where appropriate the Significant Accounting Policies are disclosed in the succeeding notes.

These Financial Statements are prepared in Sri Lankan Rupees which is the Group's functional currency unless otherwise stated.

#### 3.2 Statement of Compliance

The Consolidated Financial Statements of the Bank are prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto.

#### 3.3. Significant Accounting Judgements, Estimates and Assumptions

In the process of applying the Group's Accounting Policies, the management is required to make judgements, apart from those involving estimations, which may have a significant effect on the amounts recognised in the Financial Statements. Estimates and underlying assumptions are reviewed on an ongoing basis and the management is required to consider, key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements.

The key items which involve these judgements, estimates and assumptions are discussed below:

##### 3.3.1 Impairment Losses on Loans and Advances

In addition to the provisions made for possible loan losses based on the parameters and directives for specific and general provisions on Loans and Advances by the Central Bank of Sri Lanka, the Bank reviews its Loans and Advances portfolio at each reporting date or more frequently, if events or changes in circumstances necessitate to assess whether a further provision for impairment against exposures which, although not specifically identified as requiring specific provisions have a greater risk of default than when originally granted.

The judgements by the management are required in the estimation of these amounts and such estimations are based on assumptions about a number of factors such as any deterioration of country risk, industry and technological obsolescence, as well as identified structural weaknesses and deterioration in cash flows.

##### 3.3.2 Review of Impairment Losses on Non-Financial Assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date or more frequently if events or changes in circumstances require to do so. This requires the estimation of the 'value in use' of the cash generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Bank to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

## Significant Accounting Policies

**3.3.3 Defined Benefit Plans**

The cost of defined benefit plans - gratuity and pension obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

**3.4 Basis of Consolidation**

The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Centre and the foreign operations of the Bank. The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its subsidiaries in terms of the Sri Lanka Accounting Standard No. 26 (Revised 2005) on Consolidated and Separate Financial Statements and the proportionate share of the profit or loss of its Associates in terms of the Sri Lanka Accounting Standard No. 27 (Revised 2005) on Investments in Associates.

**3.4.1 Subsidiaries**

Subsidiaries are those entities controlled by the Bank. Control is achieved where the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presumably are exercisable are taken into account. The Financial Statements of Subsidiaries are fully consolidated from the date on which control is effectively transferred to the Bank. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date of acquisition until the date that control effectively ceases.

Minority interest in the net assets not owned, directly or indirectly, by the Bank are presented in the Consolidated Balance Sheet within Equity separately from the equity attributable to Equity holders of the Parent (Bank). Minority interests in the profit or loss of the Group are presented separately in the Consolidated Income Statement.

The Consolidated Financial Statements incorporating all Subsidiaries in the Group are prepared to a common financial year ending December 31 using uniform Accounting Policies for like transactions and in similar circumstances are applied consistently.

A listing of the Bank's Subsidiaries is set out in Note 21 to the Financial Statements.

**3.4.2 Associates**

An Associate is an entity in which the Group has significant influence, directly or indirectly and which is neither a subsidiary nor a joint venture. The Group's investments in Associates are accounted for in the Consolidated Financial Statements using the Equity Method of Accounting in terms of the Sri Lanka Accounting Standard No. 27 (Revised 2005) on Investments in Associates from the date that significant influence commences upto the date that significance influence effectively ceases. The Group discontinues the use of the Equity Method from the date that it ceases to have significance influence over an Associate and accounts for the investment in accordance with the Sri Lanka Accounting Standard No. 22 on Accounting for Investments.

Under the Equity Method, investments in the Associates are carried in the Balance Sheet at cost plus post-acquisition changes in the Group's share of net assets of the Associates. Losses in excess of the cost of the investment in an Associate are recognised only when the Bank has incurred obligations on its behalf. Goodwill relating to an Associate is included in the carrying amount of the investment and is not amortised. The Income Statement reflects the Group's share of current year's profit or loss of the Associate.

## Significant Accounting Policies

Where there has been a change recognised directly in the equity of the Associate, the Bank recognises its share of any changes and discloses this, when applicable, in the Statement of Changes in Equity.

Profits and losses resulting from transactions between the Bank and the Associates are eliminated to the extent of the interest in the Associate.

The reporting dates of the Associates and the Bank are identical and the Associate's Accounting Policies largely conform to those used by the Bank for like transactions and events in similar circumstances.

A listing of the Group's Associates is set out in Note 20 to the Financial Statements.

#### **3.4.3 Business Combinations and Goodwill**

Business combinations are accounted for using the Purchase Method of Accounting as per the requirements of Sri Lanka Accounting Standard No. 25 (Revised 2004) on Business Combinations. This involves recognising identifiable assets (including previously unrecognised intangibles) and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired, is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the difference is identified as discount on acquisition and is recognised directly in the Income Statement in the year of acquisition.

Goodwill acquired in a Business Combination is initially measured at cost, being the excess of the cost of the Business Combination over the Bank's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Sri Lanka Accounting Standard No. 25 (Revised 2004) on Business Combinations requires that following the initial recognition, goodwill is to be measured at cost less any accumulated impairment losses and goodwill to be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

However, acquired goodwill is written-off in full in the year of acquisition, since the Bank is not permitted to pay dividends otherwise, as per the Section 22 of the Banking Act No. 30 of 1988.

When Subsidiaries/Associates/other business units are sold, the difference between the selling price and the net assets plus cumulative translation differences and unimpaired goodwill, if any, is recognised in the Income Statement in the year of disposal.

No goodwill/discount on acquisition arose from the treatment of Associates under the Equity Method since the Group had the respective percentages of ownership in Associates from the commencement of those Associates.

#### **3.4.4 Transactions Eliminated on Consolidation**

All intra-group transactions and balances, income and expenses and any unrealised gains arising from such inter-company transactions and balances, have been eliminated in full in preparing the Consolidated Financial Statements. Unrealised gains resulting from transactions with Associates are eliminated to the extent of the Group's interest in the Associates. Unrealised losses are eliminated in the same way as unrealised gains, except that they are eliminated only to the extent that there is no evidence of impairment.

#### **3.4.5 Materiality and Aggregation**

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard No. 3 (Revised 2005) on Presentation of Financial Statements.

## Significant Accounting Policies

**3.4.6 Rounding**

The amounts in the Financial Statements have been rounded to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard No. 3 (Revised 2005) on Presentation of Financial Statements.

**3.4.7 Comparative Information**

The Accounting Policies adopted by the Group are consistent with those of the previous financial year as permitted by the Sri Lanka Accounting Standard No. 3 (Revised 2005) on Presentation of Financial Statements, except where the Bank has adopted the Sri Lanka Accounting Standard No. 16 (Revised 2006) - Employee Benefits, during the year. The Principal effects of the changes are discussed below:

As per the revised standard, it is required to measure the defined benefit plan using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality etc.) and financial variables (such as future increases in salaries and interest rates etc.) that will influence the cost of the benefit. The Bank changed its accounting policy on recognition of defined benefit plan liability, to actuarial valuation method.

Comparative information is reclassified wherever necessary to comply with the current presentation.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these Consolidated Financial Statements are set out below:

**4.1 Foreign Currency Translation****4.1.1 Functional and Presentation Currency**

Items included in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The Consolidated Financial Statements are presented in Sri Lankan Rupees, the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency.

**4.1.2 Foreign Currency Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the middle exchange rate of the functional currency ruling at reporting date. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recorded are recognised in the Income Statement in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated, using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and are translated at the rate ruling at the Balance Sheet date.

Significant Accounting Policies

**4.1.3 Transactions of the Off-Shore Banking Centre**

These have been recorded in accordance with the Section 4.1.2 above, except the application of the annual weighted average exchange rate for translation of the Income Statement. Net gains and losses are dealt with through the Income Statement.

**4.1.4 Foreign Operations**

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

- Assets and liabilities are translated at the rates of exchange ruling at the Balance Sheet date.
- Revenue and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case revenue and expenses are translated at the exchange rate ruling at transaction date and all resulting exchange differences are recognised in the foreign currency translation reserve, which is a separate component of equity.
- When a foreign operation is disposed, the deferred cumulative translation gain or loss recognised in equity relating to that particular foreign operation is recognised in the Income Statement as part of the gain or loss on sale.

**4.2 Taxation**

Income tax expense comprises of current and deferred income tax and social responsibility levy. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

**4.2.1 Current Taxation**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, at the rates specified in Note 9.1 to the Financial Statements.

Provision for taxation on the overseas branch operations is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes in those countries.

**4.2.2 Deferred Taxation**

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all temporary differences, except:

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

## Significant Accounting Policies

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

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

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each Balance Sheet date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement.

Deferred tax assets and liabilities are set off if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **4.2.3 Withholding Tax on Dividends Distributed by Subsidiaries and Associates**

The withholding tax deducted at source is added to the tax expense in the Group Financial Statements as a consolidation adjustment.

#### **4.2.4 Social Responsibility Levy (SRL)**

As per the provisions of the Finance Act No. 5 of 2005, and amendments thereto, the SRL was introduced with effect from January 1, 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act.

#### **4.2.5 Economic Service Charge (ESC)**

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 1, 2004. ESC is payable at 1% on 'Liable Turnover' and is deductible from the income tax payments. Any unclaimed tax can be carried forward and set off against the income tax payable in the four subsequent years.

### **4.3 Events after the Balance Sheet Date**

All material and important events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in Note 39 to the Financial Statements, where necessary.

## Significant Accounting Policies

**4.4 Assets and Bases of their Valuation****4.4.1 Cash and Short-Term Funds**

Cash and short-term funds include cash in hand, balances with banks, placements with banks and money at call at short notice. They are brought to Financial Statements at the face value, or the gross value, where appropriate.

**4.4.2 Balances with Central Banks**

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 7.75% on all deposit liabilities denominated in Sri Lankan Rupees. The Bank's Bangladesh Operation is required to maintain the Statutory Liquidity Requirement of 18% on time and demand liabilities, inclusive 5% Cash Reserve Requirement and the balance 13% by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank.

**4.4.3 Government Treasury Bills and Bonds****4.4.3.1 Investments in Government Treasury Bills and Treasury Bonds held for Trading**

Investments in Government Treasury Bills and Treasury Bonds in the trading portfolio are mark to market and carried at that market value in the Balance Sheet. Gains and losses on mark to market valuation are dealt with through the Income Statement.

**4.4.3.2 Investments in Government Treasury Bills and Bonds held to Maturity**

Investments in Government Treasury Bills and Bonds held to maturity are reflected at the value of the Bills/Bonds purchased and the discount/premium accrued thereon. Discount received/premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

**4.4.4 Securities Purchased under Resale Agreements**

These are advances collateralised by purchase of Government Treasury Bills and Treasury Bonds from the public subject to an agreement to resell them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid and interest accrued thereon.

**4.4.5 Investments****4.4.5.1 Dealing Securities**

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are carried at the market value at the Balance Sheet date. Adjustment for changes in market values is accounted for in the Income Statement.

**4.4.5.2 Investments held for Sale**

These are investments classified as held for sale as at the Balance Sheet date. The Bank intends to recover the value of these assets principally through a sales transaction rather than continuing to hold. These assets are available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets and its sale is highly probable.

As per the Sri Lanka Accounting Standard No. 38 (Revised 2006) on Non-Current Assets Held for Sale and Discontinued Operations, these assets are measured at the lower of the carrying amount and fair value-less costs to sell. Thereafter the Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Bank recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value-less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. As a result, the Bank neither amortise nor depreciate the assets classified as held for sale.

## Significant Accounting Policies

**4.4.5.3 Investment Securities**

These are acquired and held for yield or capital growth in the medium to long term. Such securities are recorded at cost. Changes in market values of these securities are not taken into account, unless it is considered to be a diminution in value which is other than temporary.

**4.4.5.4 Investments in Associates**

Investments in Associates are accounted for under the Cost Method in the Bank's Financial Statements and under the Equity Method in the Consolidated Financial Statements in accordance with the Sri Lanka Accounting Standard No. 27 (Revised 2005) on Investments in Associates.

**4.4.5.5 Investments in Subsidiaries**

Investments in Subsidiaries are stated at cost in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 (Revised 2005) on Consolidated and Separate Financial Statements.

**4.4.6 Loans and Advances to Customers**

Loans and advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

**4.4.6.1 Non-Performing Loans and Advances**

Loans and advances which are in arrears of due capital and/or interest are classified as non-performing as per the Direction No. 3 of 2008 as amended by the Direction No. 9 of 2008 of the Central Bank of Sri Lanka.

**4.4.6.2 Foreclosed Properties**

Foreclosed properties acquired in full or partial satisfaction of debts, are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the prevailing market value of the foreclosed asset and the related loan outstanding, is recognised as a provision for loan losses in the Income Statement in the year of taking over the foreclosed properties, in satisfaction of the debt. The Bank reviews these properties at each reporting date or more frequently, if events or changes in circumstances indicate that the property is impaired.

Foreclosed properties are shown under Non-Performing Loans and Advances (Note 19.4 to the Financial Statements) until they are disposed. Subsequent gains and losses on the disposal of the foreclosed properties are treated as provisions written back or charged to Income Statement, respectively.

**4.4.6.3 Provision for Loan Losses****4.4.6.3.1 Specific Provisions**

Specific provisions for possible loan losses are based on a continuous review of the loans and advances portfolio in accordance with the parameters set by the Central Bank of Sri Lanka and disclosures are made as required by the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks.

However, the Bank's provisioning policy is more stringent than the guidelines issued by the Central Bank of Sri Lanka. A full provision net of realisable value of securities are made for all loans and advances classified as substandard as per the guidelines issued by the Central Bank of Sri Lanka.

## Significant Accounting Policies

**4.4.6.3.2 General Provisions**

In addition, a general provision is made at the rate of 0.1% per quarter over 10 quarters on performing and special mention loans and advances portfolio commencing the fourth quarter 2006, as per a Direction from the Central Bank of Sri Lanka, which requires that a general provision up to 1% on total performing and overdue loans and advances portfolio be made on or before the end of the first quarter 2009. Further, general provisions in Bangladesh is made as per the prudential guidelines issued by the Bangladesh Bank.

**4.4.6.4 Finance Leases**

Assets leased to customers which transfer substantially all the risks and rewards incidental to the ownership other than legal title are classified as finance leases in accordance with the Sri Lanka Accounting Standard No. 19 (Revised 2005) on Leases.

Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for rentals doubtful of recovery are classified as Lease Receivable in the Balance Sheet.

**4.4.6.4.1 Provision for Lease Receivable**

Specific provisions have been made in relation to bad and doubtful leases as stated in 4.4.6.3.1 above.

In addition, a general provision for possible losses on Lease Receivable is made as specified in 4.4.6.3.2 above.

**4.4.6.5 Credit Card Receivable**

Amounts receivable on Credit Cards are included in Loans and Advances at the amounts expected to be recovered.

**4.4.6.5.1 Provision for Credit Card Receivable**

100% specific provision is made on Credit Card Receivable where minimum payments are outstanding for 6 months and over.

In addition, a general provision is made at 3% on the capital included in Credit Card Receivable up to 6 months.

**4.4.7 Property, Plant & Equipment****4.4.7.1 Basis of Recognition**

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

**4.4.7.2 Measurement**

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

**Cost Model**

The Bank applies the Cost Model to all plant and equipment which comprises the cost of purchase together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

## Significant Accounting Policies

**Revaluation Model**

The Bank applies the Revaluation Model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Bank are revalued at least once in 7 years to ensure that the carrying amounts do not differ materially from the fair values at the Balance Sheet date.

On revaluation of an asset, any increase in the carrying amount is credited directly to equity, under Revaluation Reserve or used to reverse a previous loss on revaluation of the same asset, which was debited to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited directly to Revaluation Reserve under equity only to the extent of any credit balance existing in that reserve in respect of that asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to Retained Profits on retirement or disposal of the asset.

**Subsequent Cost**

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

**Restoration Cost**

Expenditure incurred on replacements, repairs or maintenance of Property, Plant & Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance is recognised as an expense when incurred.

**Derecognition**

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the Income Statement in the year the asset is derecognised.

**Capital Work-in-Progress**

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Balance Sheet at cost.

**4.4.7.3 Depreciation**

The provision for depreciation is calculated by using the straight line method on the cost or valuation of Property, Plant & Equipment other than freehold land, in order to write-off such amounts over the estimated useful economic lives of these assets by equal instalments. Effective rates are as follows:

Freehold and Leasehold Buildings	2.5% per annum
Motor Vehicles	20% per annum
Computer Equipment	16.67% - 20% per annum
Office Equipment	20% per annum
Furniture & Fittings	10% per annum
Office Interior Work	10% per annum
Machinery & Equipment	10% per annum

Significant Accounting Policies

The depreciation charges are determined separately for each significant part of an item of Property, Plant & Equipment and begin to depreciate when it is available for use and ceases on disposal of such assets.

The assets residual value, useful life and method of depreciation are reviewed at each reporting date and adjusted prospectively if appropriate, as changes in accounting estimates.

**4.4.8 Leasehold Property**

Leasehold property is stated at recorded carrying value as per the Sri Lanka Accounting Standard No. 19 (Revised 2005) on Leases. Such carrying amounts are amortised over the remaining lease term or useful life of the leased property whichever is shorter. No further revaluations of these leasehold property will be carried out.

**4.4.9 Intangible Assets**

**4.4.9.1 Basis of Recognition**

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses, if any.

**4.4.9.2 Subsequent Expenditure**

Subsequent expenditure on Intangible Assets is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed when incurred.

**4.4.9.3 Amortisation**

The useful lives of Intangible Assets are assessed to be either finite or indefinite. Intangible Assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

Intangible assets are amortised using the straight line method to write down the cost over its estimated useful economic lives. Effective rates are as follows:

Computer Software	16.67% per annum
Copyright	20% per annum

**4.4.9.4 Impairment**

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

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the cash generating unit level as appropriate, when circumstances indicate that the carrying value is impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

## Significant Accounting Policies

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

**4.4.10 Impairment of Non-Financial Assets**

The Bank assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. When the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the Income Statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increase in its recoverable amount in future.

**5. LIABILITIES AND PROVISIONS****5.1 Deposits from Customers**

Deposits include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call and certificate of deposits. They are stated in the Balance Sheet at amounts payable. Interest paid/payable on these deposits is charged to the Income Statement.

**5.2 Dividends payable**

Provision for dividends payable is recognised at the time the dividend is recommended and declared by the Board of Directors and approved by the shareholders.

**5.3 Borrowings**

Borrowings include refinance borrowings, call money borrowings, vostro balances and borrowings from financial institutions. They too are stated in the Balance Sheet at amounts payable. Interest paid/payable on these borrowings is charged to the Income Statement.

**5.4 Securities Sold under Repurchase Agreements**

These are borrowings collateralised by sale of Treasury Bills and Treasury Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to an agreement to repurchase them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received and interest accrued thereon.

Significant Accounting Policies

**5.5 Provisions**

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets. The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation at reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**5.6 Derivative Instruments**

The Bank in its ordinary course of business enters into transactions such as interest rate and foreign exchange contracts and uses derivative instruments to manage exposure to interest rates, foreign currencies, commodity price volatility, including exposure arising from forecast transactions. In order to account for such transactions, the Bank applies hedge accounting principles based on best accounting practices which are discussed below.

***Basis of Recognition***

Forward contracts, swaps, options and futures are recognised as Off-Balance Sheet Assets and Liabilities. Upon maturity or crystallisation of related Assets or Liabilities, the gains or losses are recognised in the Income Statement in the period in which maturity or crystallisation takes place. In situations where the gains or losses are recognised periodically prior to crystallisation of related Assets or Liabilities, such gains or losses are incorporated in determining the profit or loss for the relevant period.

***Basis of Measurement***

Exposure on commodity hedges are measured by taking the price differential between the strike price agreed and the market price as per contract on the exposure for the remaining contracted period, which is converted to Sri Lanka rupees based on the exchange rate ruling at each reporting date. Exposure on forward contracts, swaps, options and futures are stated at values at which they are expected to crystallise at each reporting date.

***Accounting for Hedging Transactions***

At inception of hedging transactions, the Bank formally documents the relationship between the underlying hedged item and the hedging instrument including the nature of the risk, the objective and the strategy for undertaking the hedge and the method used to assess the effectiveness of the hedging relationship.

In addition, at the inception and on an ongoing basis, formal assessments are undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. In situations where the hedged item is a forecast transaction, the Bank assesses whether the transaction is a highly probable one and evaluates the exposure to variations in cash flows that could ultimately affect the profit or loss for the period. The ineffective portion of the profit or loss of the hedging instrument is recognised immediately in the Income Statement.

**5.7 Pension & Retirement Benefits**

**5.7.1 Defined Benefit Pension Plans**

**5.7.1.1 Description of the Plans and Employee Groups Covered**

The Bank operates three types of defined benefit pension plans for its employees as described below:

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

## Significant Accounting Policies

As detailed in 5.8.1 below, the Bank offered a restructured pension scheme to convert the Defined Benefit Plan (DBP) to a Defined Contribution Plan (DCP) for the pensionable employees of the Bank during 2006 and over 99% of them accepted it. As a result, the above Pension Fund now covers only those employees who did not opt for the restructured pension scheme and those employees who were covered by the pension fund previously but retired before the restructured pension scheme came into effect.

- Provision for pensions has been made for those employees who retired on or before December 31, 2001 and on whose behalf the Bank could not make contributions to the Retirement Pension Fund for more than 10 years. This liability is not funded.
- Provision has been made in these Financial Statements for retirement gratuity from the first year of service for all the employees who joined the Bank on or after January 1, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees presently covered by the DBP resigns before retirement, the Bank is liable to pay gratuity to such employees. This liability too is not funded.

The Subsidiaries of the Bank do not operate Pension Funds.

#### 5.7.1.2 Principal Actuarial Assumptions

The principal financial assumptions used in the valuation are as follows:

Long-term rate of interest	12.0% per annum
Salary increases	10.0% per annum

The demographic assumptions underlying the valuation are retirement age (55 or 60 years), early withdrawals from service and retirement on medical grounds, death before and after retirement, etc.

#### 5.7.1.3 Actuarial Valuation and Actuarial Valuation Method

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method, as per the Sri Lanka Accounting Standard No. 16 (Revised 2006) on Employee Benefits.

Actuarial gains or losses are recognised in the Income Statement in the period in which they arise. The past service cost is recognised as an expense on a straight line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

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

The results of the actuarial valuation carried out as at December 31, 2008 by M/s. Actuarial and Management Consultants (Pvt) Ltd., are summarised below:

- The results of the actuarial valuation carried out to determine the liability on account of employees who are covered by the pension fund and did not opt for the restructured pension scheme and those employees who retired before the restructured pension scheme came into effect revealed that the liability has been adequately funded as at December 31, 2008.
- The pensions payable to those employees who retired on or before December 31, 2001 and on whose behalf the Bank could not make contributions to the Pension Fund for more than 10 years by December 31, 2001, revealed the present value of the promised retirement benefits to be Rs. 106.350 million. The Bank made this provision in full in its Financial Statements as at December 31, 2008.

