

# The Upside of the Downside

(because the direction matters)



COMMERCIAL BANK

*Our Interest Is In You*

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*Background: shadow formation during the Solar Eclipse at 13.27 Hrs. on January 15, 2010 in Colombo, Sri Lanka.*

*Note the shape of the eclipse seen in the shadows of the leaves and branches.*

Charles Dickens in 1859 wrote in his 'A Tale of Two Cities' that 'It was the best of times. It was the worst of times...' For Commercial Bank, year 2009 was a year of mixed fortunes that witnessed both the downside and the upside. It was the worst of times because an unfavourable economic environment and certain Bank specific factors had a negative impact on the Bank's performance. For the first time since 1994, the loan book contracted during the first half of the year. NPL ratio shot up to 8.85% by June 2009 from 5.19% at 2008 end. These coupled with the excess liquidity being invested in low-yielding assets caused a drop in profits for the first half of the year compared to the corresponding period of 2008.

It was the best of times because a significant improvement in economic sentiment saw the downside bottoming out. Globally, there were signs of world economies recovering from the recession. Locally, the end of the three decades long war in May opened up unprecedented opportunities. In the backdrop of these developments, NPL ratio improved to 6.84% by year end. Loan book started to grow from the third quarter onwards. Reflecting confidence of customers in the Bank, deposits grew by Rs. 34.9 Bn. during the year (as against Rs. 16.8 Bn. for 2008). Consequently, profits after tax for the second half of the year increased compared to the corresponding period of 2008.

Backed by solid strategy, Commercial Bank looks forward to a bright future.

Hence,

## **The Upside of the Downside**

as the theme of this year's Annual Report.

## Financial Highlights

	GROUP			BANK		
	2009 Rs. Mn.	2008 Rs. Mn.	Change %	2009 Rs. Mn.	2008 Rs. Mn.	Change %
<b>Results for the Year</b>						
Income	<b>43,614.562</b>	43,960.022	(0.79)	<b>43,740.933</b>	44,115.249	(0.85)
Profit Before Financial VAT and Taxation	<b>9,393.965</b>	9,507.716	(1.20)	<b>9,455.958</b>	9,611.610	(1.62)
Profit Before Taxation (PBT)	<b>7,129.849</b>	7,416.248	(3.86)	<b>7,191.842</b>	7,520.142	(4.37)
Provision for Taxation	<b>2,936.832</b>	3,295.842	(10.89)	<b>2,886.853</b>	3,251.770	(11.22)
Profit After Taxation (PAT)	<b>4,193.017</b>	4,120.406	1.76	<b>4,304.989</b>	4,268.372	0.86
Revenue to the Governments	<b>5,118.357</b>	5,405.485	(5.31)	<b>5,068.378</b>	5,361.413	(5.47)
Gross Dividends	<b>1,749.336</b>	1,786.498	(2.08)	<b>1,749.336</b>	1,786.498	(2.08)
<b>At the Year End</b>						
Shareholders' Funds (Capital and Reserves)	<b>28,720.747</b>	26,226.050	9.51	<b>28,498.980</b>	25,891.229	10.07
Deposits	<b>234,730.680</b>	199,865.203	17.44	<b>234,744.706</b>	199,880.986	17.44
Gross Loans and Advances	<b>178,648.560</b>	186,681.482	(4.30)	<b>178,891.292</b>	186,885.529	(4.28)
Total Assets	<b>322,545.442</b>	281,567.040	14.55	<b>322,314.725</b>	281,213.685	14.62
<b>Information per Ordinary Share (Rs.)</b>						
Earnings (Basic)	<b>16.80</b>	16.36	2.69	<b>N/A</b>	N/A	-
Earnings (Diluted)	<b>16.64</b>	16.23	2.53	<b>N/A</b>	N/A	-
Dividends	<b>N/A</b>	N/A	-	<b>7.00</b>	7.00	-
Net Assets Value	<b>114.91</b>	105.16	9.27	<b>114.02</b>	103.81	9.84
Market value at the year end - Voting	<b>N/A</b>	N/A	-	<b>189.50</b>	67.00	182.84
Market value at the year end - Non-Voting	<b>N/A</b>	N/A	-	<b>124.75</b>	49.00	154.59
<b>Ratios</b>						
Return on Average Shareholders' Funds (%)	<b>15.26</b>	16.29	(6.32)	<b>15.83</b>	17.13	(7.59)
Return on Average Assets (%)	<b>1.39</b>	1.50	(7.33)	<b>1.43</b>	1.55	(7.74)
Price Earnings (times) - Ordinary Voting Shares	<b>N/A</b>	N/A	-	<b>11.00</b>	3.95	178.48
Price Earnings (times) - Ordinary Non-Voting Shares	<b>N/A</b>	N/A	-	<b>7.24</b>	2.89	150.52
Year on year growth in Earnings (%)	<b>1.76</b>	(0.77)	328.57	<b>0.86</b>	4.02	(78.61)
Dividend Yield (%) - Ordinary Voting Shares	<b>N/A</b>	N/A	-	<b>3.69</b>	10.45	(64.69)
Dividend Yield (%) - Ordinary Non-Voting Shares	<b>N/A</b>	N/A	-	<b>5.61</b>	14.29	(60.74)
Dividend Cover on Ordinary Shares (times)	<b>N/A</b>	N/A	-	<b>2.46</b>	2.42	1.65
<b>Statutory Ratios</b>						
Liquid Assets (%)	<b>N/A</b>	N/A	-	<b>38.80</b>	24.82	56.33
<b>Capital Adequacy Ratios</b>						
Tier I (%) - Minimum Required (5%)	<b>11.92</b>	10.55	13.08	<b>11.90</b>	10.51	13.23
Tier I & II (%) - Minimum Required (10%)	<b>13.93</b>	13.13	6.17	<b>13.91</b>	13.09	6.26