Significant Accounting Policies

- The results of the actuarial valuation carried out to determine the gratuity liability revealed that the provision kept in the Financial Statements as at December 31, 2008 was insufficient to meet the present value of the promised retirement benefits by Rs. 14.192 million, and the Bank provided this shortfall in full in its Financial Statements as at December 31, 2008.

**5.8 Defined Contribution Plans (DCPs)**

Contributions to Defined Contribution Pension Plans are recognised as an expense in the Income Statement as incurred.

**5.8.1 Defined Contribution Pension Plans**

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

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

**5.8.2 Management of the Fund's Assets**

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

**5.8.3 Employees' Provident Fund**

The Bank and employees contribute to the approved private Provident Fund at 12% and 8% on the salaries of each employee respectively.

**5.8.4 Employees' Trust Fund**

The Bank/Group contributes to the Employees' Trust Fund at 3% on the salaries of each employee.

**5.9 Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of other liabilities. The Bank's share of any contingencies and capital commitments of a subsidiary or an associate for which the Bank is also liable severally or otherwise is included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured. Contingent liabilities are not recognised in the Balance Sheet but are disclosed unless its occurrence is remote.

## Significant Accounting Policies

**6. INCOME STATEMENT****6.1 Revenue Recognition****6.1.1 Interest Income on Loans and Advances**

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest receivable on loans and advances is recognised on accrual basis. Interest ceases to be taken into revenue when the relevant loans and advances are classified as non-performing, as explained in 4.4.6.1 above. Interest falling due on non-performing loans and advances is credited to Interest in Suspense Account which is netted in the Balance Sheet against the relevant loans and advances. Interest receivable on loans and advances classified as non-performing is accounted for on cash basis.

**6.1.2 Lease Income**

In terms of the provisions of the Sri Lanka Accounting Standard No. 19 (Revised 2005) on Leases, the recognition of finance income on leasing is accounted based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion to capital outstanding.

Finance income in respect of lease rentals due ceases to be taken to revenue when the relevant lease facilities are classified as non-performing as explained in 4.4.6.1 above. Thereafter such income is recognised on cash basis. In addition, interest accrued up to the date of classification as non-performing leases is also reversed from the interest income and transferred to interest in suspense which is netted in the Balance Sheet against the relevant lease receivable outstanding.

**6.1.3 Income from Government Securities and Securities Purchased under Resale Agreements**

Discounts/Premiums on Treasury Bills and Treasury Bonds are amortised over the period to reflect a constant yield. The coupon interest on Treasury Bonds is recognised on an accrual basis. The interest income on Securities Purchased under Resale Agreements are recognised in the Income Statement on an accrual basis over the period of the agreement.

**6.1.4 Income on Discounting of Bills of Exchange**

Income on discounting of Bills of Exchange is recognised on cash basis.

**6.1.5 Fees and Commission Income**

The Bank recognises fees and commission income from a diverse range of services it provides to its customers on a cash basis. This includes fees and commission income arising on financial services provided by the Bank including Trade Finance, Travel, Investment Banking, e-Banking, Legal Services, Hedging Transactions etc.

**6.1.6 Dividend Income on Shares and Units**

Dividend income from shares and units is recognised on an accrual basis when the Bank's right to receive the payment is established.

## Significant Accounting Policies

**6.1.7 Interest Income on Investments in Debentures and Trust Certificates**

Interest income on investments in Debentures and Trust Certificates is recognised on an accrual basis.

**6.1.8 Rental Income**

Rental income is recognised on an accrual basis.

**6.1.9 Interest and Fees Receivable on Credit Cards**

Interest and fees receivable on Credit Cards are recognised on an accrual basis. Interest and fees cease to be taken into revenue when the recovery of minimum payment is in arrears for over three months. Thereafter, interest and fees are accounted for on a cash basis.

**6.1.10 Gains and/or Losses on Disposal of Property, Plant & Equipment, Non-Current Investments Held for Sale, Dealing Securities, Investment Securities and Foreclosed Properties**

Gains and/or losses resulting from the disposal of Property, Plant & Equipment, Non-Current investments held for sale, Dealing Securities, Investment Securities and Foreclosed Properties have been accounted for on a cash basis in the Income Statement, in the period in which the sale occurs.

**6.2 Interest on Deposits, Borrowings, Securities Sold under Repurchase Agreements and Other Expenses**

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest on deposits and borrowings and other expenses payable are recognised on an accrual basis in the Income Statement. The interest expenses on securities sold under repurchase agreements are recognised in the Income Statement on an accrual basis over the period of the agreement.

**6.3 Borrowing Costs**

Costs incurred in respect of funds specifically obtained for the acquisition of Property, Plant & Equipment have been recognised as an expense in the Income Statement, in the period in which they are incurred in terms of the Sri Lanka Accounting Standard No. 20 on Borrowing Costs.

**6.4 Terminal Benefits**

The amounts paid as pension to those employees who are not covered by the previous Pension Fund as per 5.7.1 above and retiring gratuity paid, are recognised as a reduction of the provisions created in this regard. Any shortfall between the actuarially valued liabilities and the balances outstanding in these provision accounts is recognised immediately as a charge to the Income Statement in the period of the valuation. The actual amounts paid as pension to those employees who are covered by the Pension Fund are borne by the Retirement Pension Fund.

**7. CASH FLOW STATEMENT**

The Cash Flow Statement has been prepared by using the 'Direct Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard No. 9 on Cash Flow Statements, whereby gross cash receipts and gross cash payments on operating activities, investing activities and financing activities have been recognised. 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 value. Cash and Cash Equivalents as referred to in the Cash Flow Statement comprise those items as explained in 4.4.1 above.

## Significant Accounting Policies

**8. SEGMENT REPORTING**

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segment) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lanka Accounting Standard No. 28 on Segment Reporting, segmental information is presented in respect of the Group. The segments comprise of banking, leasing, dealing and property/investment.

Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of Head Office expenses.

Inter-segment transactions are accounted for at fair market prices charged to inter-bank counterparts for similar services. Such transfers are eliminated on consolidation.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

**9. FIDUCIARY ASSETS**

Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

**10. DIVIDENDS ON ORDINARY AND PREFERENCE SHARES**

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

Dividends on ordinary shares for the year that are recommended by the Directors after the Balance Sheet date for approval of the shareholders at the Annual General Meeting are disclosed in Note 11 to the Financial Statements.

Dividends on preference shares are accrued in the Financial Statements.

**11. DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer page 95 for the Statement of Directors' Responsibility.

## ● NOTES TO THE FINANCIAL STATEMENTS

### 1. INTEREST INCOME

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Customer advances	29,134,243	24,134,687	29,156,825	24,151,524
Loans at Call	221,352	279,877	221,352	279,877
Treasury Bills, Treasury Bonds and other				
Money Market instruments	7,041,289	5,188,530	6,993,557	5,154,203
Interest Rate Swaps	184,244	197,575	184,244	197,575
Placements with Banks	632,246	719,893	632,246	719,893
<b>Total</b>	<b>37,213,374</b>	<b>30,520,562</b>	<b>37,188,224</b>	<b>30,503,072</b>

Since April 1, 2002, net interest income from Government Treasury Bills and Treasury Bonds has been grossed up by adding the notional tax credit, consequent to the interest income on Treasury Bills and Treasury Bonds being subjected to withholding tax as detailed in Note 9.3.

### 2. INTEREST EXPENSES

Customer deposits	17,326,062	13,558,135	17,326,920	13,562,628
Deposits at Call	394,813	197,511	394,813	197,511
Repurchase agreements and other				
Money Market instruments	4,639,546	2,848,736	4,656,621	2,861,646
Interest Rate Swaps	200,463	215,094	200,463	215,094
Due to Banks	348,293	662,899	348,293	662,899
Debentures	977,881	1,104,753	977,881	1,104,753
Refinance borrowings	430,713	346,587	430,713	346,587
<b>Total</b>	<b>24,317,771</b>	<b>18,933,715</b>	<b>24,335,704</b>	<b>18,951,118</b>

### 3. FEES AND COMMISSION INCOME

Trade and other related activities	1,245,267	1,029,549	1,245,267	1,029,549
Personal banking	213,492	202,200	213,573	202,836
Foreign remittances	131,848	89,872	131,848	89,872
Electronic banking	510,075	439,368	510,075	439,368
Professional services	65,250	81,713	65,250	81,713
Other	549,048	539,200	549,048	539,200
<b>Total</b>	<b>2,714,980</b>	<b>2,381,902</b>	<b>2,715,061</b>	<b>2,382,538</b>

## Notes to the Financial Statements

**4. OTHER INCOME**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Income from investment securities (quoted)	5,406	5,965	5,406	5,965
Income from investment securities (unquoted)	295,761	228,899	295,761	228,899
Income from investments in associates (unquoted)	676	2,772	–	2,055
Income from investments in subsidiaries (quoted)	–	–	34,037	40,845
Income from investments in subsidiaries (unquoted)	–	–	9,500	–
Income from investments held for sale	10,587	26,905	10,587	26,905
Income from investments in Dealing Securities	3,987	5,772	3,987	5,772
Bad debts recovered (including recovery of debts written-off)	699,798	352,256	699,798	352,256
Profit on sale of Property, Plant & Equipment	20,052	9,509	10,704	7,583
Rental and other income	114,087	103,167	86,040	86,392
Gain/(Loss) on Mark to Market Valuation on shares	(30,326)	(48,938)	(30,326)	(48,938)
Capital Gain/(Loss) on sale of shares	221,289	42,953	395,443	51,666
Gain/(Loss) on Mark to Market Valuation on Treasury Bills and Bonds	9,222	7,722	9,222	7,722
Capital Gain/(Loss) on Treasury Bills and Bonds	48,484	25,354	48,484	25,354
	1,399,023	762,336	1,578,643	792,476
Less: Dividends received from Associates transferred to the Investments in Associates [Refer Note 20]	676	2,772	–	–
<b>Total</b>	<b>1,398,347</b>	<b>759,564</b>	<b>1,578,643</b>	<b>792,476</b>

**5. OPERATING EXPENSES**

Operating expenses include the following:

Directors' Remuneration	45,465	57,666	44,815	57,295
Auditors' Remuneration	7,682	5,573	7,017	5,202
Non-Audit fees	2,161	1,523	2,031	1,440
Pensions provided to past employees and past Directors	127,408	20,004	127,408	20,004
Depreciation of Property, Plant & Equipment	478,841	391,447	419,676	358,754
Amortisation of Leasehold Property	1,452	1,523	942	1,013
Amortisation of Intangible Assets	62,993	51,993	62,993	51,629
Professional and legal expenses	87,849	97,594	87,849	97,317
Advertising and marketing expenses	189,526	142,109	189,454	142,061
Donation to Corporate Social Responsibility (CSR) Trust	20,000	22,000	20,000	22,000
Donations	3,220	7,741	3,220	7,741
Employer's contribution to Employees' Provident Fund	198,631	164,351	196,721	162,998
Employer's contribution to Employees' Trust Fund	47,470	39,721	46,992	39,383
Gratuity provision	51,122	22,433	45,953	21,463
Financial Value Added Tax (VAT) on profits	2,091,468	1,551,762	2,091,468	1,551,762
Oil Hedging expenses	692,162	–	692,162	–

## Notes to the Financial Statements

**6. PROVISION FOR STAFF RETIREMENT BENEFITS**

A sum of Rs. 292.659 Mn (Rs. 269.128 Mn in 2007) has been charged against profits being the total contributions for the year to the Defined Contribution Plan and Defined Benefit Plan.

**7. LOAN LOSSES AND PROVISIONS**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Provision for bad and doubtful debts:				
Specific provision on Bills of Exchange	–	3,134	–	3,134
Specific provision on loans & advances	1,209,644	978,906	1,209,644	978,906
Specific provision on credit card receivable	105,740	50,348	105,740	50,348
Specific provision on lease receivable	285,661	114,301	285,661	114,301
<b>Total [Refer Note 19.4 (a)]</b>	<b>1,601,045</b>	<b>1,146,689</b>	<b>1,601,045</b>	<b>1,146,689</b>
General provision on Bills of Exchange	10,956	15,069	10,956	15,069
General provision on loans & advances	626,422	592,229	626,422	592,229
General provision on credit card receivable	4,446	13,653	4,446	13,653
General provision on lease receivable	30,202	8,000	30,202	8,000
<b>Total [Refer Note 19.4 (b)]</b>	<b>672,026</b>	<b>628,951</b>	<b>672,026</b>	<b>628,951</b>
Total provisions made during the year	2,273,071	1,775,640	2,273,071	1,775,640
Direct write-offs	5,141	1,836	5,141	1,836
<b>Total</b>	<b>2,278,212</b>	<b>1,777,476</b>	<b>2,278,212</b>	<b>1,777,476</b>

**8. SHARE OF PROFIT OF ASSOCIATES**

Equity Investments Lanka Ltd.	4,605	2,807	–	–
Commercial Insurance Brokers (Pvt) Ltd.	4,480	22,204	–	–
<b>Total</b>	<b>9,085</b>	<b>25,011</b>	<b>–</b>	<b>–</b>

## Notes to the Financial Statements

**9. INCOME TAX EXPENSE****9.1 Entity-wise Breakup of the Income Tax Expense is as follows:**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Bank</b>				
Income tax expense of Domestic Banking Unit	2,465,926	2,160,222	2,465,926	2,160,222
Income tax expense of Off-shore Banking Centre	219,343	162,181	219,343	162,181
Income tax expense of Bangladesh operation	492,865	445,822	492,865	445,822
(Over)/under provision for taxes in respect of prior years	82,661	(139,048)	82,661	(139,048)
Deferred tax (reversal)/charge	(9,025)	(28,013)	(9,025)	(28,013)
	3,251,770	2,601,164	3,251,770	2,601,164
<b>Subsidiaries</b>				
Income tax expense of Commercial Development Company PLC	23,004	23,286	—	—
Income tax expense of Commercial Bank Primary Dealer Ltd.	14,460	11,878	—	—
Income tax expense of ONEzero Company Ltd.	6,570	733	—	—
Income tax expense of X-pertise Ltd.	(104)	750	—	—
<b>Associates</b>				
Share of Income Tax expense of Equity Investments Lanka Ltd.	142	43	—	—
Share of Income Tax expense of Commercial Insurance Brokers (Pvt) Ltd.	—	542	—	—
<b>Total</b>	<b>3,295,842</b>	<b>2,638,396</b>	<b>3,251,770</b>	<b>2,601,164</b>
Effective tax rate (excluding deferred tax)			43.36%	39.21%

**Income tax has been provided on the taxable income at the following rates:**

	2008 %	2007 %
Domestic operations of the Bank	35	35
On-shore banking operations of the Off-Shore Banking Centre of the Bank	35	35
Off-shore banking operations of the Off-Shore Banking Centre of the Bank	20	20
Bangladesh Operation	45	45
Commercial Development Company PLC	35	35
Commercial Bank Primary Dealer Ltd.	35	35
ONEzero Company Ltd.	35	35
X-pertise Ltd.	35	35

Notes to the Financial Statements

**9.2 A reconciliation between income tax expense and the accounting profit multiplied by the statutory tax rate is as follows:**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Accounting profit before tax from operations	7,407,163	6,765,838	7,520,142	6,704,729
Tax effect at the statutory income tax rates	2,754,338	2,458,922	2,710,595	2,419,292
Tax effect of exempt income	(596,539)	(548,292)	(596,539)	(543,772)
Tax effect of non-deductible expenses	3,366,767	2,876,466	3,334,557	2,857,511
Tax effect of deductible expenses	(2,343,348)	(2,048,374)	(2,312,469)	(2,030,858)
Remittance tax of Bangladesh operation	-	42,184	-	42,137
Share of Income tax expense of Associates	142	585	-	-
Social Responsibility Levy at 1.5% of Income Tax (2007 - 1.0%)	42,422	24,280	41,990	23,915
(Over)/under provision of taxes in respect of prior years	82,702	(139,070)	82,661	(139,048)
Deferred tax (reversal)/charge	(10,642)	(28,305)	(9,025)	(28,013)
Income tax expense reported in the income statement at the effective income tax rate	3,295,842	2,638,396	3,251,770	2,601,164

**9.3 Notional Tax Credit for withholding tax on Government Securities on Secondary Market Transactions**

The Inland Revenue Act No. 10 of 2006 and the amendments thereto, provide that a company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one-ninth of the net interest income) provided such interest income forms part of statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned by the Group and the Bank from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs. 91.910 Mn and Rs. 87.741 Mn respectively (Rs. 67.868 Mn and Rs. 64.486 Mn respectively in 2007).

## Notes to the Financial Statements

**10. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the parent (after deducting dividend on preference shares) by the weighted average number of ordinary shares in issue (both voting and non-voting) during the year, as required by the Sri Lanka Accounting Standard No. 34 (Revised 2005) on Earnings Per Share.

The weighted average number of ordinary shares outstanding during the year and the previous year were adjusted for the events that have changed number of ordinary shares outstanding, without a corresponding change in the resources such as bonus issues.

Diluted Earnings per Share is calculated by dividing the net profit attributable to equity holders of the parent (after deducting dividend on preference shares) by the weighted average number of ordinary shares outstanding during the year (both voting and non-voting) adjusted for the effects of all dilutive potential weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ESOPs into ordinary shares.

The following table shows the earnings and number of shares used in the basic and dilutive earnings per share calculation.

	<b>Group</b>	
	2008	2007
	Rs. '000	Rs. '000
<b>Amounts Used as the Numerator:</b>		
Net profit attributable to equity holders of the parent	4,118,884	4,149,021
Less : Dividend on cumulative redeemable preference shares	40,684	112,500
Net profit attributable to equity holders of the parent for basic and diluted earnings per share	4,078,200	4,036,521
<b>Number of Ordinary Shares Used as the Denominator:</b>		
Weighted average number of ordinary shares	249,312,791	174,716,365
Issue of Bonus shares during the year	-	62,234,467
Weighted average number of ordinary shares used for basic earnings per share	249,312,791	236,950,832
Effect of dilution:		
Number of outstanding options as at year end (Refer Note 31)	2,034,306	1,711,452
Weighted average number of ordinary shares adjusted for the effect of dilution	251,347,097	238,662,284
Basic earnings per share (Rs.)	16.36	17.04
Diluted earnings per share (Rs.)	16.23	16.91

Notes to the Financial Statements

**11. DIVIDENDS**

	Group		Bank	
	2008	2007	2008	2007
	Interim Rs. 3.00 (paid during 2008) Rs. '000	Interim Rs. 4.50 (paid during 2007) Rs. '000	Interim Rs. 3.00 (paid during 2008) Rs. '000	Interim Rs. 4.50 (paid during 2007) Rs. '000
<b>On Ordinary Shares</b>				
Net dividend paid to the ordinary shareholders	684,043	1,027,493	684,043	1,027,493
Withholding tax deducted at source	64,163	92,997	64,163	92,997
Gross ordinary dividend	748,206	1,120,490	748,206	1,120,490
<b>On Preference Shares</b>				
Dividend paid/payable on Cumulative Redeemable Preference Shares of Rs. 10.00 each for the period/year				
Net dividend paid	36,616	101,250	36,616	101,250
Withholding tax to be deducted/deducted at source	4,068	11,250	4,068	11,250
Gross preference dividend	40,684	112,500	40,684	112,500
<b>Total dividends</b>	<b>788,890</b>	<b>1,232,990</b>	<b>788,890</b>	<b>1,232,990</b>

Two interim dividends of Rs. 1.50 per share each, totalling to Rs. 3.00 per share was paid in 2008 to both the voting and non-voting ordinary shareholders of the Bank. (The interim dividends paid for the year 2007 was Rs. 4.50 per share.)

Directors have recommended the payment of a final dividend of Rs. 4.00 per share to both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2008 (Rs. 2.50 in 2007) which will be declared at the forthcoming Annual General Meeting to be held on March 30, 2009. In accordance with the provisions of the Sri Lanka Accounting Standard No. 12 (Revised 2005) on Events After the Balance Sheet date, this proposed final dividend has not been recognised as a liability as at the year end.

**12. UNAPPROPRIATED PROFIT/(LOSS) CARRIED FORWARD**

	Group		Bank	
	2008	2007	2008	2007
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Commercial Bank of Ceylon PLC	929,269	552,106	1,003,480	626,317
<b>Subsidiaries:</b>				
Commercial Development Company PLC	(4,450)	(11,201)	-	-
Commercial Bank Primary Dealer Ltd.	99,337	78,481	-	-
ONEzero Company Ltd.	38,109	31,468	-	-
X-Pertise Ltd.	1,609	1,276	-	-
<b>Associates:</b>				
Commercial Leasing Company PLC (Disposed on April 30 and May 22, 2008)	-	174,154	-	-
Equity Investments Lanka Ltd.	1,807	(2,657)	-	-
Commercial Insurance Brokers (Pvt) Ltd.	24,750	20,946	-	-
<b>Total</b>	<b>1,090,431</b>	<b>844,573</b>	<b>1,003,480</b>	<b>626,317</b>

## Notes to the Financial Statements

**13. CASH AND SHORT-TERM FUNDS**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Coins and notes held in local currency	4,382,795	3,337,926	4,382,590	3,337,887
Coins and notes held in foreign currency	737,746	883,396	737,746	883,396
Due from Banks	15,996,793	11,781,746	15,996,793	11,781,746
Loans at call and at short notice	2,997,577	205,179	2,997,577	205,179
<b>Total</b>	<b>24,114,911</b>	<b>16,208,247</b>	<b>24,114,706</b>	<b>16,208,208</b>

**14. BALANCES WITH CENTRAL BANKS**

Bank's Current Account with the Central Bank of Sri Lanka	7,494,269	9,959,910	7,494,269	9,959,910
Bank's Current Account with the Bangladesh Bank	2,828,142	1,615,669	2,828,142	1,615,669
<b>Total</b>	<b>10,322,411</b>	<b>11,575,579</b>	<b>10,322,411</b>	<b>11,575,579</b>

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at December 31, 2008 the minimum cash reserve requirement was 7.75% of the rupee deposit liabilities. There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Off-shore Banking Centre in Sri Lanka.

As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement is 18% on time and demand liabilities, which includes a 5% cash reserve requirement and the balance 13% is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

**15. GOVERNMENT TREASURY BILLS AND BONDS**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Government Treasury Bills and Bonds held for trading (Gross)	3,819,377	6,179,641	3,819,377	6,179,641
Gain/(loss) on Mark to Market Valuation	9,222	(8,844)	9,222	(8,844)
Government Treasury Bills and Bonds held for trading (Net)	3,828,599	6,170,797	3,828,599	6,170,797
Government Treasury Bills and Bonds held to maturity	31,769,819	35,095,513	31,534,726	34,897,437
<b>Total</b>	<b>35,598,418</b>	<b>41,266,310</b>	<b>35,363,325</b>	<b>41,068,234</b>

**15.1 Assets Pledged**

Nature of Assets	Nature of Liability				
Government Treasury Bills and Bonds	Secured against the Repo instruments	28,750,209	26,813,364	28,750,209	26,813,364
		<b>28,750,209</b>	<b>26,813,364</b>	<b>28,750,209</b>	<b>26,813,364</b>

Notes to the Financial Statements

**16. DEALING SECURITIES**

	Group				Bank			
	As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
	Cost Rs. '000	Market Value Rs. '000						
<b>Quoted</b>								
<b>SHARES</b>								
Merchant Bank of Sri Lanka PLC (153,614 Ordinary Shares) (153,614 Ordinary Shares as at December 31, 2007)	4,627	1,114 (@ Rs. 7.25)	4,627	2,151 (@ Rs. 14.00)	4,627	1,114 (@ Rs. 7.25)	4,627	2,151 (@ Rs. 14.00)
HDFC Bank of Sri Lanka (38,000 Ordinary Shares) (38,000 Ordinary Shares as at December 31, 2007)	8,493	2,128 (@ Rs. 56.00)	8,493	4,836 (@ Rs. 127.25)	8,493	2,128 (@ Rs. 56.00)	8,493	4,836 (@ Rs. 127.25)
John Keells Holdings PLC (177,553 Ordinary Shares) (180,890 Ordinary Shares as at December 31, 2007)	28,912	8,878 (@ Rs. 50.00)	29,458	23,018 (@ Rs. 127.25)	28,912	8,878 (@ Rs. 50.00)	29,458	23,018 (@ Rs. 127.25)
Hemas Holdings PLC (18,300 Ordinary Shares) (18,300 Ordinary Shares as at December 31, 2007)	2,199	1,011 (@ Rs. 55.25)	2,199	1,739 (@ Rs. 95.00)	2,199	1,011 (@ Rs. 55.25)	2,199	1,739 (@ Rs. 95.00)
Richard Pieris & Company PLC (87,266 Ordinary Shares) (121,766 Ordinary Shares as at December 31, 2007)	7,121	1,963 (@ Rs. 22.50)	9,936	5,784 (@ Rs. 47.50)	7,121	1,963 (@ Rs. 22.50)	9,936	5,784 (@ Rs. 47.50)
Asian Hotels Properties PLC (190,100 Ordinary Shares) (190,100 Ordinary Shares as at December 31, 2007)	8,376	4,705 (@ Rs. 24.75)	8,376	7,604 (@ Rs. 40.00)	8,376	4,705 (@ Rs. 24.75)	8,376	7,604 (@ Rs. 40.00)
Amaya Leisure PLC (411,000 Ordinary Shares) (411,000 Ordinary Shares as at December 31, 2007)	14,924	7,295 (@ Rs. 17.75)	14,924	9,761 (@ Rs. 23.75)	14,924	7,295 (@ Rs. 17.75)	14,924	9,761 (@ Rs. 23.75)
The Fortress Resorts PLC (174,893 Ordinary Shares) (174,893 Ordinary Shares as at December 31, 2007)	2,609	752 (@ Rs. 4.30)	2,609	1,181 (@ Rs. 6.75)	2,609	752 (@ Rs. 4.30)	2,609	1,181 (@ Rs. 6.75)
Eden Hotel Lanka PLC (75,000 Ordinary Shares) (75,000 Ordinary Shares as at December 31, 2007)	1,705	525 (@ Rs. 7.00)	1,705	1,219 (@ Rs. 16.25)	1,705	525 (@ Rs. 7.00)	1,705	1,219 (@ Rs. 16.25)
Taj Lanka Hotels PLC (145,400 Ordinary Shares) (250,400 Ordinary Shares as at December 31, 2007)	2,753	1,018 (@ Rs. 7.00)	4,740	2,003 (@ Rs. 8.00)	2,753	1,018 (@ Rs. 7.00)	4,740	2,003 (@ Rs. 8.00)
Colombo Land & Development Company PLC (400,000 Ordinary Shares) (400,000 Ordinary Shares as at December 31, 2007)	2,643	1,440 (@ Rs. 3.60)	2,643	1,560 (@ Rs. 3.90)	2,643	1,440 (@ Rs. 3.60)	2,643	1,560 (@ Rs. 3.90)
Tokyo Cement Company (Lanka) PLC (61,200 Non-Voting Ordinary Shares) (61,200 Non-Voting Ordinary Shares as at December 31, 2007)	1,032	444 (@ Rs. 7.25)	1,032	1,117 (@ Rs. 18.25)	1,032	444 (@ Rs. 7.25)	1,032	1,117 (@ Rs. 18.25)

## Notes to the Financial Statements

	Group				Bank			
	As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
	Cost Rs. '000	Market Value Rs. '000						
Dankotuwa Porcelain PLC (41,667 Ordinary Shares) (41,667 Ordinary Shares as at December 31, 2007)	1,348	219 (@ Rs. 5.25)	1,348	625 (@ Rs. 15.00)	1,348	219 (@ Rs. 5.25)	1,348	625 (@ Rs. 15.00)
Dipped Products PLC (87,100 Ordinary Shares) (87,100 Ordinary Shares as at December 31, 2007)	8,734	4,943 (@ Rs. 56.75)	8,734	7,077 (@ Rs. 81.25)	8,734	4,943 (@ Rs. 56.75)	8,734	7,077 (@ Rs. 81.25)
Lanka IOC PLC (250,000 Ordinary Shares) (303,700 Ordinary Shares as at December 31, 2007)	12,167	3,813 (@ Rs. 15.25)	13,456	6,530 (@ Rs. 21.50)	12,167	3,813 (@ Rs. 15.25)	13,456	6,530 (@ Rs. 21.50)
Vidulanka PLC (5,500 Ordinary Shares Bonus Issue 2008) (55,000 Ordinary Shares as at December 31, 2007)	–	107 (@ Rs. 19.50)	1,619	1,100 (@ Rs. 20.00)	–	107 (@ Rs. 19.50)	1,619	1,100 (@ Rs. 20.00)
John Keells PLC (30,300 Ordinary Shares) (30,300 Ordinary Shares as at December 31, 2007)	3,006	1,818 (@ Rs. 60.00)	3,006	2,909 (@ Rs. 96.00)	3,006	1,818 (@ Rs. 60.00)	3,006	2,909 (@ Rs. 96.00)
Dialog Telekom PLC (330,000 Ordinary Shares) (1,819,370 Ordinary Shares as at December 31, 2007)	8,842	1,980 (@ Rs. 6.00)	48,245	36,382 (@ Rs. 20.00)	8,842	1,980 (@ Rs. 6.00)	48,245	36,382 (@ Rs. 20.00)
John Keells Hotels PLC (600,000 Ordinary Shares) (600,000 Ordinary Shares as at December 31, 2007)	5,318	3,000 (@ Rs. 5.00)	5,318	4,200 (@ Rs. 7.00)	5,318	3,000 (@ Rs. 5.00)	5,318	4,200 (@ Rs. 7.00)
ACL Cables PLC (10,800 Ordinary Shares) (5,400 Ordinary Shares as at December 31, 2007)	589	324 (@ Rs. 30.00)	589	510 (@ Rs. 94.50)	589	324 (@ Rs. 30.00)	589	510 (@ Rs. 94.50)
Pelwatte Sugar Industries PLC (12,300 Ordinary Shares) (12,300 Ordinary Shares as at December 31, 2007)	443	132 (@ Rs. 10.75)	443	323 (@ Rs. 26.25)	443	132 (@ Rs. 10.75)	443	323 (@ Rs. 26.25)
Ceylon Guardian Investment Trust PLC (2,000 Ordinary Shares) (2,000 Ordinary Shares as at December 31, 2007)	270	164 (@ Rs. 82.00)	270	330 (@ Rs. 165.00)	270	164 (@ Rs. 82.00)	270	330 (@ Rs. 165.00)
Chemical Industries Colombo PLC (13,140 Ordinary Shares) (13,140 Ordinary Shares as at December 31, 2007)	777	378 (@ Rs. 28.75)	777	509 (@ Rs. 38.75)	777	378 (@ Rs. 28.75)	777	509 (@ Rs. 38.75)
Overseas Reality Ceylon PLC (103,100 Ordinary Shares) (103,100 Ordinary Shares as at December 31, 2007)	1,424	670 (@ Rs. 6.50)	1,424	1,108 (@ Rs. 10.75)	1,424	670 (@ Rs. 6.50)	1,424	1,108 (@ Rs. 10.75)
DFCC Bank PLC (18,840 Ordinary Shares) (18,840 Ordinary Shares as at December 31, 2007)	2,851	999 (@ Rs. 53.00)	2,851	2,393 (@ Rs. 127.00)	2,851	999 (@ Rs. 53.00)	2,851	2,393 (@ Rs. 127.00)

Notes to the Financial Statements

	Group				Bank			
	As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
	Cost Rs. '000	Market Value Rs. '000						
Nawaloka Hospitals PLC (12,900 Ordinary Shares) (12,900 Ordinary Shares as at December 31, 2007)	39	23 (@ Rs. 1.80)	39	30 (@ Rs. 2.30)	39	23 (@ Rs. 1.80)	39	30 (@ Rs. 2.30)
eChanneling PLC (450,000 Ordinary Shares) (450,000 Ordinary Shares as at December 31, 2007)	11,046	3,150 (@ Rs. 7.00)	11,046	7,200 (@ Rs. 16.00)	11,046	3,150 (@ Rs. 7.00)	11,046	7,200 (@ Rs. 16.00)
Hayleys PLC (10,000 Ordinary Shares) (23,600 Ordinary Shares as at December 31, 2007)	1,600	860 (@ Rs. 86.00)	3,395	2,543 (@ Rs. 107.75)	1,600	860 (@ Rs. 86.00)	3,395	2,543 (@ Rs. 107.75)
Distilleries Company of Sri Lanka PLC (65,000 Ordinary Shares) (120,400 Ordinary Shares as at December 31, 2007)	7,781	3,283 (@ Rs. 50.50)	12,820	12,100 (@ Rs. 100.50)	7,781	3,283 (@ Rs. 50.50)	12,820	12,100 (@ Rs. 100.50)
Colombo Dockyard PLC (310 Ordinary Shares) (81,200 Ordinary Shares as at December 31, 2007)	12	16 (@ Rs. 50.00)	3,995	4,304 (@ Rs. 53.00)	12	16 (@ Rs. 50.00)	3,995	4,304 (@ Rs. 53.00)
Asiri Medical Services PLC (44,000 Ordinary Shares) (44,000 Ordinary Shares as at December 31, 2007)	350	253 (@ Rs. 5.75)	350	451 (@ Rs. 10.25)	350	253 (@ Rs. 5.75)	350	451 (@ Rs. 10.25)
Kelani Cables PLC (15,000 Ordinary Shares) (15,000 Ordinary Shares as at December 31, 2007)	2,807	885 (@ Rs. 59.00)	2,807	1,478 (@ Rs. 98.50)	2,807	885 (@ Rs. 59.00)	2,807	1,478 (@ Rs. 98.50)
Nations Trust Bank PLC (2008 - Nil) (22,800 Ordinary Shares as at December 31, 2007)	-	-	695	678 (@ Rs. 29.75)	-	-	695	678 (@ Rs. 29.75)
Sampath Bank PLC (2008 - Nil) (12,500 Ordinary Shares as at December 31, 2007)	-	-	1,375	1,500 (@ Rs. 120.00)	-	-	1,375	1,500 (@ Rs. 120.00)
Haycarb PLC (2008 - Nil) (50,000 Ordinary Shares as at December 31, 2007)	-	-	2,328	2,138 (@ Rs. 42.75)	-	-	2,328	2,138 (@ Rs. 42.75)
Aitken Spence Hotel Holdings PLC (2008 - Nil) (94,000 Ordinary Shares as at December 31, 2007)	-	-	9,275	6,369 (@ Rs. 67.75)	-	-	9,275	6,369 (@ Rs. 67.75)
Piramal Glass Ceylon PLC (2008 - Nil) (1,371,428 Ordinary Shares as at December 31, 2007)	-	-	5,149	2,743 (@ Rs. 2.00)	-	-	5,149	2,743 (@ Rs. 2.00)
Royal Ceramics Lanka PLC (2008 - Nil) (20,000 Ordinary Shares as at December 31, 2007)	-	-	810	640 (@ Rs. 32.00)	-	-	810	640 (@ Rs. 32.00)

## Notes to the Financial Statements

	Group				Bank			
	As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
	Cost Rs. '000	Market Value Rs. '000						
Hayleys Mgt Knitting Mills PLC (2008 - Nil) (50,000 Ordinary Shares as at December 31, 2007)	-	-	2,834	2,850 (@ Rs. 57.00)	-	-	2,834	2,850 (@ Rs. 57.00)
Ceylinco Insurance Company PLC (2008 - Nil) (38,600 Ordinary Shares as at December 31, 2007)	-	-	8,340	7,141 (@ Rs. 185.00)	-	-	8,340	7,141 (@ Rs. 185.00)
Hatton National Bank PLC (2008 - Nil) (34,200 Ordinary Shares as at December 31, 2007)	-	-	2,710	4,190 (@ Rs. 122.50)	-	-	2,710	4,190 (@ Rs. 122.50)
Ceylon Hospitals PLC (2008 - Nil) (50,000 Ordinary Shares as at December 31, 2007)	-	-	2,934	2,675 (@ Rs. 53.50)	-	-	2,934	2,675 (@ Rs. 53.50)
Tea Smallholder Factories PLC (2008 - Nil) (24,800 Ordinary Shares as at December 31, 2007)	-	-	1,638	1,910 (@ Rs. 77.00)	-	-	1,638	1,910 (@ Rs. 77.00)
United Motors Lanka PLC (2008 - Nil) (50,000 Ordinary Shares as at December 31, 2007)	-	-	4,235	2,713 (@ Rs. 54.25)	-	-	4,235	2,713 (@ Rs. 54.25)
Associated Motorways PLC (2008 - Nil) (25,000 Ordinary Shares as at December 31, 2007)	-	-	4,277	3,200 (@ Rs. 128.00)	-	-	4,277	3,200 (@ Rs. 128.00)
Sri Lanka Telecom PLC (2008 - Nil) (426,500 Ordinary Shares as at December 31, 2007)	-	-	12,587	13,435 (@ Rs. 31.50)	-	-	12,587	13,435 (@ Rs. 31.50)
Chevron Lubricants Lanka PLC (2008 - Nil) (10,900 Ordinary Shares as at December 31, 2007)	-	-	930	929 (@ Rs. 85.25)	-	-	930	929 (@ Rs. 85.25)
Kegalle Plantations PLC (2008 - Nil) (1,500 Ordinary Shares as at December 31, 2007)	-	-	58	81 (@ Rs. 54.00)	-	-	58	81 (@ Rs. 54.00)
	154,798	58,290	273,449	207,267	154,798	58,290	273,449	207,267
Provision for diminution in value	(96,508)		(66,182)		(96,508)		(66,182)	
<b>Total</b>	<b>58,290</b>		<b>207,267</b>		<b>58,290</b>		<b>207,267</b>	

Notes to the Financial Statements

## 17. INVESTMENTS HELD FOR SALE

	Holding (%)	Group				Bank			
		As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
		Balance	Market Value/ Directors' Valuation						
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>Quoted:</b>									
Commercial Leasing Company PLC (Incorporated in Sri Lanka) (*) (2008 - Nil) (5,293,749 Ordinary Shares as at December 31, 2007)	30	-	-	260,704	547,903	-	-	86,550	547,903
					(@ Rs. 103.50)				(@ Rs. 103.50)
<b>Units</b>									
Comtrust Equity Fund (**) (2008 - Nil) (11,376,899 Units as at December 31, 2007)	-	-	-	118,927	123,781	-	-	118,927	123,781
					(@ Rs. 10.88)				(@ Rs. 10.88)
<b>Total</b>	-	-	-	379,631	671,684	-	-	205,477	671,684

(\*) The Bank disposed part of its investment in shares of Commercial Leasing Company PLC on April 30, 2008 and balance shares on May 22, 2008.

(\*\*) The Bank disposed these units of Comtrust Equity Fund on February 27, 2008.

## 18. INVESTMENT SECURITIES

	Group				Bank			
	As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
	Cost	Market Value/ Managers' Buying Price						
	Rs. '000	Rs. '000						
<b>QUOTED:</b>								
<b>SHARES</b>								
Hatton National Bank PLC (7,700 Ordinary Shares) (7,700 Ordinary Shares as at December 31, 2007)	315	537 (@ Rs. 69.75)	315	943 (@ Rs. 122.50)	315	537 (@ Rs. 69.75)	315	943 (@ Rs. 122.50)
Sampath Bank PLC (1,554 Ordinary Shares) (1,554 Ordinary Shares as at December 31, 2007)	72	106 (@ Rs. 68.00)	72	186 (@ Rs. 120.00)	72	106 (@ Rs. 68.00)	72	186 (@ Rs. 120.00)
Seylan Bank PLC (1,000 Ordinary Shares) (1,000 Ordinary Shares as at December 31, 2007)	24	29 (@ Rs. 28.50)	24	32 (@ Rs. 32.00)	24	29 (@ Rs. 28.50)	24	32 (@ Rs. 32.00)
DFCC Bank PLC (1,748 Ordinary Shares) (1,748 Ordinary Shares as at December 31, 2007)	155	93 (@ Rs. 53.00)	155	222 (@ Rs. 127.00)	155	93 (@ Rs. 53.00)	155	222 (@ Rs. 127.00)
Nations Trust Bank PLC (1,333 Ordinary Shares) (1,000 Ordinary Shares as at December 31, 2007)	22	30 (@ Rs. 22.25)	14	30 (@ Rs. 29.75)	22	30 (@ Rs. 22.25)	14	30 (@ Rs. 29.75)
NDB Bank PLC (2,712 Ordinary Shares) (2,712 Ordinary Shares as at December 31, 2007)	215	233 (@ Rs. 86.00)	215	458 (@ Rs. 168.75)	215	233 (@ Rs. 86.00)	215	458 (@ Rs. 168.75)

## Notes to the Financial Statements

	Group				Bank			
	As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
	Cost	Market Value/ Managers' Buying Price						
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>DEBENTURES</b>								
Sampath Bank PLC (Floating Rate - 2009) (70,000 Debentures) (70,000 Debentures as at December 31, 2007)	7,000	6,563 (@ Rs. 93.75)						
Senkadagala Finance PLC (14% - 2009) (40,000 Debentures) (100,000 Debentures as at December 31, 2007)	4,000	4,000 (@ Rs. 100.00)	10,000	10,000 (@ Rs. 100.00)	4,000	4,000 (@ Rs. 100.00)	10,000	10,000 (@ Rs. 100.00)
DFCC Bank PLC (Floating Rate - 2011) (10,000 Debentures) (10,000 Debentures as at December 31, 2007)	10,000	10,000 (@ Rs. 1,000.00)						
Hatton National Bank PLC (10% - 2008) (2008 - Nil) (100,000 Debentures as at December 31, 2007)	-	-	10,000	10,000 (@ Rs. 100.00)	-	-	10,000	10,000 (@ Rs. 100.00)
<b>Sub Total</b>	<b>21,803</b>	<b>21,591</b>	<b>37,795</b>	<b>38,434</b>	<b>21,803</b>	<b>21,591</b>	<b>37,795</b>	<b>38,434</b>
<b>UNQUOTED:</b>								
<b>SHARES</b>								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares) (4,400 Ordinary Shares as at December 31, 2007)	440	440 (@ Rs. 100.00)						
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares) (62,500 Ordinary Shares as at December 31, 2007)	625	625 (@ Rs. 10.00)						
Lanka Clear (Pvt.) Ltd. (1,000,000 Ordinary Shares) (1,000,000 Ordinary Shares as at December 31, 2007)	10,000	10,000 (@ Rs. 10.00)						
Lanka Financial Service Bureau Ltd. (225,000 Ordinary Shares) (500,000 Ordinary Shares as at December 31, 2007)	2,250	2,250 (@ Rs. 10.00)	5,000	5,000 (@ Rs. 10.00)	2,250	2,250 (@ Rs. 10.00)	5,000	5,000 (@ Rs. 10.00)
Dialog Telekom PLC (1,053,000,000 Preference Shares) (1,170,000,000 Preference Shares as at December 31, 2007)	1,053,000	1,053,000 (@ Rs. 1.00)	1,170,000	1,170,000 (@ Rs. 1.00)	1,053,000	1,053,000 (@ Rs. 1.00)	1,170,000	1,170,000 (@ Rs. 1.00)
Central Depository of Bangladesh Ltd. (6 Shares of Bangladesh Taka 1.000 Mn each. Converted @ Rs.1.63490 per Taka) (6 Shares of Bangladesh Taka 1.000 Mn each. Converted @ Rs.1.57830 per Taka as at December 31, 2007)	9,809	9,809	9,470	9,470	9,809	9,809	9,470	9,470

Notes to the Financial Statements

	Group				Bank			
	As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
	Cost	Market Value/ Managers' Buying Price						
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>LEASE BACKED SECURITIES</b>								
Senkadagala Finance PLC	51,853	51,853	120,198	120,198	51,853	51,853	120,198	120,198
Commercial Leasing Company PLC	11,641	11,641	96,269	96,269	11,641	11,641	96,269	96,269
Specialist Gasses (Pvt) Ltd.	-	-	43,150	43,150	-	-	43,150	43,150
<b>TRUST CERTIFICATES/BONDS</b>								
People's Leasing Company PLC	15,500	15,500	177,292	177,292	15,500	15,500	177,292	177,292
Senkadagala Finance PLC	18,050	18,050	41,100	41,100	18,050	18,050	41,100	41,100
Government of Bangladesh Bonds	2,168	2,168	14,600	14,600	2,168	2,168	14,600	14,600
Commercial Leasing Company PLC	-	-	30,150	30,150	-	-	30,150	30,150
<b>Sub Total</b>	<b>1,175,336</b>	<b>1,175,336</b>	<b>1,718,294</b>	<b>1,718,294</b>	<b>1,175,336</b>	<b>1,175,336</b>	<b>1,718,294</b>	<b>1,718,294</b>
<b>Total</b>	<b>1,197,139</b>	<b>1,196,927</b>	<b>1,756,089</b>	<b>1,756,728</b>	<b>1,197,139</b>	<b>1,196,927</b>	<b>1,756,089</b>	<b>1,756,728</b>