## Operating Highlights

- No. of banking outlets increased to 172 in Sri Lanka and to 15 in Bangladesh
- No. of ATM machines increased to 355 in Sri Lanka and to 13 in Bangladesh
- Total staff strength increased to 4,071 at end of 2009
- No. of customer accounts increased by 9.3%
- No. of debit cards issued increased by 12.8%
- Electronic remittances increased by 25%
- Launched a pawning product to grant overdraft facilities secured by gold
- Cash dispensed through ATMs during the year surpassed Rs. 40 Bn.
- Bank was appointed as a Settlement Bank by the CSE
- Set up a formal Integrated Risk Management infrastructure
- Entered into a risk sharing agreement with IFC in relation to financing renewable energy projects
- Rs. 5.068 Bn. paid in taxes to the Government
- Capital expenditure incurred during the year amounted to Rs. 909 Mn.
- Donations during the year amounted Rs. 22.4 Mn.
- Adjudged as the 'Most Respected' entity in Sri Lanka by LMD
- Largest Market Capitalisation among banks
- Fitch Ratings Lanka Ltd. re-affirmed AA+ (Ika) rating of the Bank
- Credit Rating Information Services Ltd. re-affirmed AA+ rating of the Bank's Bangladesh operation
- 'Global Finance' of USA ranked the Bank as the 'Best Bank' for the 11th consecutive year
- 'Trade Finance' magazine of the UK recognised the Bank as the 'Best Local Trade Bank'
- Named 'Best Commercial Bank' in Bangladesh by Financial Mirror Magazine
- Obtained ISO 27001 certification for the Card Centre, e-Banking and IT
- Received the 'National Decent Work Award' from the Ministry of Labour Relations and Manpower together with the ILO office in Sri Lanka