**19. BILLS OF EXCHANGE, LOANS & ADVANCES AND LEASE RECEIVABLE**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>19.1 Bills of Exchange</b>				
Export bills	2,266,071	2,613,315	2,266,071	2,613,315
Import bills	895,263	663,576	895,263	663,576
	<b>3,161,334</b>	<b>3,276,891</b>	<b>3,161,334</b>	<b>3,276,891</b>
Less: Loan loss provision [Refer Note 19.1 (a)]	52,426	41,470	52,426	41,470
Interest in suspense [Refer Note 19.1 (b)]	50,033	40,370	50,033	40,370
<b>Total</b>	<b>3,058,875</b>	<b>3,195,051</b>	<b>3,058,875</b>	<b>3,195,051</b>

**19.1 (a) Movement in the Provision for Bad & Doubtful Bills of Exchange:**

<b>Specific Provision</b>				
Opening balance	26,401	47,541	26,401	47,541
Amount provided during the year	-	3,134	-	3,134
Amount reversed during the year	-	(24,274)	-	(24,274)
<b>Closing balance</b>	<b>26,401</b>	<b>26,401</b>	<b>26,401</b>	<b>26,401</b>
<b>General Provision</b>				
Opening balance	15,069	-	15,069	-
Amount provided during the year	10,956	15,069	10,956	15,069
<b>Closing balance</b>	<b>26,025</b>	<b>15,069</b>	<b>26,025</b>	<b>15,069</b>
<b>Total provision</b>	<b>52,426</b>	<b>41,470</b>	<b>52,426</b>	<b>41,470</b>

**19.1 (b) Movement in the Interest in Suspense of Bills of Exchange:**

Opening balance	40,370	84,404	40,370	84,404
Interest suspended during the year	9,663	-	9,663	-
Amount recovered during the year	-	(44,034)	-	(44,034)
<b>Closing balance</b>	<b>50,033</b>	<b>40,370</b>	<b>50,033</b>	<b>40,370</b>

## Notes to the Financial Statements

**19.2 Loans & Advances**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Sri Lankan rupee and foreign currency loans & advances [Refer Note 19.2 (a)]	176,657,832	166,730,414	176,721,610	166,737,219
Less: Loan loss provision [Refer Note 19.2 (b)]	4,462,812	3,303,395	4,462,812	3,303,395
Interest in suspense [Refer Note 19.2 (c)]	4,400,341	3,249,805	4,400,341	3,249,805
<b>Total</b>	<b>167,794,679</b>	<b>160,177,214</b>	<b>167,858,457</b>	<b>160,184,019</b>

**19.2 (a) Sri Lankan Rupee and Foreign Currency Loans & Advances***Sri Lankan Rupee Loans & Advances:*

Overdrafts	34,536,493	34,730,095	34,595,566	34,730,095
Loans	93,525,269	88,591,745	93,529,974	88,598,550
Preshipment loans	347,786	723,190	347,786	723,190
Staff loans	3,008,960	2,649,695	3,008,960	2,649,695
Foreclosed properties [Refer Note 19.5]	—	81,613	—	81,613
Interest receivable and others	2,864,532	2,272,868	2,864,532	2,272,868
<b>Sub Total</b>	<b>134,283,040</b>	<b>129,049,206</b>	<b>134,346,818</b>	<b>129,056,011</b>

*Foreign Currency Loans & Advances:*

Overdrafts	8,524,324	7,797,227	8,524,324	7,797,227
Loans	27,463,440	23,689,903	27,463,440	23,689,903
Preshipment loans	6,196,608	5,987,254	6,196,608	5,987,254
Interest receivable and others	190,420	206,824	190,420	206,824
<b>Sub Total</b>	<b>42,374,792</b>	<b>37,681,208</b>	<b>42,374,792</b>	<b>37,681,208</b>
<b>Total</b>	<b>176,657,832</b>	<b>166,730,414</b>	<b>176,721,610</b>	<b>166,737,219</b>

**19.2 (b) Movement in the Provision for Bad & Doubtful Loans & Advances:****Specific Provision**

Opening balance	2,507,225	2,168,080	2,507,225	2,168,080
Amount provided during the year	1,315,384	1,029,254	1,315,384	1,029,254
Exchange rate variance on foreign currency provision	(3,506)	9,581	(3,506)	9,581
Amount reversed during the year	(790,051)	(699,690)	(790,051)	(699,690)
<b>Closing balance</b>	<b>3,029,052</b>	<b>2,507,225</b>	<b>3,029,052</b>	<b>2,507,225</b>

**General Provision**

Opening balance	796,170	190,658	796,170	190,658
Amount provided during the year	630,868	605,882	630,868	605,882
Exchange rate variance on foreign currency provision	6,722	(370)	6,722	(370)
<b>Closing balance</b>	<b>1,433,760</b>	<b>796,170</b>	<b>1,433,760</b>	<b>796,170</b>
<b>Total provision</b>	<b>4,462,812</b>	<b>3,303,395</b>	<b>4,462,812</b>	<b>3,303,395</b>

Notes to the Financial Statements

**19.2 (c) Movement in the Interest in Suspense of Loans & Advances:**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Opening balance	3,249,805	3,314,593	3,249,805	3,314,593
Interest suspended during the year	2,260,345	633,684	2,260,345	633,684
Amount recovered during the year	(1,109,809)	(698,472)	(1,109,809)	(698,472)
<b>Closing balance</b>	<b>4,400,341</b>	<b>3,249,805</b>	<b>4,400,341</b>	<b>3,249,805</b>

**19.3 Lease Receivable**
**19.3 (a) Lease Receivable within one year**

Total lease rentals receivable within one year	5,406,677	5,378,924	5,467,607	5,439,863
Less: Unearned income	2,137,140	1,700,404	2,162,599	1,720,843
Loan loss provision	173,342	70,717	173,248	70,571
Interest in Suspense [Refer Note 19.3 (e)]	87,171	46,219	87,171	46,219
<b>Total</b>	<b>3,009,024</b>	<b>3,561,584</b>	<b>3,044,589</b>	<b>3,602,230</b>

**19.3 (b) Lease Receivable from one to five years**

Total lease rentals receivable from one to five years	7,632,625	9,158,582	7,776,716	9,284,042
Less: Unearned income	1,048,995	1,789,458	1,088,288	1,810,726
Loans loss provision	265,765	141,665	265,859	141,811
<b>Total</b>	<b>6,317,865</b>	<b>7,227,459</b>	<b>6,422,569</b>	<b>7,331,505</b>

**19.3 (c) Lease Receivable over five years**

Total lease rentals receivable over five years	17,886	11,837	17,886	11,837
Less: Unearned income	792	953	792	953
Loan loss provision	429	54	429	54
<b>Total</b>	<b>16,665</b>	<b>10,830</b>	<b>16,665</b>	<b>10,830</b>

**19.3 (d) Movement in the Provision for Bad and Doubtful Lease Receivable:**

<b>Specific Provision</b>				
Opening balance	156,472	82,223	156,472	82,223
Amount provided during the year	285,661	114,301	285,661	114,301
Amount reversed during the year	(88,763)	(40,052)	(88,763)	(40,052)
<b>Closing balance</b>	<b>353,370</b>	<b>156,472</b>	<b>353,370</b>	<b>156,472</b>
<b>General Provision</b>				
Opening balance	55,964	47,964	55,964	47,964
Amount provided during the year	30,202	8,000	30,202	8,000
<b>Closing balance</b>	<b>86,166</b>	<b>55,964</b>	<b>86,166</b>	<b>55,964</b>
<b>Total provision</b>	<b>439,536</b>	<b>212,436</b>	<b>439,536</b>	<b>212,436</b>

## Notes to the Financial Statements

**19.3 (e) Movement in the Interest in Suspense of Lease Receivable**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Opening balance	46,219	36,227	46,219	36,227
Interest suspended during the year	82,672	51,712	82,672	51,712
Amount recovered during the year	(41,720)	(41,720)	(41,720)	(41,720)
<b>Closing balance</b>	<b>87,171</b>	<b>46,219</b>	<b>87,171</b>	<b>46,219</b>

The maturity analysis of Bills of Exchange, loans & advances and lease receivable is given in Note 35.

**19.4 Non-Performing Bills of Exchange, Loans & Advances and Lease Receivable**

Net exposure on non-performing Bills of Exchange, loans & advances and lease receivable as at December 31, before discounting the value of the securities obtained is given below:

	Group				Bank			
	2008 Rs. '000	%	2007 Rs. '000	%	2008 Rs. '000	%	2007 Rs. '000	%
Bills of Exchange	71,001		52,486		71,001		52,486	
Loans & advances	10,408,909		5,925,963		10,408,909		5,925,963	
Lease receivable	662,312		285,896		662,312		285,896	
Sub Total (*)	11,142,222	5.97	6,264,345	3.50	11,142,222	5.96	6,264,345	3.50
Add: Interest receivable on non-performing loans & advances	3,007,946		2,339,098		3,007,946		2,339,098	
Gross non-performing loans & advances	14,150,168		8,603,443		14,150,168		8,603,443	
Less: Interest in suspense [Refer Note 19.4 (c)]	4,537,545		3,336,394		4,537,545		3,336,394	
Net non-performing loans & advances	9,612,623	5.19	5,267,049	2.96	9,612,623	5.19	5,267,049	2.96
Less: Specific Provisions for bad & doubtful debts [Refer Note 19.4 (a)]	3,408,823		2,690,098		3,408,823		2,690,098	
<b>Net exposure</b>	<b>6,203,800</b>	<b>3.33</b>	<b>2,576,951</b>	<b>1.44</b>	<b>6,203,800</b>	<b>3.33</b>	<b>2,576,951</b>	<b>1.44</b>

(\*) This includes foreclosed properties, the details of which are given in Note 19.5.

Notes to the Financial Statements

**19.4 (a) Specific Provision for Bad & Doubtful Debts - Summary**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Specific Provision</b>				
Opening balance	2,690,098	2,297,844	2,690,098	2,297,844
Amount provided (Refer Note 7)	1,601,045	1,146,689	1,601,045	1,146,689
Exchange rate variance on foreign currency provisions	(3,506)	9,581	(3,506)	9,581
Amount reversed during the year	(878,814)	(764,016)	(878,814)	(764,016)
<b>Closing balance</b>	<b>3,408,823</b>	<b>2,690,098</b>	<b>3,408,823</b>	<b>2,690,098</b>

**19.4 (b) General Provision for Bad & Doubtful Debts - Summary**

<b>General Provision</b>				
Opening balance	867,203	238,622	867,203	238,622
Amount provided (Refer Note 7)	672,026	628,951	672,026	628,951
Exchange rate variance on foreign currency provisions	6,722	(370)	6,722	(370)
<b>Closing balance</b>	<b>1,545,951</b>	<b>867,203</b>	<b>1,545,951</b>	<b>867,203</b>
<b>Total Provision</b>	<b>4,954,774</b>	<b>3,557,301</b>	<b>4,954,774</b>	<b>3,557,301</b>

**19.4 (c) Interest in Suspense - Summary**

Opening balance	3,336,394	3,435,224	3,336,394	3,435,224
Interest suspended during the year	2,352,680	685,396	2,352,680	685,396
Amount recovered during the year	(1,151,529)	(784,226)	(1,151,529)	(784,226)
<b>Closing balance</b>	<b>4,537,545</b>	<b>3,336,394</b>	<b>4,537,545</b>	<b>3,336,394</b>

**19.5 Foreclosed Properties**

The foreclosed properties included under loans and advances as at December 31, include the following:

	Extent			2008		Bank	
	A	R	P	Cost/W.D.V.	Forced Sale Value	Cost/W.D.V.	Forced Sale Value
				Rs. '000	Rs. '000	Rs. '000	Rs. '000
Land and Building at Kochchikade, Negombo (*)	2	2	36.91	-	-	81,613	100,000
Less : Fall in Value				-	-	(15,000)	-
<b>Total</b>				-	-	66,613	100,000

A = Acres, R = Roods, P = Perches

(\*) Bank acquired this hotel property in 1999 in settlement of a debt due to the Bank. With the approval of the Central Bank of Sri Lanka, the Bank entered into a management agreement with Serendib Leisure Management (Pvt) Ltd. which expired in December 2002. This was disposed on March 28, 2008.

## Notes to the Financial Statements

**19.6 Bills of Exchange, Loans & Advances and Lease Receivable - Summary**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Bills of Exchange	3,161,334	3,276,891	3,161,334	3,276,891
Loans & advances	176,657,832	166,730,414	176,721,610	166,737,219
Lease receivable	9,870,261	11,058,528	10,010,530	11,203,220
Gross Bills of Exchange, loans & advances and lease receivable	189,689,427	181,065,833	189,893,474	181,217,330
Less: Provision for bad & doubtful debts [Refer Note 19.4 (a) & (b)]	(4,954,774)	(3,557,301)	(4,954,774)	(3,557,301)
Interest in suspense [Refer Note 19.4 (c)]	(4,537,545)	(3,336,394)	(4,537,545)	(3,336,394)
<b>Net Bills of Exchange, Loans &amp; Advances and Lease Receivable</b>	<b>180,197,108</b>	<b>174,172,138</b>	<b>180,401,155</b>	<b>174,323,635</b>

**19.7 Concentration of Credit Risk**

Sector-wise analysis of Bank's loans & advances portfolio reflecting the exposure to credit risk in the various sectors is given below:

	Group				Bank			
	2008 Rs. '000	%	2007 Rs. '000	%	2008 Rs. '000	%	2007 Rs. '000	%
Exports	20,738,284	11.11	21,879,306	12.24	20,738,284	11.10	21,879,306	12.23
Tourism & allied	6,136,145	3.29	4,841,672	2.71	6,136,145	3.28	4,841,672	2.71
Industrial	29,702,579	15.91	27,861,656	15.59	29,702,579	15.89	27,861,656	15.58
Agriculture & fishing	8,166,631	4.37	7,688,429	4.30	8,166,631	4.37	7,688,429	4.30
Commercial trading	18,315,548	9.81	16,863,077	9.44	18,315,548	9.80	16,863,077	9.43
Imports	23,644,173	12.66	21,325,779	11.93	23,644,173	12.65	21,325,779	11.92
Consumption	9,751,498	5.22	11,570,708	6.47	9,751,498	5.22	11,570,708	6.47
Services	22,345,635	11.97	24,549,566	13.74	22,485,905	12.03	24,694,257	13.81
Housing & construction	17,843,086	9.56	18,126,246	10.14	17,843,086	9.55	18,126,246	10.13
Others	30,037,902	16.09	24,020,298	13.44	30,101,680	16.11	24,027,103	13.42
<b>Total loans &amp; advances</b>	<b>186,681,482</b>	<b>100.00</b>	<b>178,726,737</b>	<b>100.00</b>	<b>186,885,529</b>	<b>100.00</b>	<b>178,878,233</b>	<b>100.00</b>

Notes to the Financial Statements

**20. INVESTMENTS IN ASSOCIATES**

	Holding (%)	Group				Bank			
		As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
		Balance	Market Value/ Directors' Valuation						
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>Unquoted:</b>									
Equity Investments Lanka Ltd.									
(Incorporated in Sri Lanka)	22.92	44,331	46,138	44,331	41,674	44,331	46,138	44,331	41,674
(4,110,938 Ordinary Shares)									
(4,110,938 Ordinary Shares									
as at December 31, 2007)									
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		(2,657)		(3,366)					
Current year's share of profit after tax		4,464		2,764					
Less: Dividend received during the year		-		(2,055)					
Current year's retained profit		4,464		709					
		1,807		(2,657)					
Balance at the end of the year		46,138	46,138	41,674	41,674	44,331	46,138	44,331	41,674
Commercial Insurance									
Brokers (Pvt) Ltd.	18.91	100	24,850	100	21,046	-	-	-	-
(Incorporated in Sri Lanka)									
(120,000 Ordinary Shares)									
(120,000 Ordinary Shares									
as at December 31, 2007)									
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		20,946		-					
Current year's share of profit after tax		4,480		21,662					
Less: Dividend received during the year		(676)		(716)					
Current year's retained profit		3,804		20,946					
		24,750		20,946					
Balance at the end of the year		24,850	24,850	21,046	21,046				
Total Value of Investments in									
Unquoted Associates at carrying value		70,988		62,720		44,331		44,331	
Total Market Value/Directors' Valuation			70,988		62,720		46,138		41,674
of Investments in Associates									

Notes to the Financial Statements

**21. INVESTMENTS IN SUBSIDIARIES**

	Holding (%)	Group				Bank			
		As at 31.12.08		As at 31.12.07		As at 31.12.08		As at 31.12.07	
		Balance	Market Value/ Directors' Valuation						
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
<b>Quoted:</b>									
Commercial Development Company PLC (Incorporated in Sri Lanka) (11,345,705 Ordinary Shares) (11,345,705 Ordinary Shares of as at December 31, 2007)	94.55	-	-	-	-	274,393	340,371 (@ Rs. 30.00)	274,393	624,014 (@ Rs. 55.00)
<b>Unquoted:</b>									
Commercial Bank Primary Dealer Ltd. (Incorporated in Sri Lanka) (15,000,000 Ordinary Shares) (15,000,000 Ordinary Shares as at December 31, 2007)	100.00	-	-	-	-	150,000	150,000 (@ Rs. 10.00)	150,000	150,000 (@ Rs. 10.00)
ONEzero Company Ltd. (Incorporated in Sri Lanka) (500,000 Ordinary Shares) (500,000 Ordinary Shares as at December 31, 2007)	100.00	-	-	-	-	5,000	5,000 (@ Rs. 10.00)	5,000	5,000 (@ Rs. 10.00)
X-pertise Ltd. (Incorporated in Sri Lanka) (428,797 Ordinary Shares) (428,797 Ordinary Shares as at December 31, 2007)	100.00	-	-	-	-	4,288	4,288 (@ Rs. 10.00)	4,288	4,288 (@ Rs. 10.00)
<b>Total</b>		-	-	-	-	433,681	499,659	433,681	783,302

**22. OTHER ASSETS**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Deposits & prepayments	380,133	229,983	369,431	226,252
Clearing account balance	2,245,221	2,753,608	2,245,221	2,753,608
Other accounts	614,055	670,311	554,343	650,457
<b>Total</b>	3,239,409	3,653,902	3,168,995	3,630,317

Notes to the Financial Statements

**23. PROPERTY, PLANT & EQUIPMENT**
**23.1 Group**

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	31.12.08 Total	31.12.07 Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>									
As at beginning of the year	1,136,540	901,493	561,947	1,895,581	235,081	1,641,461	59,522	6,431,625	5,558,251
Additions during the year	802	50,011	5,923	404,670	70,347	290,174	58,775	880,702	633,062
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(56,587)
Surplus on revaluation of property	-	-	41,568	-	-	-	-	41,568	329,950
Disposals during the year	-	(106)	-	(46,154)	(29,054)	(10,115)	-	(85,429)	(19,264)
Exchange rate variance	-	-	-	2,164	610	4,865	-	7,639	(4,315)
Transfers/Adjustments	-	-	-	211	-	-	(88,807)	(88,596)	(9,472)
As at end of the year	1,137,342	951,398	609,438	2,256,472	276,984	1,926,385	29,490	7,187,509	6,431,625
<b>Accumulated depreciation</b>									
As at beginning of the year	-	110,450	9,492	1,223,593	113,934	977,103	-	2,434,572	2,120,774
Charge for the year	-	36,608	22,891	210,419	45,089	163,834	-	478,841	391,447
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(56,587)
Disposals during the year	-	(10)	-	(42,868)	(23,159)	(6,945)	-	(72,982)	(15,099)
Exchange rate variance	-	-	-	1,265	75	2,882	-	4,222	(6,018)
Transfers/Adjustments	-	-	-	211	-	-	-	211	55
As at end of the year	-	147,048	32,383	1,392,620	135,939	1,136,874	-	2,844,864	2,434,572
<b>Net Book Value as at 31.12.08</b>	<b>1,137,342</b>	<b>804,350</b>	<b>577,055</b>	<b>863,852</b>	<b>141,045</b>	<b>789,511</b>	<b>29,490</b>	<b>4,342,645</b>	
Net Book Value as at 31.12.07	1,136,540	791,043	552,455	671,988	121,147	664,358	59,522		3,997,053

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

Class of Asset	2008			2007		
	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000
Land	376,722	-	376,722	375,919	-	375,919
Freehold Buildings	637,569	174,814	462,755	587,664	157,680	429,984
Leasehold Buildings	238,027	71,434	166,593	232,007	64,309	167,698
<b>Total</b>	<b>1,252,318</b>	<b>246,248</b>	<b>1,006,070</b>	<b>1,195,590</b>	<b>221,989</b>	<b>973,601</b>

## Notes to the Financial Statements

## 23.2 Bank

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	31.12.08 Total	31.12.07 Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Cost/Valuation</b>									
As at beginning of the year	1,136,540	901,493	98,515	1,895,074	60,699	1,583,861	59,522	5,735,704	5,190,782
Additions during the year	802	50,011	5,923	404,084	6,174	290,044	58,775	815,813	563,407
Disposals during the year	–	(106)	–	(46,154)	(3,676)	(10,115)	–	(60,051)	(10,324)
Exchange rate variance	–	–	–	2,164	610	4,865	–	7,639	(4,315)
Transfers/Adjustments	–	–	–	211	–	–	(88,807)	(88,596)	(3,846)
As at end of the year	1,137,342	951,398	104,438	2,255,379	63,807	1,868,655	29,490	6,410,509	5,735,704
<b>Accumulated depreciation</b>									
As at beginning of the year	–	110,450	9,492	1,223,130	34,064	940,974	–	2,318,110	1,973,520
Charge for the year	–	36,608	3,468	210,283	8,646	160,671	–	419,676	358,754
Disposals during the year	–	(10)	–	(42,868)	(3,662)	(6,945)	–	(53,485)	(8,205)
Exchange rate variance	–	–	–	1,265	75	2,882	–	4,222	(6,018)
Transfers/Adjustments	–	–	–	211	–	–	–	211	59
As at end of the year	–	147,048	12,960	1,392,021	39,123	1,097,582	–	2,688,734	2,318,110
<b>Net Book Value as at 31.12.08</b>	<b>1,137,342</b>	<b>804,350</b>	<b>91,478</b>	<b>863,358</b>	<b>24,684</b>	<b>771,073</b>	<b>29,490</b>	<b>3,721,775</b>	
Net Book Value as at 31.12.07	1,136,540	791,043	89,023	671,944	26,635	642,887	59,522		3,417,594

With the permission of the Monetary Board of the Central Bank of Sri Lanka, freehold and leasehold land & buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 2004. The surplus on the revaluation amounting to Rs. 1,131.147 Mn was credited to the Revaluation Reserve.