## Financial Goals and Achievements

Financial Indicator - Bank	Goal	Achievement				
		2009	2008	2007	2006	2005
Return on Average Assets (%)	Over 2	<b>1.43</b>	1.55	1.67	1.00	1.48
Return on Average Shareholders' Funds (%)	Over 20	<b>15.83</b>	17.13	20.63	12.73	15.93
Growth in Income (%)	Over 20	<b>(0.85)</b>	25.25	43.95	51.99	31.00
Growth in Profit After Taxation (%)	Over 20	<b>0.86</b>	4.02	103.89	(14.87)	40.33
Growth in Total Assets (%)	Over 20	<b>14.62</b>	4.95	19.63	24.38	30.04
Dividend Per Share (DPS) (Rs.)	Over Rs. 5.00	<b>7.00</b>	7.00	7.00	5.00	4.50
Capital Adequacy Ratios - Group						
Tier I (%) - Minimum Required (5%)	Over 8	<b>11.92</b>	10.55	10.60	7.62	9.68
Tier I & II (%) - Minimum Required (10%)	Over 13	<b>13.93</b>	13.13	13.71	11.58	12.08

# Quick Read

## Summary

It was a source of great satisfaction to close the year on a positive note, having recorded growth in most key areas of operations and maintained our position as both the largest and the best-reputed private-sector bank in Sri Lanka.

It was the eleventh year in a row that the Bank was ranked Sri Lanka's best bank by the highly-regarded American business publication *Global Finance*. The UK-based magazine *Trade Finance* also voted Commercial Bank the best 'local trade bank' in the country - the first time this award has been presented to any bank in Sri Lanka. *Trade Finance* is part of the EuroMoney Group.

Commercial Bank also became the first Sri Lankan Bank ranked among the world's top thousand banks in 2008 on the basis of capital adequacy and soundness. The Bank's AA+ credit rating was reaffirmed by Fitch Ratings in 2009. In Bangladesh too the Bank's AA+ rating was reaffirmed by Credit Rating Information Services Ltd., a Bangladesh-based rating agency.

## Chairman's Message - Page 06



The Chairman's Message highlights the key strengths and performance of the Bank in the context of the turbulent economic conditions that prevailed in the first half of the year as well as in the quieter months that followed. With the end of the war in May, great prospects have opened for the economy, and positive knock-on effects on the banking industry (and for Commercial Bank in particular) are expected.

## Managing Director's Review - Page 09



The Bank shrugged off the effects of a sluggish global and domestic environment to post a robust pre-tax profit of Rs. 7.19 Bn. and an after-tax profit of Rs. 4.30 Bn. This represents a 0.86% increase in post-tax profit compared to 2008.

Over the years, the Bank's Bangladesh operation has been an important contributor to net profits. The year under review was no exception, the operation recorded profits of Rs. 624.6 Mn., contributing 14.51% to the Bank's bottom line.

## The Macroeconomic Environment - Page 15

This section reviews briefly the global economy and those developments that pertain to the business fortunes of the Bank. The macroeconomic environments of Sri Lanka and Bangladesh are reviewed in slightly greater detail given that the major part of the Bank's operations is in these two countries.

## Four Strategies that will drive the Bank - Page 22

The strategic direction of the Bank is designed by 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 under the four strategies.

## Financial Review - Page 25

The Bank's deposits grew by 17.44% or Rs. 35.0 Bn. during the year. A drop in interest rates during the latter part of the year triggered a favourable shift from high- to low-cost deposits in the deposit mix. Advances, however, fell by 4.9% or Rs. 8.4 Bn. compared with the previous year. Most importantly, the Bank was able to restrict its non-performing advances portfolio to Rs. 12 Bn., a ratio of 6.84%, which compares well with the rest of the banking industry.

Total assets of the Bank increased to Rs. 322.5 Bn., an increase of 14.6% or Rs. 41 Bn., by the end of 2009. This is the first time a local private commercial bank had exceeded Rs. 300 Bn. in total assets.

The Bank's net interest income for the year was Rs. 12,410.3 Mn., a drop of Rs. 442.2 Mn. or 3.4% over the previous year. Both interest income and interest expenses dropped by about 3.4% during the year.