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

Class of Asset	2008			2007		
	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000	Cost Rs.'000	Accumulated Depreciation Rs.'000	Net Book Value Rs.'000
Land	376,722	–	376,722	375,919	–	375,919
Freehold Buildings	637,569	174,814	462,755	587,664	157,680	429,984
Leasehold Buildings	102,808	25,863	76,945	96,885	23,204	73,681
<b>Total</b>	<b>1,117,099</b>	<b>200,677</b>	<b>916,422</b>	<b>1,060,468</b>	<b>180,884</b>	<b>879,584</b>

Notes to the Financial Statements

**24. LEASEHOLD PROPERTY**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Cost/Valuation</b>				
As at beginning of the year	128,700	128,700	84,840	84,840
Additions during the year	–	–	–	–
As at end of the year	128,700	128,700	84,840	84,840
<b>Accumulated Amortisation</b>				
As at beginning of the year	9,735	8,212	2,897	1,884
Transfers during the year	(71)	–	(71)	–
Amortisation for the year	1,452	1,523	942	1,013
As at end of the year	11,116	9,735	3,768	2,897
<b>Net Book Value</b>	<b>117,584</b>	<b>118,965</b>	<b>81,072</b>	<b>81,943</b>

The leasehold rights to land is disclosed under Leasehold Property as per a ruling issued by the Urgent Issues Task Force (UITF) of the Institute of Chartered Accounts of Sri Lanka, which does not permit further revaluation of Leasehold Property. An amount of Rs. 64.662 Mn is remaining in the equity under Revaluation Surplus relating to previous revaluation of leasehold rights to land.

**25. INTANGIBLE ASSETS**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>25.1 Computer Software and Copyrights</b>				
<b>Cost/Valuation</b>				
As at beginning of the year	610,549	527,412	610,503	525,887
Additions during the year	74,758	85,683	74,758	84,616
Disposals during the year	–	(2,546)	–	–
As at end of the year	685,307	610,549	685,261	610,503
<b>Accumulated Amortisation</b>				
As at beginning of the year	415,988	364,599	415,987	364,358
Amortisation for the year	62,993	51,993	62,993	51,629
Disposals during the year	–	(604)	–	–
As at end of the year	478,981	415,988	478,980	415,987
<b>Net book value</b>	<b>206,326</b>	<b>194,561</b>	<b>206,281</b>	<b>194,516</b>
<b>25.2 Software under Development</b>				
<b>Cost/Valuation</b>				
As at beginning of the year	73,971	15,101	73,971	15,101
Additions during the year	73,220	58,870	71,933	58,870
Transfers during the year	(56,794)	–	(56,794)	–
As at end of the year	90,397	73,971	89,110	73,971
<b>Total Net book value</b>	<b>296,723</b>	<b>268,532</b>	<b>295,391</b>	<b>268,487</b>

## Notes to the Financial Statements

**26. DEPOSITS FROM CUSTOMERS**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Local Currency Deposits</b>				
Current account deposits	13,600,878	14,597,770	13,616,409	14,619,729
Savings deposits	49,212,943	45,719,566	49,213,195	45,719,862
Time deposits	71,777,977	62,742,264	71,777,977	62,742,264
Certificates of deposit	3,538,205	3,307,118	3,538,205	3,307,118
Sub Total	138,130,003	126,366,718	138,145,786	126,388,973
<b>Foreign Currency Deposits</b>				
Current account deposits	4,589,679	5,231,856	4,589,679	5,231,856
Savings deposits	23,022,759	25,636,200	23,022,759	25,636,200
Time deposits	34,122,762	25,853,106	34,122,762	25,853,106
Sub Total	61,735,200	56,721,162	61,735,200	56,721,162
<b>Total Deposits</b>	<b>199,865,203</b>	<b>183,087,880</b>	<b>199,880,986</b>	<b>183,110,135</b>

**26.1 Analysis of Deposits**

Deposits from Banks	3,567,307	1,008,570	3,567,307	1,008,570
Deposits from Finance Companies	2,508,618	2,394,836	2,508,618	2,394,836
Deposits from other Customers	193,789,278	179,684,474	193,805,061	179,706,729
<b>Total</b>	<b>199,865,203</b>	<b>183,087,880</b>	<b>199,880,986</b>	<b>183,110,135</b>

The maturity analysis of deposits is given in Note 35.

**27. BORROWINGS**

Call money borrowings	1,150,000	1,800,000	1,150,000	1,800,000
Borrowings from banks	4,160,895	8,994,620	4,160,895	8,994,620
Refinance borrowings	7,180,705	6,872,791	7,180,705	6,872,791
Long-term borrowings	1,128,000	1,085,000	1,128,000	1,085,000
<b>Total</b>	<b>13,619,600</b>	<b>18,752,411</b>	<b>13,619,600</b>	<b>18,752,411</b>

**28. OTHER LIABILITIES**

Accrued expenditure and interest	5,867,548	5,035,313	5,863,227	5,033,658
Cheques sent on clearing	2,113,904	2,348,480	2,113,904	2,348,480
Provision for Gratuity	70,140	35,821	61,541	29,846
Other accounts	2,042,328	2,321,477	2,064,610	2,343,576
<b>Total</b>	<b>10,093,920</b>	<b>9,741,091</b>	<b>10,103,282</b>	<b>9,755,560</b>

Notes to the Financial Statements

**29. DEFERRED TAX**

	Group				Bank			
	Balance Sheet		Income Statement		Balance Sheet		Income Statement	
	2008 Rs. '000	2007 Rs. '000						
<b>Deferred Tax Liabilities</b>								
Accelerated depreciation for tax purposes - own assets	308,859	262,602	(46,257)	(11,891)	278,970	233,391	(45,579)	(11,534)
Accelerated depreciation for tax purposes - leased assets	407,335	408,199	864	30,266	407,335	408,199	864	30,266
Revaluation surplus on property	129,457	134,714	-	-	-	-	-	-
Deferred Tax on reclassification of revaluation surplus to retained earnings	(19,231)	-	-	-	-	-	-	-
	<u>826,420</u>	<u>805,515</u>	<u>(45,393)</u>	<u>18,375</u>	<u>686,305</u>	<u>641,590</u>	<u>(44,715)</u>	<u>18,732</u>
<b>Deferred Tax Assets</b>								
Finance leases	3,883	2,396	1,487	423	-	-	-	-
Defined benefit plans	76,176	21,851	54,325	7,558	73,436	19,917	53,518	7,333
Provision for bad & doubtful loans and advances	14,420	13,724	696	2,423	14,420	13,724	696	2,423
Effect of brought forward reversal of Deferred Tax Assets on								
General Provision	<u>55,737</u>	55,737			<u>55,737</u>	55,737		
	<u>150,216</u>	93,708			<u>143,593</u>	89,378		
Effect of Exchange rate variance	<u>192</u>	110	<u>(474)</u>	(475)	<u>192</u>	110	<u>(474)</u>	(475)
<b>Deferred Income Tax on income/(expenses)</b>			<u>10,641</u>	28,304			<u>9,025</u>	28,013
<b>Net Deferred Tax</b>	<u>676,396</u>	711,917			<u>542,904</u>	552,322		

**30. DEBENTURES**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
As at beginning of the year	6,680,440	6,680,440	6,680,440	6,680,440
Redemptions during the year	(2,244,410)	-	(2,244,410)	-
As at end of the year	<u>4,436,030</u>	6,680,440	<u>4,436,030</u>	6,680,440

As at December 31, 2008, debentures consisted of 4,436,030 Unsecured Subordinated Redeemable Debentures of Rs. 1,000.00 each issued by the Bank in 2003, 2004, 2005 and 2006.

## Notes to the Financial Statements

Debenture Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		Bank Value as at December 31	
					2008	2007	2008	2007
							Rs. '000	Rs. '000
<b>Fixed Rate Debentures</b>								
2003/2008 - 10.00% p.a. (Redeemed on May 12, 2008)	Listed	Quarterly	12.05.2003	12.05.2008	–	10.38%	–	115,890
2005/2010 - 12.00% p.a.	Not listed	Annually	10.10.2005	10.10.2010	12.00%	12.00%	284,000	284,000
2006/2011 - 12.00% p.a.	Not listed	Annually	16.05.2006	16.05.2011	12.00%	12.00%	15,000	15,000
2006/2016 - 13.25% p.a.	Not listed	Annually	16.05.2006	16.05.2016	13.25%	13.25%	505,000	505,000
2006/2011 - 13.50% p.a.	Listed	Annually	18.12.2006	18.12.2011	13.50%	13.50%	527,800	527,800
2006/2013 - 13.75% p.a.	Listed	Annually	18.12.2006	18.12.2013	13.75%	13.75%	250	250
2006/2016 - 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	14.00%	14.00%	467,260	467,260
							<b>1,799,310</b>	<b>1,915,200</b>
<b>Floating Rate Debentures</b>								
2003/2008 - 3 months TB rate (Net) + 2% p.a. (Redeemed on May 12, 2008)	Listed	Quarterly	12.05.2003	12.05.2008	–	18.97%	–	2,128,520
2004/2009 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	01.10.2004	01.10.2009	19.33%	18.97%	1,000,000	1,000,000
2005/2010 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	10.10.2005	10.10.2010	19.33%	18.97%	120,000	120,000
2005/2010 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	10.10.2005	10.10.2010	20.25%	19.81%	905,000	905,000
2006/2011 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	19.33%	18.97%	15,000	15,000
2006/2011 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	20.25%	19.81%	465,000	465,000
2006/2011 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2011	22.24%	15.42%	131,020	131,020
2006/2013 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2013	22.24%	15.42%	300	300
2006/2016 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2016	22.24%	15.42%	400	400
							<b>2,636,720</b>	<b>4,765,240</b>
<b>Total debentures</b>							<b>4,436,030</b>	<b>6,680,440</b>

**Notes**

**3 Months TB rate (Gross)** - three months Government Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

**3 Months TB rate (Net)** - three months Government Treasury Bill rate after 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

**12 Months TB rate (Gross)** - twelve months Government Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

Notes to the Financial Statements

### 31. STATED CAPITAL

The details of the Stated Capital are given below:

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Opening Balance	10,514,807	–	10,514,807	–
Ordinary Share Capital-Voting	–	2,329,312	–	2,329,312
Ordinary Share Capital-Non-Voting	–	161,206	–	161,206
11.25% Cumulative Redeemable Preference Share Capital	–	1,000,000	–	1,000,000
Share Premium	–	7,024,289	–	7,024,289
Issue of Ordinary Shares under Employee Share Option Plan	33,316	–	33,316	–
Redemption of 11.25% Cumulative Redeemable Preference Share Capital	(1,000,000)	–	(1,000,000)	–
<b>Closing Balance</b>	<b>9,548,123</b>	<b>10,514,807</b>	<b>9,548,123</b>	<b>10,514,807</b>

The above amount includes 232,281,226 Ordinary Voting Shares and 16,120,797 Ordinary Non-Voting Shares as at December 31, 2008. These Shares are quoted in the Colombo Stock Exchange.

The 11.25% Cumulative Redeemable Preference Shares allotted on May 13, 2003, were redeemed on May 12, 2008.

In accordance with Section 58 of Companies Act No. 7 of 2007, which became effective from May 3, 2007, Share Capital and Share Premium have been reclassified as Stated Capital.

#### Employee Share Option Plan

The Bank obtained the approval of the shareholders at an Extra-Ordinary General Meeting held in September, 2002 to introduce an Employee Share Option Plan for the benefit of all the executive officers in Grade III and above by creating new ordinary voting shares up to 5% of the ordinary voting shares, in equal tranches over a period of four years, upon the Bank achieving specified performance targets.

## Notes to the Financial Statements

The details relating to the four tranches of the Employee Share Option Plan are given below:

	Tranche I	Tranche II	Tranche III	Tranche IV	Total
Date granted	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006	
Price (Rs.) - (*)	36.00	57.85	56.13	111.38	
Exercisable between	April 01, 2004 to March 31, 2008	April 01, 2005 to March 31, 2009	April 01, 2006 to March 31, 2010	April 01, 2007 to March 31, 2011	
Original number of options - (**)	650,000	812,500	1,637,947	1,659,756	<b>4,760,203</b>
Additions consequent to scrip issues	–	17,922	96,231	730,293	<b>844,446</b>
Options cancelled due to non-acceptance or resignations	(25,057)	(10,149)	(14,697)	(121,640)	<b>(171,543)</b>
Number of options exercised up to December 31, 2008	(624,943)	(802,129)	(1,655,897)	(315,831)	<b>(3,398,800)</b>
Number of options outstanding as at December 31, 2008	–	18,144	63,584	1,952,578	<b>2,034,306</b>

(\*) Determined on the basis of the weighted average price of the voting shares of the Bank between October 01 and December 31 of each year.

(\*\*) Giving options under each tranche is based on the overall performance of the Bank for each year and the individual performance of the eligible employees. In the event of a bonus or/and rights issue of shares during the vesting period the number of shares offered and the offer prices are suitably amended in line with the accepted market practices.

The number of options given to the Managing Director under tranches I, II, III & IV are 25,623, 30,753, 63,349 and 84,907 respectively.

### 32. STATUTORY RESERVE FUND

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Opening balance	1,634,497	1,429,319	1,633,678	1,428,500
Add: Transfers during the year	213,419	205,178	213,419	205,178
<b>Closing balance</b>	<b>1,847,916</b>	<b>1,634,497</b>	<b>1,847,097</b>	<b>1,633,678</b>

Five percentum of profits after tax is transferred to the Reserve Fund as required by Section 20 (i) of the Banking Act No. 30 of 1988. This 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.

Notes to the Financial Statements

**33. RESERVES**

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Capital Reserves</b>				
Revaluation Reserve [Refer Note 33.2]	1,533,746	1,489,474	1,286,695	1,286,695
<b>Sub Total</b>	<b>1,533,746</b>	<b>1,489,474</b>	<b>1,286,695</b>	<b>1,286,695</b>
<b>Revenue Reserves</b>				
General Reserve [Refer Note 33.3]	12,518,821	10,278,367	12,518,821	10,278,367
Foreign Currency Translation Reserve [Refer Note 33.5]	(361,796)	(427,485)	(361,796)	(427,485)
Primary Dealer Special Risk Reserve [Refer Note 33.6]	48,809	23,658	48,809	23,658
Unappropriated profit/(loss) carried forward (Refer Note 12)	1,090,431	844,573	1,003,480	626,317
<b>Sub Total</b>	<b>13,296,265</b>	<b>10,719,113</b>	<b>13,209,314</b>	<b>10,500,857</b>
<b>Total</b>	<b>14,830,011</b>	<b>12,208,587</b>	<b>14,496,009</b>	<b>11,787,552</b>

**33.1 Share Premium**

Opening balance	-	1,728,793	-	1,728,793
Proceeds from issue of shares under Employee Share Option Plan	-	67,368	-	67,368
Proceeds from Rights issue of shares	-	5,310,449	-	5,310,449
Writing-off of Share/Debenture issue expenses	-	(82,321)	-	(82,321)
	-	7,024,289	-	7,024,289
Transferred to Stated Capital	-	(7,024,289)	-	(7,024,289)
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Share Premium was used for bonus issue of ordinary shares and writing-off of share and debenture issue expenses.

**33.2 Revaluation Reserve**

Opening balance	1,489,474	1,288,177	1,286,695	1,288,177
Realised revaluation surplus on disposal of property	-	(1,482)	-	(1,482)
Surplus on revaluation of property	39,302	311,968	-	-
Deferred tax effect on revaluation surplus on property	4,970	(109,189)	-	-
<b>Closing balance</b>	<b>1,533,746</b>	<b>1,489,474</b>	<b>1,286,695</b>	<b>1,286,695</b>

The Revaluation Reserve relates to revaluation of Land & Buildings and represents the increase in the fair value of the Land & Buildings at the date of revaluation.

The Licensed Commercial Banks are allowed to carry out revaluation of their Land & Buildings every seven years and are allowed to treat 50% of the surplus as supplementary capital in the Tier II of their Capital Base in the computation of Risk-Weighted Capital Adequacy Ratio.

## Notes to the Financial Statements

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>33.3 General Reserve</b>				
Opening balance	10,278,367	7,971,914	10,278,367	7,971,914
Transfer from the Income Statement	2,240,454	2,022,243	2,240,454	2,022,243
Transfer from Capital Redemption Reserve Fund	–	284,210	–	284,210
<b>Closing balance</b>	<b>12,518,821</b>	<b>10,278,367</b>	<b>12,518,821</b>	<b>10,278,367</b>

**33.4 Capital Redemption Reserve Fund**

Opening balance	–	906,555	–	906,555
Utilised for the bonus issue of shares	–	(622,345)	–	(622,345)
	–	284,210	–	284,210
Transferred to General Reserve	–	(284,210)	–	(284,210)
<b>Closing balance</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The above reserve represented the nominal value of preference shares redeemed out of profits.

**33.5 Foreign Currency Translation Reserve**

Opening balance	(427,485)	(416,049)	(427,485)	(416,049)
Net unrealised gains/(losses) for the year from the translation of Financial Statements of the Bangladesh operation	65,689	(11,436)	65,689	(11,436)
<b>Closing balance</b>	<b>(361,796)</b>	<b>(427,485)</b>	<b>(361,796)</b>	<b>(427,485)</b>

**33.6 Primary Dealer Special Risk Reserve**

Opening balance	23,658	6,244	23,658	6,244
Transfer from the Income Statement	25,151	17,414	25,151	17,414
<b>Closing balance</b>	<b>48,809</b>	<b>23,658</b>	<b>48,809</b>	<b>23,658</b>

As per the Directive issued by the Public Debt Department of the Central Bank of Sri Lanka on April 18, 2005, with effect from July 01, 2005, Primary Dealers that maintain a capital above Rs. 300 Mn are required to allocate 25% of profits after tax to a special risk reserve annually.

**34. COMMITMENTS AND CONTINGENCIES**

**34.1** In the normal course of business the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognised on the Balance Sheet, they do contain credit risk and are therefore part of the overall risk of the Bank.

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Commitments:</b>				
Commitments for unutilised facilities (Direct Advances)	16,647,191	16,301,393	16,647,191	16,301,393
<b>Sub Total</b>	<b>16,647,191</b>	<b>16,301,393</b>	<b>16,647,191</b>	<b>16,301,393</b>

Notes to the Financial Statements

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Contingent Liabilities:</b>				
Acceptances	6,823,002	5,006,384	6,823,002	5,006,384
Documentary Credits	9,096,333	12,992,718	9,096,333	12,992,718
Guarantees	17,706,284	18,066,653	17,706,284	18,066,653
Bills for Collection	9,835,411	4,847,574	9,835,411	4,847,574
Stock of Travelers' Cheques	867,450	1,054,141	867,450	1,054,141
Bullion on Consignment	96,484	739,235	96,484	739,235
<b>Sub Total</b>	<b>44,424,964</b>	<b>42,706,705</b>	<b>44,424,964</b>	<b>42,706,705</b>
<b>Forward Exchange Contracts:</b>				
Forward Exchange Sales	32,023,385	29,036,865	32,023,385	29,036,865
Forward Exchange Purchases	19,148,522	28,090,471	19,148,522	28,090,471
<b>Sub Total</b>	<b>51,171,907</b>	<b>57,127,336</b>	<b>51,171,907</b>	<b>57,127,336</b>
<b>Interest Rate Swap Agreements/ Currency Options:</b>				
Interest Rate Swaps	141,278	14,508	141,278	14,508
Currency Options	26,194	62,500	26,194	62,500
<b>Sub Total</b>	<b>167,472</b>	<b>77,008</b>	<b>167,472</b>	<b>77,008</b>
<b>Exposure on Oil Hedging Transactions:</b>				
Exposure on Oil Hedging Transactions	3,397,044	-	3,397,044	-
<b>Sub Total</b>	<b>3,397,044</b>	<b>-</b>	<b>3,397,044</b>	<b>-</b>
<b>Total Commitments and Contingent Liabilities</b>	<b>115,808,578</b>	<b>116,212,442</b>	<b>115,808,578</b>	<b>116,212,442</b>

**34.2 Litigation against the Bank**

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Set out below are unresolved legal claims against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of their outcome.

- (i) Court action has been initiated by a customer in proceedings number 36/96 (1) to claim a sum of Rs. 183.050 Mn on account of a forward exchange contract. Judgement was delivered in favour of the Bank dismissing the plaintiff's action but the plaintiff has appealed against the judgement. The case is pending to be listed in the Supreme Court.
- (ii) Judgement was delivered on September 21, 1995 on the court action initiated by a customer in proceedings number 93650/M to claim a sum of approximately Rs. 6.000 Mn relating to a dispute over the payment by the Bank of several cheques alleged to have been forged. The Bank has lodged an appeal against the judgement delivered favouring the plaintiff. Case is listed for argument.
- (iii) A Labour Tribunal case filed by an ex-employee on termination of employment is pending against the Bank, where the employee demands two months salary for each year of service amounting to Rs. 0.279 Mn.

An appeal is pending in the Supreme Court lodged by an ex-employee against the judgement entered in the High Court for reinstatement or substantial compensation.

- (iv) Court action has been initiated by a customer in proceedings number 25831/MR to claim a sum of Rs. 2.880 Mn together with interest on account of an interest refund claimed on a current account. Judgement was delivered against the Bank for a sum of Rs. 1.874 Mn. Bank lodged an appeal against the said judgement. Judgement in the appeal case is due to be delivered on March 16, 2009.

## Notes to the Financial Statements

- (v) Court action has been initiated by a customer in proceedings number 282/2002 (1) restraining the Bank from paying a sum of Rs. 13.350 Mn on a bank guarantee. The case has been transferred to Commercial High Court and is yet to be taken up. The Bank has obtained a counter guarantee from an insurance company.
- (vi) Court action has been initiated by a customer in proceedings number 25085/MR to recover a sum of US\$ 27,500 alleged to have been paid by the Bank in pursuance of a guarantee issued, by debiting the customer's account without the authority of the customer. Judgement was delivered dismissing the plaintiff's action. Plaintiff has lodged an appeal against the judgement. Argument is fixed for June 15, 2009.
- (vii) Court action for Rs. 1.500 Mn has been initiated by a customer in proceedings number 36542/MR to recover a sum of Rs. 0.400 Mn with interest at 24% from June 20, 2002 and a further sum of Rs. 1.000 Mn from the Bank on an alleged breach of contract. The Bank is defending the action. Further trial is fixed for April 27, 2009.
- (viii) Court action has been initiated by a customer in proceedings number 1336/M to claim a sum of Rs. 0.200 Mn and interest thereon relating to a dispute over the alleged non-payment by the Bank of two cheques when instructions were given to honour them and alleged payment by the Bank of another cheque when instruction was given not to do so. The Bank is defending the action. Further trial is fixed for May 7, 2009.
- (ix) Court action has been initiated by a customer in proceedings number 57970/MR to claim a sum of Rs. 35.000 Mn in respect of an alleged transfer made by the Bank to a partnership account amounting to Rs. 7.555 Mn belonging to the Plaintiff, which has been withdrawn by the other partner. The Bank is defending the action. The case will be called up on March 13, 2009.
- (x) Court action has been initiated in proceedings number 31/2008/MR against the Bank to claim Rs. 7.500 Mn together with accrued interest on fixed deposits in the name of plaintiff held as security for an overdraft facility. Since the overdraft facility was transferred to non-performing category, Bank has recovered the amount outstanding by uplifting the fixed deposits. Plaintiff claims that he has signed the letter of set off and the letter of authority out of ignorance. An order was given by the Commercial High Court rejecting the admissions and issues against the Bank. This case will be called on March 4, 2009. An appeal has been lodged in the Supreme Court against the order rejecting the admissions and issues which case will be mentioned on March 25, 2009.
- (xi) Court action has been initiated in proceedings number 91/2008/MR against the Bank to claim Rs. 7.500 Mn together with accrued interest on fixed deposits in the name of plaintiff's spouse held as security for an overdraft facility. Since the overdraft facility was transferred to non-performing category, Bank has recovered the amount outstanding by uplifting the fixed deposits. The plaintiff is claiming ownership of the said Fixed Deposits. The case will be called on March 4, 2009.
- (xii) Court action has been initiated by two customers in proceedings number 174/2008/MR to claim Rs. 34.000 Mn as damages for alleged unauthorised transactions which had not been sanctioned by the plaintiff. One of the plaintiffs has taken up the position that he did not receive the proceeds of the housing loan which had been obtained from the Bank. Admissions and issues of both parties are due on March 16, 2009.
- (xiii) Court action has been initiated by a third party in proceedings number 2116/L to claim the title of a property, which has been mortgaged to the Bank for a loan granted. Loan is in the performing category. The case will be called on March 30, 2009.
- (xiv) Court action has been initiated for BDT 9.153 Mn (approximately Rs. 14.964 Mn) in proceedings number 149 against the Credit Agricole Indosuez and the Bank for the breach of contract due to improper termination of a contract between Credit Agricole Indosuez and the plaintiff on network facility provided for Electronic Fund Transfer (EFT). As the Bank was not a party to the contract, the Bank has filed a statement to the court requesting for a dismissal. The case will be called up on February 26, 2009.
- (xv) Court action has been initiated in proceedings number 571/08/MR against the Bank to prevent the Bank from exercising the right of lien and set-off against a deposit of the plaintiff amounting to US\$ 15.000 Mn and to claim interest at 1.5% per annum from December 19, 2008. The plaintiff had defaulted payment of US\$ 21.024 Mn on a back hedge contract with the Bank. Statement of objections is due on April 22, 2009.

## Notes to the Financial Statements

**35. MATURITY ANALYSIS**
**35.1 Group**

**35.1.1** An analysis of the total assets employed of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2008 Rs. '000	Total as at 31.12.2007 Rs. '000
<b>Interest Earning Assets</b>							
Cash and short-term funds	13,400,539	2,347,373	-	-	-	15,747,912	10,320,206
Balances with Central Banks	1,586,097	65,006	-	-	-	1,651,103	792,810
Government Treasury Bills and Bonds	18,341,382	17,257,036	-	-	-	35,598,418	41,266,310
Securities purchased under							
resale agreements	3,309,821	90,634	-	-	-	3,400,455	3,804,120
Investment Securities	44,763	221,433	613,577	292,500	-	1,172,273	1,729,020
Treasury bonds maturing after one year	-	-	14,779,578	890,066	600,282	16,269,926	8,794,841
Bills of exchange, loans & advances and							
lease receivable	84,730,754	26,091,343	37,156,480	16,495,981	15,722,550	180,197,108	174,172,138
<b>As at 31.12.2008</b>	<b>121,413,356</b>	<b>46,072,825</b>	<b>52,549,635</b>	<b>17,678,547</b>	<b>16,322,832</b>	<b>254,037,195</b>	
As at 31.12.2007	104,033,673	59,004,237	44,862,415	17,018,849	15,960,271		240,879,445
<b>Non-Interest Earning Assets</b>							
Cash and short-term funds	8,366,999	-	-	-	-	8,366,999	5,888,041
Balances with Central Banks	6,090,542	1,912,306	277,155	186,103	205,202	8,671,308	10,782,769
Dealing Securities	58,290	-	-	-	-	58,290	207,267
Investments held for sale	-	-	-	-	-	-	379,631
Investment Securities	10,747	-	-	-	14,119	24,866	27,069
Investments in Associates	-	-	-	-	70,988	70,988	62,720
Interest and fees receivable	2,341,033	-	-	-	-	2,341,033	2,119,836
Other assets	3,029,580	199,445	-	-	10,384	3,239,409	3,653,902
Property, Plant & Equipment	-	-	-	-	4,342,645	4,342,645	3,997,053
Leasehold Property	-	-	-	-	296,723	296,723	268,532
Intangible assets	-	-	-	-	117,584	117,584	118,965
<b>As at 31.12.2008</b>	<b>19,897,191</b>	<b>2,111,751</b>	<b>277,155</b>	<b>186,103</b>	<b>5,057,645</b>	<b>27,529,845</b>	
As at 31.12.2007	17,759,142	1,021,410	3,735,007	75,533	4,914,693		27,505,785
<b>Total Assets - As at 31.12.2008</b>	<b>141,310,547</b>	<b>48,184,576</b>	<b>52,826,790</b>	<b>17,864,650</b>	<b>21,380,477</b>	<b>281,567,040</b>	
Total Assets - As at 31.12.2007	121,792,815	60,025,647	48,597,422	17,094,382	20,874,964		268,385,230
<b>Percentage - As at 31.12.2008</b>	<b>50.20</b>	<b>17.11</b>	<b>18.76</b>	<b>6.34</b>	<b>7.59</b>	<b>100.00</b>	
Percentage - As at 31.12.07	45.37	22.37	18.11	6.37	7.78		100.00

**35.1.2** An analysis of the total liabilities and shareholders' funds of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2008 Rs. '000	Total as at 31.12.2007 Rs. '000
<b>Interest Bearing Liabilities</b>							
Deposits from customers	127,826,015	41,691,822	4,401,650	3,406,745	4,498,248	181,824,480	163,354,574
Borrowings	4,778,354	1,652,623	3,343,502	1,799,373	2,045,748	13,619,600	18,752,411
Securities sold under							
repurchase agreements	17,322,849	7,629,623	7,172	-	-	24,959,644	23,238,005
Debentures	-	1,000,000	2,462,820	550	972,660	4,436,030	6,680,440
<b>As at 31.12.2008</b>	<b>149,927,218</b>	<b>51,974,068</b>	<b>10,215,144</b>	<b>5,206,668</b>	<b>7,516,656</b>	<b>224,839,754</b>	
As at 31.12.2007	155,403,966	35,976,813	5,734,988	5,158,311	9,751,352		212,025,430

## Notes to the Financial Statements

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2008 Rs. '000	Total as at 31.12.2007 Rs. '000
<b>Non-Interest Bearing Liabilities</b>							
Deposits from customers	18,040,723	–	–	–	–	18,040,723	19,733,306
Preference dividend payable	–	–	–	–	–	–	112,500
Other liabilities	9,926,030	167,890	–	–	–	10,093,920	9,741,091
Tax liabilities	84,291	1,578,958	–	–	–	1,663,249	1,679,306
Deferred tax	–	–	676,396	–	–	676,396	711,917
Stated Capital	–	–	–	–	9,548,123	9,548,123	10,514,807
Statutory Reserve Fund	–	–	–	–	1,847,916	1,847,916	1,634,497
Reserves	–	–	–	–	14,830,011	14,830,011	12,208,587
Minority Interest	–	–	–	–	26,948	26,948	23,789
<b>As at 31.12.2008</b>	<b>28,051,044</b>	<b>1,746,848</b>	<b>676,396</b>	<b>–</b>	<b>26,252,998</b>	<b>56,727,286</b>	
As at 31.12.2007	29,884,766	2,381,437	711,917	–	23,381,680		56,359,800
<b>Total Liabilities and Equity</b>							
<b>- As at 31.12.2008</b>	<b>177,978,262</b>	<b>53,720,916</b>	<b>10,891,540</b>	<b>5,206,668</b>	<b>33,769,654</b>	<b>281,567,040</b>	
Total Liabilities and Equity							
- As at 31.12.2007	185,288,732	38,358,250	6,446,905	5,158,311	33,133,032		268,385,230
<b>Percentage - As at 31.12.2008</b>	<b>63.21</b>	<b>19.08</b>	<b>3.87</b>	<b>1.85</b>	<b>11.99</b>	<b>100.00</b>	
Percentage - As at 31.12.2007	69.04	14.29	2.40	1.92	12.35		100.00

**35.2 Bank**

**35.2.1** An analysis of the total assets of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2008 Rs. '000	Total as at 31.12.2007 Rs. '000
<b>Interest Earning Assets</b>							
Cash and short-term funds	13,400,539	2,347,373	–	–	–	15,747,912	10,320,205
Balances with Central Banks	1,586,097	65,006	–	–	–	1,651,103	792,810
Government Treasury Bills and Bonds	18,106,289	17,257,036	–	–	–	35,363,325	41,068,234
Securities purchased under resale agreements	3,309,821	90,634	–	–	–	3,400,455	3,804,120
Investment Securities	44,763	221,433	613,577	292,500	–	1,172,273	1,729,021
Treasury Bonds maturing after one year	–	–	14,779,578	890,066	600,282	16,269,926	8,794,841
Bills of exchange, loans & advances and lease receivable	84,934,801	26,091,343	37,156,480	16,495,981	15,722,550	180,401,155	174,323,635
<b>As at 31.12.2008</b>	<b>121,382,310</b>	<b>46,072,825</b>	<b>52,549,635</b>	<b>17,678,547</b>	<b>16,322,832</b>	<b>254,006,149</b>	
As at 31.12.2007	103,987,094	59,004,237	44,862,415	17,018,849	15,960,271		240,832,866
<b>Non-Interest Earning Assets</b>							
Cash and short-term funds	8,366,794	–	–	–	–	8,366,794	5,888,003
Balances with Central Banks	6,090,542	1,912,306	277,155	186,103	205,202	8,671,308	10,782,769
Dealing Securities	58,290	–	–	–	–	58,290	207,267
Investments held for sale	–	–	–	–	–	–	205,477
Investment Securities	10,747	–	–	–	14,119	24,866	27,068
Investments in associates	–	–	–	–	44,331	44,331	44,331
Investments in subsidiaries	–	–	–	–	433,681	433,681	433,681
Interest and fees receivable	2,341,033	–	–	–	–	2,341,033	2,119,836
Other assets	2,959,166	199,445	–	–	10,384	3,168,995	3,630,317
Property, Plant & Equipment	–	–	–	–	3,721,775	3,721,775	3,417,594
Leasehold property	–	–	–	–	81,072	81,072	81,943
Intangible assets	–	–	–	–	295,391	295,391	268,487
<b>As at 31.12.2008</b>	<b>19,826,572</b>	<b>2,111,751</b>	<b>277,155</b>	<b>186,103</b>	<b>4,805,955</b>	<b>27,207,536</b>	
As at 31.12.2007	17,735,518	847,256	3,735,007	75,533	4,713,459		27,106,773
<b>Total Assets - As at 31.12.2008</b>	<b>141,208,882</b>	<b>48,184,576</b>	<b>52,826,790</b>	<b>17,864,650</b>	<b>21,128,787</b>	<b>281,213,685</b>	
Total Assets - As at 31.12.2007	121,722,612	59,851,493	48,597,422	17,094,382	20,673,730		267,939,639
<b>Percentage - As at 31.12.2008</b>	<b>50.22</b>	<b>17.13</b>	<b>18.79</b>	<b>6.35</b>	<b>7.51</b>	<b>100.00</b>	
Percentage - As at 31.12.2007	45.42	22.34	18.14	6.38	7.72		100.00

Notes to the Financial Statements

**35.2.2** An analysis of the total liabilities and shareholders' funds of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total as at 31.12.2008 Rs. '000	Total as at 31.12.2007 Rs. '000
<b>Interest Bearing Liabilities</b>							
Deposits from customers	127,826,015	41,691,822	4,401,650	3,406,745	4,498,248	181,824,480	163,367,664
Borrowings	4,778,354	1,652,623	3,343,502	1,799,373	2,045,748	13,619,600	18,752,411
Securities sold under re-purchase agreements	17,438,296	7,629,623	7,172	-	-	25,075,091	23,342,102
Debentures	-	1,000,000	2,462,820	550	972,660	4,436,030	6,680,440
<b>As at 31.12.2008</b>	<b>150,042,665</b>	<b>51,974,068</b>	<b>10,215,144</b>	<b>5,206,668</b>	<b>7,516,656</b>	<b>224,955,201</b>	
As at 31.12.2007	155,521,153	35,976,813	5,734,988	5,158,311	9,751,352		212,142,617
<b>Non-Interest Bearing Liabilities</b>							
Deposits from customers	18,056,506	-	-	-	-	18,056,506	19,742,471
Preference dividend payable	-	-	-	-	-	-	112,500
Other liabilities	9,935,392	167,890	-	-	-	10,103,282	9,755,560
Tax liabilities	84,632	1,579,931	-	-	-	1,664,563	1,698,132
Deferred tax	-	-	542,904	-	-	542,904	552,322
Stated capital	-	-	-	-	9,548,123	9,548,123	10,514,807
Statutory Reserve Fund	-	-	-	-	1,847,097	1,847,097	1,633,678
Reserves	-	-	-	-	14,496,009	14,496,009	11,787,552
<b>As at 31.12.2008</b>	<b>28,076,530</b>	<b>1,747,821</b>	<b>542,904</b>	<b>-</b>	<b>25,891,229</b>	<b>56,258,484</b>	
As at 31.12.2007	29,931,585	2,377,078	552,322	-	22,936,037		55,797,022
<b>Total Liabilities and Equity</b>							
<b>- As at 31.12.2008</b>	<b>178,119,195</b>	<b>53,721,889</b>	<b>10,758,048</b>	<b>5,206,668</b>	<b>33,407,885</b>	<b>281,213,685</b>	
Total Liabilities and Equity - As at 31.12.2007	185,452,738	38,353,891	6,287,310	5,158,311	32,687,389		267,939,639
<b>Percentage - As at 31.12.2008</b>	<b>63.34</b>	<b>19.10</b>	<b>3.83</b>	<b>1.85</b>	<b>11.88</b>	<b>100.00</b>	
Percentage - As at 31.12.2007	69.21	14.31	2.35	1.93	12.20		100.00

- Notes (i) Loans and advances are shown net of interest in suspense and provision for bad & doubtful debts.
- (ii) Balances with Central Banks have been apportioned into the maturity groups based on the maturity pattern of the deposits liable for Statutory Reserve Requirements.
- (iii) Demand and savings deposits have been classified into the up to 3 months' category. However, the major part of these deposits represents core retail deposits with longer term maturity.
- (iv) Shareholders' funds is classified into the more than 5 years category since no contractual date of maturity can be identified. However, these funds are available and have in fact been used for financing assets with lesser maturity periods.

### 36. CAPITAL COMMITMENTS

The Group has commitments for acquisition of Property, Plant & Equipment and intangible assets incidental to the ordinary course of business as at December 31, as follows:

	Group		Bank	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>36.1 Capital expenditure commitments in relation to Property, Plant &amp; Equipment</b>				
Approved and contracted for	444,450	208,898	444,450	208,898
Approved but not contracted for	388,750	61,950	388,750	61,950
Sub Total	833,200	270,848	833,200	270,848
<b>36.2 Capital expenditure commitments in relation to Intangible Assets</b>				
Approved and contracted for	177,053	108,389	177,053	108,389
Sub Total	177,053	108,389	177,053	108,389
<b>Total</b>	<b>1,010,253</b>	<b>379,237</b>	<b>1,010,253</b>	<b>379,237</b>

## Notes to the Financial Statements

**37. FINANCIAL REPORTING BY SEGMENT AS PER THE PROVISIONS OF SRI LANKA ACCOUNTING STANDARD NO. 28 - GROUP**

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

**37.1 Primary Segment Information - Business Segments (Group)**

The following table presents the income, profit and certain asset and liability information regarding the Group's business segment for the year ended December 31, 2008 and December 31, 2007.

	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<i>For the year ended December 31,</i>										
<b>External Operating Income:</b>										
Net interest income	9,823,243	8,966,388	-	-	1,272,210	1,055,372	-	-	11,095,453	10,021,760
Foreign exchange profit	949,066	627,847	-	-	1,684,255	916,985	-	-	2,633,321	1,544,832
Lease income	-	-	1,800,150	1,565,087	-	-	-	-	1,800,150	1,565,087
Fees and commissions income	2,575,711	2,374,030	-	-	139,269	7,872	-	-	2,714,980	2,381,902
Other income	732,940	382,323	-	-	57,706	33,076	434,466	196,064	1,225,112	611,463
Eliminations/unallocated	-	-	-	-	-	-	-	-	173,235	148,101
<b>Total Operating Income</b>	<b>14,080,960</b>	<b>12,350,588</b>	<b>1,800,150</b>	<b>1,565,087</b>	<b>3,153,440</b>	<b>2,013,305</b>	<b>434,466</b>	<b>196,064</b>	<b>19,642,251</b>	<b>16,273,145</b>
Credit loss expenses	(1,962,349)	(1,655,175)	(315,863)	(122,301)	-	-	-	-	(2,278,212)	(1,777,476)
Net operating income	12,118,611	10,695,413	1,484,287	1,442,786	3,153,440	2,013,305	434,466	196,064	17,364,039	14,495,669
<b>Segment result</b>	<b>4,484,452</b>	<b>4,354,112</b>	<b>1,267,480</b>	<b>1,369,754</b>	<b>2,248,532</b>	<b>2,251,034</b>	<b>373,824</b>	<b>186,139</b>	<b>8,374,288</b>	<b>8,161,039</b>
Unallocated operating expenses									(967,125)	(1,395,201)
Profit from operations									7,407,163	6,765,838
Share of profit of Associates									9,085	25,011
Income tax expense									(3,295,842)	(2,638,396)
Minority interest									(1,522)	(3,432)
<b>Net profit for the year, attributable to equity holders of the parent</b>									<b>4,118,884</b>	<b>4,149,021</b>

	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000						
<i>As at December 31,</i>										
<b>Other Information</b>										
Segment assets	180,246,324	177,270,196	9,343,554	10,799,873	85,893,793	73,524,904	1,255,429	2,342,987	276,739,100	263,937,960
Investment in Associates	-	-	-	-	-	-	70,988	62,720	70,988	62,720
Unallocated assets	-	-	-	-	-	-	-	-	4,756,952	4,384,550
<b>Total assets</b>									<b>281,567,040</b>	<b>268,385,230</b>
Segment liabilities	156,410,633	154,881,843	9,343,554	10,799,873	85,893,793	73,524,904	1,326,417	2,405,707	252,974,397	241,612,327
Unallocated liabilities	-	-	-	-	-	-	-	-	2,339,645	2,391,223
<b>Total liabilities</b>									<b>255,314,042</b>	<b>244,003,550</b>

	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000						
<i>For the year ended December 31,</i>										
<b>Information on Cash Flows</b>										
Cash flows from operating activities	11,646,376	4,481,624	2,723,799	1,371,878	2,248,532	2,251,034	-	-	16,618,707	8,104,536
Cash flows from investing activities (excluding capital expenditure)	117,889	23,440	-	-	375,817	(7,648,717)	1,594,938	(138,625)	2,088,644	(7,763,902)
Cash flows from financing activities	(1,200,154)	6,738,279	-	-	(4,833,725)	(1,978,507)	-	-	(6,033,879)	4,759,772
Capital expenditure										
Property, Plant & Equipment									(880,702)	(633,062)
Intangibles									(91,184)	(144,553)
Eliminations/unallocated									(3,794,922)	(1,845,983)
<b>Net Cash Flow generated during the year</b>									<b>7,906,664</b>	<b>2,476,808</b>

Notes to the Financial Statements

### 37.2 Secondary Segment Information - Geographical Segments

The following table presents the distribution of the Group/Bank income, total assets, profit before tax, profit after tax by geographical segment, allocated based on the location in which the transactions, assets and liabilities are recorded for the year ended December 31, 2008 and December 31, 2007.

	Group				Bank			
	2008 Rs. '000	%	2007 Rs. '000	%	2008 Rs. '000	%	2007 Rs. '000	%
<b>Assets</b>								
Sri Lanka operations	258,124,447	91.67	249,141,437	92.83	257,771,092	91.66	248,695,846	92.82
Overseas operations	23,442,593	8.33	19,243,793	7.17	23,442,593	8.34	19,243,793	7.18
<b>Total</b>	<b>281,567,040</b>	<b>100.00</b>	<b>268,385,230</b>	<b>100.00</b>	<b>281,213,685</b>	<b>100.00</b>	<b>267,939,639</b>	<b>100.00</b>
<b>Income</b>								
Sri Lanka operations	41,085,946	93.46	32,826,895	93.24	41,241,173	93.49	32,842,953	93.24
Overseas operations	2,874,076	6.54	2,379,965	6.76	2,874,076	6.51	2,379,965	6.76
<b>Total</b>	<b>43,960,022</b>	<b>100.00</b>	<b>35,206,860</b>	<b>100.00</b>	<b>44,115,249</b>	<b>100.00</b>	<b>35,222,918</b>	<b>100.00</b>
<b>Profit before Tax</b>								
Sri Lanka operations	6,397,146	86.26	5,880,809	86.60	6,501,040	86.45	5,794,689	86.43
Overseas operations	1,019,102	13.74	910,040	13.40	1,019,102	13.55	910,040	13.57
<b>Total</b>	<b>7,416,248</b>	<b>100.00</b>	<b>6,790,849</b>	<b>100.00</b>	<b>7,520,142</b>	<b>100.00</b>	<b>6,704,729</b>	<b>100.00</b>
<b>Profit after Tax</b>								
Sri Lanka operations	3,581,235	86.91	3,671,781	88.42	3,729,201	87.37	3,622,893	88.29
Overseas operations	539,171	13.09	480,672	11.58	539,171	12.63	480,672	11.71
<b>Total</b>	<b>4,120,406</b>	<b>100.00</b>	<b>4,152,453</b>	<b>100.00</b>	<b>4,268,372</b>	<b>100.00</b>	<b>4,103,565</b>	<b>100.00</b>

### 38. RELATED PARTY DISCLOSURES

The Bank carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with Related Parties. Except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all the staff at concessionary rates, transactions with related parties listed below have been at commercial rates.

#### 38.1 Transactions with Directors and other KMPs

Related parties include KMPs defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and its subsidiaries. Such KMPs include the Board of Directors of the Bank, key employees who are holding directorships in subsidiary companies of the Bank and other key executives who meet the criteria described above.