The Commercial Bank Group made a pre-tax profit of Rs. 7,130 Mn. in 2009 as against Rs. 7,416 Mn. in 2008. This represented a fall of Rs. 287 Mn. or 3.87%. The post-tax profit of the Group was Rs. 4,190 Mn. in 2009, compared to Rs. 4,120 Mn. of the previous year, an increase of 1.73%. Growth was facilitated by a substantial fall in the corporate tax bill, which was greater than the reduction in the Group's pre-tax profit.

## Sustainability Supplement - Page 47



Despite the year's challenges, corporate social responsibility was not neglected. The Bank continued its CSR programme, funded through a dedicated CSR Trust Fund.

## Risk Management at Commercial Bank - Page 106

In order to address risk on a holistic basis, the Bank set up a formal Integrated Risk Management infrastructure. The Bank continued to update manuals, policies, limits, codes, check lists etc. in relation to lending, treasury and operational aspects in order to keep them on par with the latest developments.

## Corporate Governance - Page 125

The Board of the Commercial Bank firmly believes that strong corporate governance is a priority for the Bank, essential for good risk management and maximising value to stakeholders. This section outlines the steps taken by the Board of Directors to ensure that the activities of the Bank meet the highest ethical standards at all times and are in the best interests of all its stakeholders.

## Investor Relations Supplement - Page 176

The Bank had 9,855 shareholders as at December 31, 2009, compared to the 10,031 on December 31 the previous year. Its ordinary voting shares fluctuated between a minimum of Rs. 66.00 and a maximum of Rs. 192.00, ending the year at Rs. 189.50.

The Board of Directors has recommended a final dividend of Rs. 4/- per ordinary share for the year ended December 31, 2009, subject to approval by shareholders at the Bank's forty-first Annual General Meeting. This together with the interim dividends paid of Rs. 3.00 per share adds up to a total dividend for 2009 of Rs. 7.00 per share.

## Chairman's Message



“ Sri Lanka has undergone a metamorphosis from war to peace and all stakeholders must seize the opportunities that are unfolding and collaborate to build a peaceful and prosperous new Sri Lanka ”

### A GOLDEN OPPORTUNITY

After the end of the 30 year war, Sri Lanka is on the threshold of an exciting new era which everyone had been dreaming of with the dissipation of the dark clouds that had clogged the vast potential of the country. This opportunity should not be squandered but made full use of to lay a solid foundation for sustainable economic growth and a peaceful society. With strong fundamentals backed by dynamic strategies, your Bank is well poised to embrace these golden opportunities that are now unfolding.

With the dawn of a new beginning, the integration of the North and the East with the rest of the country has gathered momentum and a revival in agriculture, fisheries, tourism, construction and many other industries in those areas with spin off benefits for the rest of the country too is imminent.

Thereby, new opportunities have opened for financial service providers to further expand their operations in these areas and to provide a range of modern banking services. Companies operating in the food, beverage and other consumer product sectors too are expected to witness a significant rise in consumer demand for their products as the resettlement programme progresses in the war-affected areas thus creating lending opportunities.

## Chairman's Message

Since the end of 2008, the Central Bank of Sri Lanka has granted approval for over 130 banking outlets in the North and the East. Your Bank which has had a long history of operations in the North and the East is geared to participate as an active player in supporting the development of infrastructure and other facilities in the newly-liberated areas of the North and the East and to help unlock the full potential of those areas.

Your Bank sustained its profitability and maintained its pre-eminent position as the best local bank operating in the country today amidst testing times experienced, both on the local and global fronts. Whilst the Bank recorded a post-tax profit for 2009 of Rs. 4,305.0 Mn., as against Rs. 4,268.4 Mn. recorded in the previous year, the Group's post-tax profit of Rs. 4,193.0 Mn. surpassed Rs. 4,120.4 Mn., posted in 2008 demonstrating our resilience.