##### 38.1.1 Compensation of KMPs

	2008 Rs. '000	2007 Rs. '000
Short-term employment benefits	175,296	125,406
Post employment benefits	15,101	12,464
Post employment benefits paid to past Directors	920	980
<b>Total</b>	<b>191,317</b>	<b>138,850</b>

## Notes to the Financial Statements

**38.1.2 Transactions, arrangements and agreements involving KMPs, their Close Family Members (CFMs) and entities which are controlled, and/or significantly influenced by the KMPs or their CFMs.****38.1.2.1 Balance Sheet**

	Year End Balance		KMPs and their CFMs Average Balance		Year End Balance		Entities in which KMPs and their CFMs have control, joint control or significant influence Average Balance	
	2008	2007	2008	2007	2008	2007	2008	2007
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>								
Loans and advances	62,703	105,483	62,607	97,251	242	341	350	357
Credit cards	441	518	551	503	-	-	-	-
<b>Total</b>	<b>63,144</b>	<b>106,001</b>	<b>63,158</b>	<b>97,754</b>	<b>242</b>	<b>341</b>	<b>350</b>	<b>357</b>
<b>Liabilities</b>								
Deposits	96,697	77,257	86,876	79,174	227	333	229	63
Securities sold under repurchase agreements	232,999	168,615	207,422	154,695	-	-	-	-
Debentures	1,100	1,000	1,100	1,000	-	-	-	-
<b>Total</b>	<b>330,796</b>	<b>246,872</b>	<b>295,398</b>	<b>234,869</b>	<b>227</b>	<b>333</b>	<b>229</b>	<b>63</b>
Number of Ordinary Shares held	2,844,381	3,299,406			-	-		
Dividends paid (Rs. '000)	15,052	22,234			-	-		

**38.1.2.2 Off-Balance Sheet Items****Commitments and Contingencies**

Undrawn facilities	20,861	13,323	21,379	14,378	233	90	128	58
<b>Total</b>	<b>20,861</b>	<b>13,323</b>	<b>21,379</b>	<b>14,378</b>	<b>233</b>	<b>90</b>	<b>128</b>	<b>58</b>

**38.1.2.3 Income Statement**

	During the Year		During the Year	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Interest income	3,106	6,669	80	86
Interest expenses	41,599	27,530	20	-
Other income	49	-	-	-
Payments to KMPs as shown in 38.1.1 above	191,317	138,850	-	-

**38.1.2.4 Share Options for the KMPs**

	As at the Year End	
	2008	2007
Cumulative number of options allotted under the Employee Share Option Plan (ESOP) 2002		
Tranche 1	117,293	138,641
Tranche 2	137,160	166,068
Tranche 3	274,173	325,866
Tranche 4	356,490	422,820

Notes to the Financial Statements

### 38.2 Group

The Group related parties include subsidiaries, associates, significant investors (either entities or individuals) that have control, joint control or significant influence and post employment benefit plans for the Bank's employees.

#### 38.2.1 Transactions with Subsidiaries and Associates of the Group/Bank

##### 38.2.1.1 Balance Sheet

	Subsidiaries				Associates			
	Year End Balance		Average Balance		Year End Balance		Average Balance	
	2008 Rs. '000	2007 Rs. '000						
<b>Assets</b>								
Loans and advances	63,778	6,806	9,177	7,638	47,409	15,441	53,498	12,385
Lease receivable	140,269	120,378	120,677	100,921	3,401	-	2,290	-
Other	31,452	16,135	31,452	16,135	-	-	-	-
<b>Total</b>	<b>235,499</b>	<b>143,319</b>	<b>161,306</b>	<b>124,694</b>	<b>50,810</b>	<b>15,441</b>	<b>55,788</b>	<b>12,385</b>
<b>Liabilities</b>								
Deposits	15,783	22,255	20,522	54,155	37,009	10,151	14,962	13,981
Securities sold under repurchase agreements	115,446	104,097	107,569	98,434	12,564	24,325	21,902	13,791
Debentures	-	-	-	-	5,000	5,000	5,000	5,000
Other	43,330	37,866	43,330	57,862	-	563	-	563
<b>Total</b>	<b>174,559</b>	<b>164,218</b>	<b>171,421</b>	<b>210,451</b>	<b>54,573</b>	<b>40,039</b>	<b>41,864</b>	<b>33,335</b>
Number of Preference Shares held	-	-	-	-	-	500,000	-	-
Dividends paid (Rs. '000)	-	-	-	-	183	563	-	-

##### 38.2.1.2 Off-Balance Sheet Items

###### Commitments and Contingencies

Letter of Credit	-	-	-	4,910	-	-	-	-
Guarantees	-	200	-	674	-	-	-	-
Undrawn facilities	6,080	-	63,694	-	-	-	-	-
<b>Total</b>	<b>6,080</b>	<b>200</b>	<b>63,694</b>	<b>5,584</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

##### 38.2.1.3 Income Statement

	During the Year		During the Year	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Interest income	22,583	13,508	11,763	1,878
Interest expenses	17,933	17,403	4,655	3,856
Other income	43,705	41,541	12,753	22,594
Other expenses	139,507	135,635	-	-

Notes to the Financial Statements

**38.2.2 Transactions with entities which have a significant influence over the affairs of the Bank and the post employment benefit plans for the employees of the Bank****38.2.2.1 Balance Sheet**

	Entities which have a significant influence over the affairs of the Bank				Post employment benefit plans			
	Year End Balance		Average Balance		Year End Balance		Average Balance	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Assets</b>								
Loans and advances	-	-	25	-	-	-	-	-
<b>Total</b>	-	-	25	-	-	-	-	-
<b>Liabilities</b>								
Deposits	68,557	15,200	11,236	14,796	2,088,003	3,692,054	2,614,934	2,666,261
Securities sold under repurchase agreements	-	-	-	-	1,046,902	1,060,511	793,646	387,451
<b>Total</b>	<b>68,557</b>	<b>15,200</b>	<b>11,236</b>	<b>14,796</b>	<b>3,134,905</b>	<b>4,752,565</b>	<b>3,408,580</b>	<b>3,053,712</b>
Number of Ordinary Shares held	67,099,881	72,099,881			-	-		
Dividends paid (Rs. '000)	370,880	443,065			-	-		

**38.2.2.2 Off-Balance Sheet Items****Commitments and Contingencies**

Undrawn facilities	450,000	450,000	449,975	450,000
<b>Total</b>	<b>450,000</b>	<b>450,000</b>	<b>449,975</b>	<b>450,000</b>

**38.2.2.3 Income Statement**

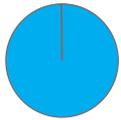
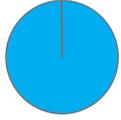
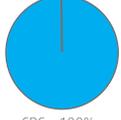
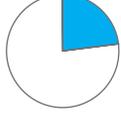
	During the Year		During the Year	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
Interest income	5	-	-	-
Interest expenses	-	-	800,305	534,976
Other income	115	-	-	-
Contribution made/taxes paid by the Bank	-	-	483,474	429,058

**39. EVENTS AFTER THE BALANCE SHEET DATE**

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements, except for the following:

Directors have recommended the payment of a final dividend of Rs. 4.00 per share to both the Voting and Non-Voting ordinary shareholders of the Bank for the year ended December 31, 2008. This will be declared at the forthcoming Annual General Meeting to be held on March 30, 2009 for shareholders' approval.

● GROUP STRUCTURE

	BUSINESS	DIRECTORS		2008 Rs. Mn	2007 Rs. Mn	
<b>Subsidiaries</b>						
<b>Commercial Bank Primary Dealer Ltd.</b> 'Commercial House', 21, Bristol Street, Colombo 1. Tel: 2445010-15, 2336700, 2328193-5 Incorporated on October 18, 1999 (Ceased operations on September 30, 2005) <b>Bank's Interest:</b> 100%	Primary Dealer for Government Securities	M.J.C. Amarasuriya (Chairman)	Total assets	250.288	229.381	 CBC - 100%
		B.R.L. Fernando	Net assets	250.156	229.301	
		A.L. Gooneratne	Profit before tax	41.315	33.602	
		A.N. Fonseka ( <i>Resigned w.e.f. 31.01.2009</i> )	Profit after tax	26.855	21.724	
		W.M.R.S. Dias	Dividend (per share) (Rs.)	0.40	-	
		D.S. Weeratunge L.W.P. Indrajith (Company Secretary)				
<b>ONEZero Co. Ltd.</b> 'Commercial House', 21, Bristol Street, Colombo 1. Tel: 2430420 Incorporated on February 17, 2003 <b>Bank's Interest:</b> 100%	Provision of IT Related Services	M.J.C. Amarasuriya (Chairman)	Total assets	119.253	47.071	 CBC - 100%
		A.N. Fonseka ( <i>Resigned w.e.f. 31.01.2009</i> )	Net assets	43.109	36.564	
		A.L. Gooneratne	Profit before tax	16.711	12.959	
		W.M.R.S. Dias	Profit after tax	10.141	12.323	
		S.D. Bandaranayake K.D.N. Buddhipala ( <i>Appointed on 17.12.2008</i> ) A.R.M. Muttiah ( <i>Appointed on 17.12.2008</i> ) W.T.M.A.I.B. Wijayasundara ( <i>Appointed on 17.12.2008</i> ) M.P. Dharmasiri (Company Secretary)	Dividend (per share) (Rs.)	7.00	-	
<b>X-pertise Ltd.</b> 1, Union Place, Colombo 2. Tel: 2305280, 2305282 Incorporated on October 6, 2004 (Ceased Operations on September 30, 2007) <b>Bank's Interest:</b> 100%	Training & Development of Human Resources	M.J.C. Amarasuriya (Chairman)	Total assets	8.610	7.009	 CBC - 100%
		A.L. Gooneratne	Net assets	5.899	5.564	
		W.M.R.S. Dias	Profit before tax	0.231	1.562	
		G.L.C. Amarasiri	Profit after tax	0.335	0.812	
		Mrs. Sarojini Dunuwille (Company Secretary)	Dividend (per share) (Rs.)	-	-	
<b>Commercial Development Co. PLC</b> 'Commercial House', 21, Bristol Street, Colombo 1. Tel: 2447300 Incorporated on March 14, 1980 <b>Bank's Interest:</b> 94.55%	Property Development	M.T.L. Fernando (Chairman)	Total assets	1,017.917	917.436	 CBC - 94.55%
		B.R.L. Fernando	Net assets	284.383	270.656	
		A.L. Gooneratne	Profit before tax	142.436	68.273	
		Dr. H.S. Wanasinghe	Profit after tax	124.689	44.445	
		M.A. Pemasiri Mrs. I.S. Jayasinghe ( <i>Appointed on 04.04.2008</i> ) A.T.P. Edirisinghe ( <i>Appointed on 04.04.2008</i> ) L.W.P. Indrajith (Company Secretary)	Dividend (per share) (Rs.)	2.50	3.50	
<b>Associates</b>						
<b>Equity Investments Lanka Ltd.</b> 5th Floor, Majestic City, No 10, Station Road, Colombo 4. Tel: 5759571, 2506347 Incorporated on August 08, 1990 <b>Bank's Interest:</b> 22.92%	Venture Capital Financing	M.J.C. Amarasuriya (Chairman)	Total assets	208.025	188.103	 CBC - 22.92%
		H.D.S. Amarasuriya	Net assets	201.286	181.811	
		A.L. Gooneratne	Profit before tax	20.093	12.247	
		S.T. Nagendra	Profit after tax	19.475	12.058	
		Deshabandu S.E. Captain YAM. T.T.S.I.I.T. Ja'afar E.A.D. Perera (Alternate) Mrs. R.R. Dunuwille (Company Secretary)	Dividend (per share) (Rs.)	-	0.50	
<b>Commercial Insurance Brokers (Pvt) Ltd.</b> 3-2/2, 2nd Floor Galle Face Court 1 Colombo 3. Tel: 2447297, 2447299 Incorporated on August 17, 1987 <b>Bank's Interest:</b> 18.91%	Insurance Brokering	A.L. Gooneratne (Chairman)	Total assets	209.439	204.996	 CBC - 18.91%
		M.P. Jayawardene	Net assets	174.949	154.691	
		M.P.A. Salgadu	Profit before tax	22.399	15.826	
			Profit after tax	22.399	13.118	
			Dividend (per share) (Rs.)	-	6.00	

## ● AWARDS AND ACCOLADES

	1999/2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>● Ratings by Fitch Ratings Lanka Ltd.</b>									
Senior Debt		SL AA +	SL AA +	SL AA +	AA+ (sri)	AA+ (sri)	AA+ (lka)	AA+ (lka)	AA+ (lka)
<b>● Awards by The Global Finance Magazine (USA)</b>									
Best Bank in Sri Lanka	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner
<b>● Awards by The Banker Magazine (UK)</b>									
Bank of The Year in Sri Lanka		Winner	Winner	Winner	Winner	Winner		Winner	Winner
<b>● Award for Excellence by Euro Money Magazine (UK)</b>									
Best Bank in Sri Lanka (1st Bank in Sri Lanka to win this award)								Winner	
<b>● Bracken Award by The Banker Magazine (UK)</b>									
Sri Lanka's Bank of The Year								Winner	
<b>● Annual Report Awards by The Institute of Chartered Accountants of Sri Lanka</b>									
Overall		Winner	Winner	Winner	Winner	Winner	1st R.up	Joint Winner	
Banking Sector		Winner	Winner	Winner	Winner	Winner	Winner	Winner	
Corporate Governance Disclosure		Winner	Winner	Joint 1st R.up	Winner				
Corporate Social Responsibility			Joint 2nd R.up	Joint 1st R.up					
Management Commentary								Joint 1st R.up	
<b>● Annual Report Awards by the South Asian Federation of Accountants</b>									
Overall					Winner	2nd R.up	1st R.up	Joint Winner	
Financial/Banking Sector		Winner	Winner	Winner	Winner	Winner	Winner	Winner	
Corporate Governance Disclosure						Winner			
<b>● National Business Excellence Awards by the National Chamber of Commerce of Sri Lanka</b>									
Overall							Winner	N/A	N/A
Large Scale Investments						N/A	N/A	Winner	N/A
Extra Large Sector						2nd R.up	Winner	N/A	N/A
Block Buster Performance						N/A	Winner	N/A	N/A
Banking Sector						Winner	Winner	N/A	N/A
Business & Financial Sustainability						Winner	Winner	N/A	N/A
<b>● National Human Resource Management (HRM) Awards</b>									
Overall			Winner						
Overall (Large Sector)				Winner					
Most Innovative HR Practice (Large Sector)				Winner					
<b>● National Best Quality Software Awards by The British Computer Society (Sri Lanka Section)</b>									
Financial Sector (Com e-Load Product)							Silver		
Financial Sector (Com Online Product)							Merit		
<b>BANK'S ACHIEVEMENTS IN BANGLADESH OPERATIONS</b>									
<b>● Credit Ratings by Credit Rating Information Services Ltd.</b>									
					AA	AA	AA	AA	AA+
<b>● 'A Class Bank' by CAMEL Rating</b>									
					A	A	A	A	A
<b>● Partex Business Awards by Robintex Financial Mirror</b>									
Best Foreign Bank						Winner	Winner	Winner	Winner
<b>● Arthakantha Business Awards for Outstanding Achievements</b>									
Best Foreign Bank (Banking Sector)					Winner	Winner			
<b>● Financial News Services (FNS) Business Awards</b>									
Best Performing Foreign Bank						Winner			
<b>● The Industry-Business Awards by The Industry Magazine</b>									
Best Foreign Bank					Winner			Winner	
<b>● Institute of Cost and Management Accountants of Bangladesh</b>									
National Best Corporate Award								2nd R.up	
<b>● Desher Kagoj Business Award</b>									
Best Foreign Bank								Winner	

● HISTORICAL LANDMARKS

**1920**

The Eastern Bank Ltd. (EBL) opens a branch in Chatham Street.

**1957**

The share capital of EBL is acquired by the Chartered Bank.

**1969**

The Commercial Bank of Ceylon Ltd. incorporated with EBL holding 40% of its equity.

**1971**

The business of the EBL is taken over by the Chartered Bank.

**1973**

The Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. are acquired by the Bank.

**1979**

The Foreign Currency Banking Unit is formed.

**1980**

Commercial Development Company Ltd. is incorporated to construct a Headquarters for the Bank with a 40% equity participation.

**1984**

The Headquarters of the Bank is shifted to "Commercial House", No. 21, Bristol Street, Colombo 1.

**1987**

EBL changes its name to Standard Chartered (UK) Holdings Ltd.

**1988**

An associate company, Commercial Leasing Company Ltd. is formed.

**1990**

Introduced ATM facilities to its customers. First five ATMs were installed at Foreign, Borella, Nugegoda, Kotahena & Kollupitiya branches.

**1993**

Introduction of the Core Banking Software-International Comprehensive Banking System (ICBS) linking nine metropolitan branches.

**1994**

Bank celebrates its 25th Anniversary.

**1996**

Shareholdings in Commercial Development Company PLC increased to 94.55% through a share swap.

**1997**

Standard Chartered Bank sells its 40% stake in the Bank.

**1998**

365-day branch at Colombo 7 Branch is opened. All branches except Jaffna are linked to the ICBS.

**1999**

Banking and supermarketing are combined by opening the first "MiniCom".

**2000**

Internet Banking is launched.

**2001**

Opened the 100th branch at Kaduruwela and the Gold Trading Unit at the Foreign Branch.

**2003**

The operations of Credit Agricole Indosuez in Bangladesh is taken over.

**2004**

Commercial Bank Social Responsibility Trust was set up.

**2005**

Raises US\$ 65 million 2-year syndicated loan with an option to extend it for a further year at the option of the lender, the first such loan by a non-sovereign corporate in the country. Introduces the first mobile ATM in the country.

**2006**

Raised US\$ 10 million by issuing a five-year bond, the first of its kind by an indigenous bank in Sri Lanka.

Opens 150th branch at Mahiyanganaya.

**2007**

Links up with 'MoneyGram' for Fund transfers around the world.

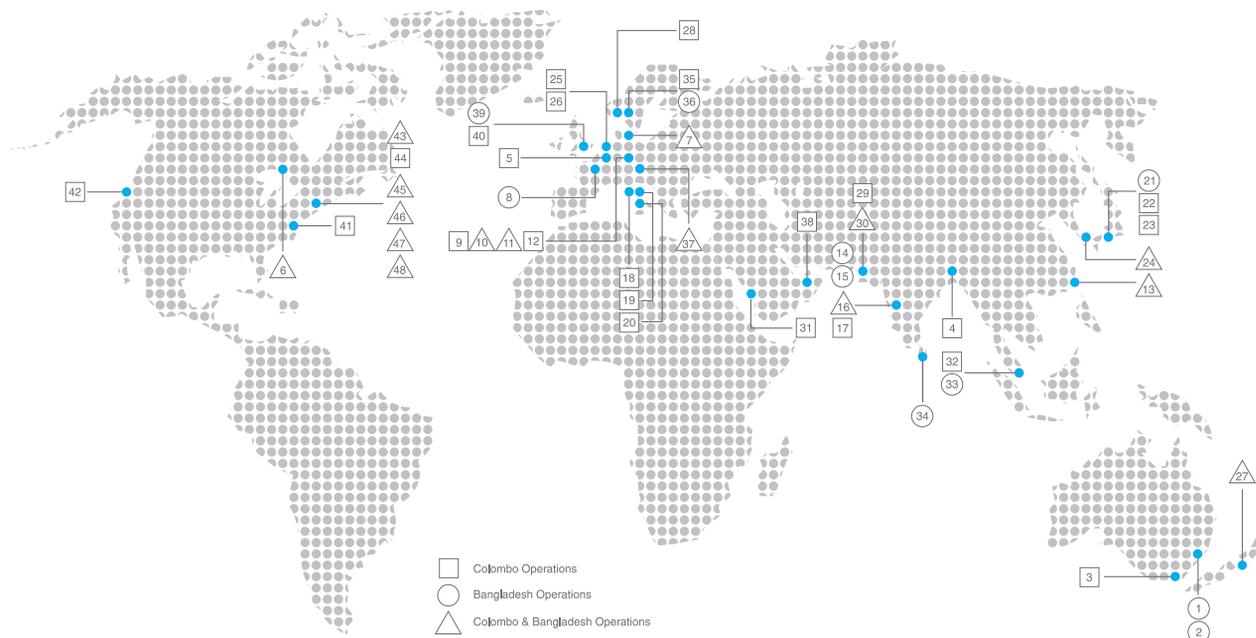
Launches 'Pay Master' total payment solution.

**2008**

Bank disposes of its 30% stake in the equity of Commercial Leasing Company PLC.

Becomes the first Sri Lankan bank to be ranked among the Top 1000 Banks in the World.

## CORRESPONDENT BANKS



	BIC Code/SWIFT	CCY	Account No.
<b>Australia</b>			
1 Citygroup Pty Ltd. ABN 88 004 325 080, AFSL 238098 G.P.O. Box 40, Sydney NSW 1027 - Australia www.citybank.com.au	CITIAU2X	AUD	205636005 *
2 HSBC Bank Australia Ltd. 580, George Street, Sydney NSW 2000 www.hsbc.com.au	HKBAAU2S	AUD	011-796323-041 *
3 National Australia Bank 11/120, Spencer Street, Melbourne Victoria 3000 - Australia www.national.com.au	NATAAU33033	AUD	1803020052500
<b>Bangladesh</b>			
4 Commercial Bank of Ceylon PLC 47, Motijheel Commercial Area, P.O. Box 3490, Dhaka 1000, Bangladesh www.combank.net	CCEYBDDH	AC\$	2-802000017
<b>Belgium</b>			
5 Fortis Bank NV/SA Montagne DU PARC 3, B-1000, Brussels, Belgium www.fortis.com	GEBABEBB	EUR	291-1179210-78
<b>Canada</b>			
6 Canadian Imperial Bank of Commerce Int'l Dept. Head Office, Commerce Court, Toronto M5L 1H1, Canada www.cibc.com	CIBCCATT	CAD	1733117 1751514 *
<b>Denmark</b>			
7 Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen, Denmark www.nordea.com	NDEADKKK	DKK	5000408909 5000017703 *
<b>France</b>			
8 Credit Agricole SA, 75710 Paris Cedex 15, CCP, Paris 702 U 020 France www.credit-agricole.fr	AGRIFRPP	EUR	20533624000 *
<b>Germany</b>			
9 Bayerische Hypo und Vereins Bank AG D-80311 Muenchen, Germany www.hvb.com www.hvb.de	HYVEDEMM	EUR	69101429

	BIC Code/SWIFT	CCY	Account No.
10 Commerz Bank AG ZTB BC Mitte 6.4, Mainzer Landstrasse 2 77-293, 60261, Frankfurt AM Main, Germany www.commerzbank.com	COBADEFF	EUR	400872103701 400871436200 *
11 Standard Chartered Bank Data & Exposure Control, P.O. Box 110162 Theodor - Heuss - Allee 112, D60036 Frankfurt AM Main, Germany www.standardchartered.de	AEIBDEFX	EUR	018109406 018112204 *
12 West LB AG Girozentrale - P.O. Box D40199, Dusseldorf, Germany www.westlb.com www.westlb.de	WELADED	EUR	59031/EUR
<b>Hong Kong</b>			
13 Standard Chartered Bank P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road, Central Hong Kong www.standardchartered.com	SCBLHKHH	HKD	41109468048 44709419107 *
<b>India</b>			
14 Calyon Bank (C.A. Indosuez) 12th Floor, Hoechst House, Nariman Point, Mumbai, India www.calyon.com	BSUIINBB	AC\$	00712402150000USD *
15 Deutsche Bank AG, Ground Floor, CSD Area, Kodak House, 225, D.N. Road, Fort, Mumbai, India www.db.com	DEUTINBB	AC\$	0212878-05-0
16 ICICI Bank Ltd. ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India www.icicibank.com	ICICINBB	AC\$	000406000181 000406000220 *
17 Standard Chartered Bank 23-25, Mahatma Gandhi Road, P.O. Box 558, Mumbai 400 001, India www.standardchartered.com	SCBLINBB	AC\$	22205031885
<b>Italy</b>			
18 Banca Intesa BCI #2612 Head Office, Int'l Money Transfer Dept., Piazza Della Scala 6, 20121 Milan, Italy www.bancaintesa.it	BCITITMM	EUR	9629220249

\* Accounts of Bangladesh Operation

Correspondent Banks

	BIC Code/SWIFT	CCY	Account No.
19 Banco Popolare Soc. Coop. Piazza Nogara 2, 37121 Verona, Italy www.bpvi.it	VRBPIT2V	EUR	000400000024
20 Unicredito Italiano SPA Viale, Mberto, Tutini, 180, 1-00144 Rome, Italy www.unicreditgroup.eu	UNCRITMM	EUR	0995 4268
<b>Japan</b>			
21 Bank of Tokyo Mitsubishi Ltd. P.O. Box 191, Nihonbashi, Tokyo - Japan www.bk.mufg.jp	BOTKJPJT	JPY	653-0461318 *
22 Standard Chartered Bank P.O. Box 9997, 21st Floor, Sanno Park, Tower 2-11-1, Nagata-cho, Chiyoda-ku, Tokyo 100-6155, Japan www.standardchartered.com	SCBLJPJT	JPY	2168531110
23 Sumitomo Mitsui Banking Corporation International Business Operations Dept. P.O. Box 4, Tokyo Central 100 - 8201, Japan www.smbc.co.jp	SMBCJPJT	JPY	4395
<b>Korea</b>			
24 Kookmin Bank 9-1, 2GA, Namdaemun - RO, Jung - GU, Seoul 100-703, Korea www.kbstar.com	CZNBKRSE	US\$	7598USD010 7618USD013 *
<b>Netherlands</b>			
25 ABN Amro Bank N.V. 32, Vijzelstraat, P.O. Box 669, Amsterdam, Netherlands www.abnamro.com	ABNANL2A	EUR	540427349
26 Ing Bank N.V. P.O. Box 1800 1000 BV, Amsterdam, Netherlands www.ing.com	INGBNL2A	EUR	0050908928
<b>New Zealand</b>			
27 Bank of New Zealand P.O. Box 2392, 1, Willis Street, Wellington, New Zealand www.bnz.co.nz	BKNZNZ22985	NZD	2659680000 2690700000 *
<b>Norway</b>			
28 Den Norske Bank Stranden 21, 0021, Oslo, Norway www.dnbnor.com	DNBANOKK	NOK	7002-02-04808
<b>Pakistan</b>			
29 Habib Bank AG Zurich P.O. Box 1424, Hirani Centre, 1.1, Chundrigar Road, Karachi 74200, Pakistan www.habibbank.com	HBZUPKKA	AC\$	20110-333-31503
30 Standard Chartered Bank 1.1, Chundrigar Road, Karachi 75600, Pakistan www.standardchartered.com	SCBLPKKA	AC\$	15000297601 15000288701 *
<b>Saudi Arabia</b>			
31 The National Commercial Bank International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah 21481, Saudi Arabia www.alahli.com	NCBKSAJE	US\$	55535150090301
<b>Singapore</b>			
32 Standard Chartered Bank P.O. Box 1901, 6, Battery Road, 7th Storey, Singapore 049909 www.standardchartered.com	SCBLSGSG	SGD	0109344561

\* Accounts of Bangladesh Operation

	BIC Code/SWIFT	CCY	Account No.
33 United Overseas Bank Ltd. 80, Raffles Place 08-01, UOB Plaza 1, Singapore 048624 www.uobgroup.com	UOVBSGSG	SGD	1013992113 *
<b>Sri Lanka</b>			
34 Commercial Bank of Ceylon PLC Commercial House, 21, Bristol Street, P.O. Box 856, Colombo 1, Sri Lanka www.combank.net	CCEYLKX	AC\$	1420825031 *
<b>Sweden</b>			
35 Skandinaviska Enskilda Banken Utlandsreskontran Stockholm S 106 40, Sweden www.sebgroup.com	ESSESESS	SEK	52018529803
36 Svenska Handelsbanken Stockholm, Sweden www.handelsbanken.com	HANDESSS	SEK	40324079 *
<b>Switzerland</b>			
37 UBS A.G. P.O. Box CH-8098, Zurich, Switzerland www.ubs.com	UBSWCHZH	CHF	0230-00085408 0230-000003653 5050000N *
<b>United Arab Emirates</b>			
38 Mashreq Bank P.O.Box 1250, Dubai, UAE www.mashreqbank.com	BOMLAEAD	AED	0195511268
<b>United Kingdom</b>			
39 HSBC Bank PLC, 8, Canada Square, London - UK www.hsbc.co.uk	MIDLGB22	GBP	58335536 * 59398188 * 59448448 *
40 Standard Chartered Bank City Office, Branch No. 37, Grace Church Street, London EC3V 0BX, UK www.standardchartered.com	SCBLGB2L	GBP	01804813401 EUR 01804813496
<b>United States of America</b>			
41 American Express Bank 300, Boulevard East, Weehawken, NJ 07086, USA www.americanexpress.com	AEIBUS33	US\$	000724989
42 Bank of America NT & SA International Deposit Services, 1850 Gateway BL VD, 6th Floor, Concord CA 94520, USA www.bankofamerica.com	BOFAUS65	US\$	6290890098
43 Citi Bank 111, Wall Street, 19th Floor, New York 10043, USA www.citibank.com	CITIUS33	US\$	36141446 US\$ 36241316 * US\$ 36242538 *
44 Deutsche Bank Trust Company Americas P.O. Box 318, Church Street Station, New York, NY 10008, USA www.db.com	BKTRUS33	US\$	04034566
45 HSBC Bank U.S.A. 500, Stanton Christiana Road, Newark Delaware 19713, NY - USA www.hsbcusa.com	MRMDUS33	US\$	000045829 000147605 *
46 JP Morgan Chase Bank Head Office, 270, Park Avenue, New York, NY 10017, USA www.jpmorganchase.com	CHASUS33	US\$	400808625 400809176 *
47 Standard Chartered Bank One Madison Avenue, New York NY 10010-3603 USA www.standardchartered.com	SCBLUS33	US\$	3582052360001 3582052637001 *
48 Wachovia Bank N.A. 11, Penn Plaza, 4th Floor, New York, NY 10038, USA www.wachovia.com	PNBPUS3NNYC	US\$	2000191002407 2000193003365 *

## ● GLOSSARY OF FINANCIAL AND BANKING TERMS

### A Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the words 'accepted' above his signature and a designated payment date.

### Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

### B Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

### Bonus Issue (Scrip Issue)

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) into issued capital and hence does not involve an infusion of cash.

### C Capital Adequacy Ratios

The relationship between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

### Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

### Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

### Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

### Cost/Income Ratio

Operating expenses excluding Loan Loss Provision as a percentage of net income.

### Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### D Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short term.

### Deferred Taxation

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

### Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

### Documentary Credits

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

### E Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

### Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

### Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

### F Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

### Foreclosed Properties

Properties acquired in full or partial satisfaction of debts.

### Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

### Free Capital

Excess of equity capital over net book value of Property, Plant & Equipment, Intangible Assets and Investments.

### G General Provisions

These are provisions made on loans and advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

### Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

### H Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices, Commodities).

### Human Resource Accounting

The Human Resource is considered as an asset (although not brought into the Balance Sheet) and the value is computed to focus attention on the management of this valuable asset.

### I Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

### Interest in Suspense

Interest suspended on non-performing loans and advances.

### Interest Margin

Net interest income expressed as a percentage of average interest earning assets.

### Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on interest-earning assets and interest bearing liabilities, respectively.

### Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

### K Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

### L Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

### Loan Losses and Provisions

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

### M Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at the year end.

### Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

### N Net Assets Value per Ordinary Share

Shareholders' funds excluding Preference Shares if any, divided by the number of ordinary shares in issue.

### Net Interest Income (NII)

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

### Non-Performing Loans

A loan placed on cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest.

### O Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

### Open Credit Exposure Ratio

Total net non-performing loans expressed as a percentage of regulatory capital base.

### P Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

### Provision Cover

Total provisions for loan losses expressed as a percentage of net non-performing loans before discounting for provisions on non-performing loans.

### Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

### R Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Return on Average Assets (ROA)

Profit after tax divided by the average assets.

### Risk Weighted Assets

On Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors.

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

### Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

### Return on Average Equity (ROE)

Net profit for the year, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

### S Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

### Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

### Single Borrower Limit

33% of the regulatory capital base.

### Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

### Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the parent).

### Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

### T Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

### Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

### V Value Added

Value of wealth created by providing banking and other related services less the cost of providing such services.

● ALPHABETICAL INDEX

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## ● NOTICE OF MEETING

Notice is hereby given that the **Fortieth Annual General Meeting** of the Commercial Bank of Ceylon PLC will be held at the Grand Ballroom of the Galadari Hotel, No. 64, Lotus Road, Colombo 1, on March 30, 2009 at 10.30 a.m. for the following purposes:

1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2008 with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Directors in place of those retiring by rotation or otherwise,
  - (a) Mr. M.J.C. Amarasuriya
  - (b) Mr. B R L. Fernando
  - (c) Dr. H.S. Wanasinghe\*
  - (d) Mr. R.M.S. Fernando
4.
  - (a) To re-appoint Messrs Ernst & Young as recommended by the Board of Directors, as Auditors to the Company for the ensuing year.
  - (b) To authorise the Board of Directors to determine the remuneration of the Auditors for the ensuing year.
5. To authorise the Board of Directors to determine donations for 2009.

By Order of the Board,



**Mrs. R.R. Dunuwille**  
Company Secretary

February 18, 2009  
Colombo

### Notes

- i. A shareholder entitled to attend, speak and vote at the meeting is entitled to appoint a proxyholder to attend, speak and vote in his/her stead and a shareholder who is entitled only to attend and speak at the meeting is entitled to appoint a proxy holder to attend and speak on his/her behalf. A proxyholder need not be a shareholder of the Company.
- ii. A Form of Proxy is sent along with this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
- iii. It is proposed to post the Dividend Warrants on the 5th market day after receiving approval from the shareholders at the Annual General Meeting.

### (\* ) SPECIAL NOTICE

A special notice has been received by the Company from Union Investments (Private) Ltd., a shareholder of the Company informing their intention to move the following resolution:

#### **Re-election of Dr. H.S. Wanasinghe**

We, Union Investments (Private) Ltd., a shareholder of the Company hereby give Special Notice of our intention to move the following resolution, as an ordinary resolution, at the forthcoming Annual General Meeting of the Company:

*"That the age limit stipulated in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Dr. Henry Shelton Wanasinghe, who attained the age of 82 years on June 16, 2008 and that he be re-elected a Director of the Company from the conclusion of the Annual General Meeting, subject to the Banking Act Directions No. 11 of 2007 and any amendments thereto, Companies Act No. 07 of 2007 and Articles of Association of the Bank."*

● **FORM OF PROXY (VOTING SHAREHOLDERS)**

I/We .....  
of .....  
being a member/s of Commercial Bank of Ceylon PLC hereby appoint. ....  
..... (NIC No. ....) of .....  
..... whom failing:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Lalin Joseph Ainsley Fernando	whom failing
Mr. Dinesh Stephen Weerakkody	whom failing
Mr. Ranjit Michael Samuel Fernando	whom failing
Mrs. Siromi Noelle Wickramasinghe	

as my/our Proxyholder to represent me/us to speak at the meeting and to vote on a show of hands or on a poll for me/us on my/our behalf as indicated below at the Fortieth Annual General Meeting of the Company to be held on March 30, 2009 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	<b>For</b>	<b>Against</b>
1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and statement of compliance and the Financial Statements for the year ended December 31, 2008 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a Dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those retiring by rotation or otherwise:		
(a) Mr. M.J.C. Amarasuriya	<input type="checkbox"/>	<input type="checkbox"/>
(b) Mr. B.R.L. Fernando	<input type="checkbox"/>	<input type="checkbox"/>
(c) Dr. H.S. Wanasinghe	<input type="checkbox"/>	<input type="checkbox"/>
(d) Mr. R.M.S. Fernando	<input type="checkbox"/>	<input type="checkbox"/>
4. (a) To reappoint Messrs Ernst & Young, as recommended by the Board of Directors, as Auditors to the Company for the ensuing year,	<input type="checkbox"/>	<input type="checkbox"/>
(b) To authorise the Board of Directors to determine the remuneration of the Auditors.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2009.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hand/seal given on this ..... day of ....., Two Thousand and Nine.

.....  
Folio No.

.....  
Signature/s

(Please indicate with an 'X')

**NOTES**

- i. Instructions as to completion of this Form of Proxy are given overleaf.
- ii. As regards voting on the Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the Proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the Shareholder) as to the way in which the Proxyholder should vote, the Proxyholder will vote as he thinks fit.
- iii. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration, if such POA has not already been registered with the Company.
- iv. If the Shareholder is a Company or a Corporate body, the Form of Proxy should be executed under its common seal, if any, or signed by its Attorney or by an officer on behalf of the Company/Corporate body, in accordance with its Articles of Association/Statute.

Form of Proxy (Voting Shareholders)

**INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY**

- (i) Article 67 of the Articles of Association of the Company provides that:  
"The instruments appointing a Proxy shall be in writing, and
- (a) in the case of an individual shall be signed by the Appointer or by his Attorney; and
  - (b) in the case of a Corporation shall be either under its common seal or signed by its Attorney or by an Officer on behalf of the corporation.
- The Company may, but shall not be bound to, require evidence of the Authority of any such Attorney or Officer. A Proxy need not be a member of the Company."
- (ii) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.  
*Articles 56 to 59 of the Articles of Association of the Company, dealing with voting are quoted below, for information of shareholders.*

**56. METHOD OF VOTING**

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

- (i) The Chairman of the meeting; or
- (ii) not less than three persons present in person or by Proxy or Attorney or representative and entitled to vote; or
- (iii) member or members present in person or by Proxy or Attorney or representative and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or by Proxy or Attorney or representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded for or against such resolution.

**57. HOW A POLL TO BE TAKEN**

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the meeting may direct and the result of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Chairman may (and if so requested shall) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

**58. CHAIRMAN'S CASTING VOTE**

In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is taken shall be entitled to a second or casting vote.

**59. TIME FOR TAKING A POLL**

A poll demanded on the election of a Chairman of the meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately.

**REQUEST TO SHAREHOLDERS**

THE SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE FOLIO NO. APPEARING IN THE ADDRESS LABEL PASTED ON THE ENVELOPE, WHICH CONTAINS THE ANNUAL REPORT, IN THE SPACE PROVIDED FOR "FOLIO NO." IN THE FORM OF PROXY, FOR THE CONVENIENCE OF THE REGISTRARS.

PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NO." WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

● **FORM OF PROXY (NON-VOTING SHAREHOLDERS)**

I/We .....  
of .....  
being a member/s of Commercial Bank of Ceylon PLC hereby appoint .....  
..... (NIC No. ....) of .....  
..... whom failing:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Lalin Joseph Ainsley Fernando	whom failing
Mr. Dinesh Stephen Weerakkody	whom failing
Mr. Ranjit Michael Samuel Fernando	whom failing
Mrs. Siromi Noelle Wickramasinghe	

as my/our Proxyholder to represent me/us, and to speak at the Fortieth Annual General Meeting of the Company which is scheduled to be held on March 30, 2009 and at any adjournment thereof.

In witness my/our hand/seal given on this ..... day of ....., Two Thousand and Nine.

..... Folio No.	..... Signature/s
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**NOTES**

- i. Instructions as to completion of this Form of Proxy are given below.
- ii. Shareholders of non-voting shares are entitled only to attend and speak at the meeting.
- iii. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration, if such POA has not already been registered with the Company.
- iv. If the Shareholder is a Company or a Corporate body, the Form of Proxy should be executed under its common seal, if any, or signed by its Attorney or by an Officer on behalf of the Company/Corporate body in accordance with its Articles of Association/Statute.

**INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY**

- (i) Article 67 of the Articles of Association of the Company provides that:  
"The instruments appointing a Proxy shall be in writing, and  
(a) in the case of an individual shall be signed by the Appointer or by his Attorney; and  
(b) in the case of a Corporation shall be either under its common seal or signed by its Attorney or by an Officer on behalf of the Corporation.  
The Company may, but shall not be bound to, require evidence of the authority of any such Attorney or Officer.  
A Proxy need not be a member of the Company."
- (ii) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.

**REQUEST TO SHAREHOLDERS**

THE SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE FOLIO NO. APPEARING IN THE ADDRESS LABEL PASTED ON THE ENVELOPE, WHICH CONTAINS THE ANNUAL REPORT, IN THE SPACE PROVIDED FOR 'FOLIO NO.' IN THE FORM OF PROXY, FOR THE CONVENIENCE OF THE REGISTRARS.  
PLEASE NOTE THAT NON-INDICATION OF THE 'FOLIO NO.' WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.



**Name of Company**  
Commercial Bank of Ceylon PLC

**Legal Form**

A public limited liability Company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970. The Company was re-registered under the Companies Act No. 7 of 2007. A licensed commercial bank under the Banking Act No. 30 of 1988.

**Company Registration Number**  
PQ 116

**Accounting Year-end**  
December 31

**Tax Payer Identification Number (TIN)**  
124006007

**Stock Exchange Listing**

The Ordinary Shares and Unsecured Subordinated Redeemable Debentures of December 2006/December 2011 series, December 2006/December 2013 series and December 2006/December 2016 series, both fixed and floating interest rates of the Company are listed on the Colombo Stock Exchange.

**Registered Office**  
"Commercial House",  
No. 21, Bristol Street, P.O. Box 856,  
Colombo 1, Sri Lanka.  
Telephone: 2445010-15 (6 lines),  
2328193-5 (3 lines)  
2430420, 2336700  
Telex: 21520 COMEX CE  
Facsimile: 9411-2449889  
SWIFT Code - Sri Lanka: CCEYLKX  
SWIFT Code - Bangladesh: CCEYBDDH  
E-mail: email@combank.net  
Website: www.combank.net

**Head Office**

"Commercial House",  
No. 21, Bristol Street,  
P.O. Box 856, Colombo 1,  
Sri Lanka.

**Board of Directors**

Mr. M.J.C. Amarasuriya (Chairman)  
Mr. B.R.L. Fernando (Deputy Chairman)  
Mr. A.L. Gooneratne (Managing Director)  
Dr. H.S. Wanasinghe  
Mr. A.N. Fonseka  
*(Resigned w.e.f. January 31, 2009)*  
Mr. L.J.A. Fernando  
Mr. D.S. Weerakkody  
Mr. P.M. Martelli  
*(Appointed w.e.f. October 16, 2008)*  
Mr. P. Kjellerhaug  
*(Alternate Director - to  
Mr. P.M. Martelli)  
(Appointed w.e.f. October 16, 2008)*  
Mr. R.M.S.Fernando  
*(Appointed w.e.f. December 19, 2008)*  
Mrs. S.N. Wickramasinghe  
*(Appointed w.e.f. February 1, 2009)*

**Company Secretary**  
Mrs. R.R. Dunuwille

**Board Audit Committee**

Mr. B.R.L. Fernando (Chairman)  
Mr. A.N. Fonseka  
*(Resigned w.e.f. January 31, 2009)*  
Dr. H.S. Wanasinghe  
Mr. D.S. Weerakkody  
Mr. R.M.S. Fernando  
*(Appointed w.e.f. January 27, 2009)*  
Mr. A.L. Gooneratne (by invitation)

**Board Integrated Risk Management Committee**

Mr. B.R.L. Fernando (Chairman)  
Mr. L.J.A. Fernando  
Mr. R.M.S. Fernando *(Appointed w.e.f. January 27, 2009)*  
Mr. A.L. Gooneratne

**Board Nomination Committee**

Mr. M.J.C. Amarasuriya (Chairman)  
Mr. B.R.L. Fernando  
Mr. L.J.A. Fernando  
Mr. A.L. Gooneratne (by invitation)

**Board Human Resources & Remuneration Committee**

Mr. M.J.C. Amarasuriya (Chairman)  
Dr. H.S. Wanasinghe  
Mr. L.J.A. Fernando  
Mr. D.S. Weerakkody  
Mr. A.L. Gooneratne

**Compliance Officer**

Mr. Delip Fernando - Deputy General Manager (Inspection)

**Auditors**  
Ernst & Young,  
Chartered Accountants,  
No. 201, De Saram Place,  
P.O. Box 101,  
Colombo 10, Sri Lanka.

**Lawyers**

Julius & Creasy,  
No. 41, Janadhipathi Mawatha,  
Colombo 1, Sri Lanka.

**Credit Rating**

The Bank's credit rating, AA+(Ika) was reaffirmed by Fitch Ratings Lanka Ltd. (in 2008). The Bank's Bangladesh Operations' credit rating was upgraded to AA+ by Credit Rating Information Services Ltd. (in 2008).

For any clarifications on this Report please write to:

The Company Secretary,  
Commercial Bank of Ceylon PLC,  
"Commercial House",  
No. 21, Bristol Street,  
Colombo 1, Sri Lanka.  
or e-mail to: email@combank.net

Minimise waste by informing the Commercial Bank Company Secretary to update the mailing list if you are receiving more than one copy of the Annual Report.

## **OUR MISSION**

REDEFINING CONVENIENCE IN FINANCIAL SERVICES

## **OUR VISION**

TO BE THE PREFERRED FINANCIAL SERVICES ORGANISATION

IN SRI LANKA, HAVING AN INTERNATIONAL PRESENCE BY THE YEAR 2011