In the ensuing years, the Bank will concentrate on many vital avenues such as enhancing our e-remittance business while venturing into new areas of business. Maintaining our technological superiority will also remain a key priority.

I am pleased to note that for the first time, we are presenting as part of this Annual Report, the Sustainability Report of the Bank based on the Global Reporting Initiative (GRI) Guidelines.

The Bank has invested resources and energy in venturing into pawning and microfinance and will continue to do so, being mindful of their growing importance. Additionally, the Bank is gearing its systems and resources to implement the prerequisites of reporting requirements arising from the new Accounting Standards which will become effective from January, 2011 and to move into the next phase of Basel II.

In addition to the above plans, the Bank will continue to invest in the expansion of its operations in Bangladesh and seek new areas of growth in that country.

The strengthening of the country's external reserves, a successful bond issue, the drop in the rate of inflation and interest rates and relative stability of the LKR/USD exchange rate are noteworthy accomplishments during the year under review. Additionally, the country has witnessed unprecedented development in relation to infrastructure such as ports, power generation and roads in recent times. Further, the proposed relaxation of foreign exchange control regulations, once implemented, will stimulate business, investment and trade.

The Government is faced with the challenge of having to stimulate the economy through a well-planned set of economic reforms within a solid framework of good governance, whilst taking steps to curtail public expenditure and progressively reduce the budget deficit in keeping with the IMF-SBA (Stand-by-Arrangement) programme. The high level of regulations and taxes and other unnecessary constraints impede development in Sri Lanka. The Government would need to focus on these concerns with a view to enhancing 'ease of doing business', which is an area where there is much room for improvement.

The world is a changed place after the financial crisis. Governments, the business community and especially the financial industry will have to re-examine many of their previous goals and strategies and think anew. Sri Lanka has undergone a metamorphosis from war to peace and all stakeholders must seize the opportunities that are unfolding and collaborate to build a peaceful and prosperous new Sri Lanka. A positive mindset, a dynamic approach and a spirit of cooperation are the vital ingredients that are required to make it a reality.



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

Colombo  
February 18, 2010

### Contraction of the Loan Book Arrested and NPL Ratio Improved

	As at March 31, 2009	As at June 30, 2009	As at September 30, 2009	As at December 31, 2009
Loan Book (Rs. Bn.)	181.61	173.38	174.05	178.89
Growth (Rs. Bn.)	(5.27)	(8.23)	0.67	4.84
NPL Ratio (%)	7.41	8.85	8.19	6.84
Change (%)	2.22	1.44	(0.66)	(1.35)

# Management Report

## Managing Director's Review



## A Silver Lining

### TRANSITING FROM ONE ERA TO ANOTHER

The global financial crisis which crippled the world economy, the biggest since the great depression in 1930, appears to be on the road to recovery. However, it remains far from healthy, although the gloomy prospects of a second great depression have dissipated. The country too is beginning to experience a clear transition of economic prospects with the conclusion of the 3-decade old war.

The global financial crisis and consequent loss of investor confidence affected our bottom line. Most investors were unwilling to embark on new initiatives and adopted 'a wait and see' attitude. This reflected in a reduction in advances of the Bank to economically affected sectors such as imports, exports, tourism and construction. Consequently, the loans and advances portfolio recorded a contraction of 4.28%.

However, public confidence in the Bank remained high and deposits grew by 17.44% in 2009. This figure exceeded the budgeted target the Bank had set at the beginning of the year by 3.1%. The growth in our deposit base was the highest among the local private sector banks according to results published as at September 30, 2009.

The Bank shrugged off the effects of a sluggish global and domestic environment to post a robust pre-tax profit of Rs. 7.192 Bn. and an after-tax profit of Rs. 4.305 Bn. This represents a 0.86% growth in post-tax profit compared to 2008.

## ***Managing Director's Review***

### **BANGLADESH DAZZLES**

The Bangladeshi operation continues to be a jewel in our crown since 2003. It continues to dazzle and has emerged as a star among banks in the foreign banking sector in that country.

The business we commenced with the acquisition of the Bangladesh operations of Credit Agricole Indosuez, with 4 delivery points, has grown to 15, consisting of 7 fully-fledged branches, 2 booths, 2 Off-shore Banking Units and 4 SME Centres by the end of 2009. Since then, the number of outlets has further increased to 17 with the addition of 2 more SME Centres in January 2010. The ATM network too expanded to 13 by the end of 2009.

The Bangladesh operations received the reaffirmation of AA+ rating from CRISL (Credit Rating Information Services Ltd.) in 2009. Amongst 9 foreign banks in the Bangladeshi market, we have been rated at No. 03 in 2009 by the Institute of Cost and Management Accountants of Bangladesh (ICMAB), next only to two largest multinational banks in the world. We were adjudged the 'Best Commercial Bank' by the 'Financial Mirror' magazine of Bangladesh for the fifth consecutive year.

Over the years, the Bank's Bangladeshi operation has been an important contributor to our net profit and 2009 was no exception, having posted a profit of Rs. 624.6 Mn., a contribution of 14.51% to the Bank's bottom line.

The Bangladeshi operation had previously been focusing mainly on the corporate sector. We have now progressively begun to venture into the field of retail banking and will look at growing our share in this market. The Bank is confident that the Bangladeshi operation will continue to make a substantial contribution to its bottom line in the future as well.

### **NON-PERFORMING LOANS (NPL)**

The NPL was affected by a series of global factors which weighed heavily on the local economy. Some of our customers were affected due to lackluster business opportunities in the local market and some others were affected due to high interest rate regime that prevailed, resulting in a number of them not being able to meet their loan payments on time. However, all this is now behind us and the NPL ratio began to improve in the third quarter of the year with the overall economic climate showing positive signs of recovery.

The Bank's NPL ratio rose sharply during the first half of the year to reach a high of 8.85% before dropping to 6.84% by the end of the year. Over the past decade, the Bank's NPL ratio had hovered around the 4% mark.

### **THE INTEREST RATE REGIME**

The country experienced a relatively higher rate of interest during the first half of the year commensurate with the high rate of inflation which was a result of the adverse macroeconomic conditions. Since this resulted in a reduction in the credit demand of the country, the Government took significant initiatives to stimulate the economy by bringing down interest rates sharply during the second half of the year.

The sharp and sudden drop in interest rates affected the Bank's margins. The Bank had to honour its term deposits agreed at higher rates but was forced to bring down the rate it charged on bulk of its advances immediately. This resulted in the cost of funds on certain deposits, exceeding the rate of interest earned on advances affected by the aforementioned rate revision. This had a severe impact on the net interest income of the Bank. The Bank has already taken appropriate steps towards synchronising its lending rates with the current deposit rates and is optimistic that the real repricing of its products will take place during the second half of 2010.

## **Managing Director's Review**

### **TREASURY**

In 2009, the Treasury explored new opportunities and made a commendable contribution to the Bank's bottom line. The Treasury contributed Rs. 1,240.2 Mn. to the Bank's pre-tax profit in 2009, compared to Rs. 1,128.8 Mn. in 2008. The performance of the Treasury mitigated the shortfall of other fund-based income consequent to the drop in advances and the unexpected growth of the NPLs of the Bank.

The Bank, through the Treasury, made substantial investments in the Sovereign Bonds and the Sri Lanka Development Bonds (SLDBs) issued by the Government of Sri Lanka. These investments have enabled the Bank to offer its customers competitive interest rates on its NRFC (Non-Resident Foreign Currency) and RFC (Resident Foreign Currency) accounts. The return from these bonds has also helped the Bank to bring down its effective tax rate.

### **REMITTANCES**

The Bank entered the remittance market a few years ago and has established itself as a leading player. Approximately 19% of remittances that come into Sri Lanka are now routed via the Bank's channels. The Bank's goal is to provide a secure, low cost and efficient method of remitting money for Sri Lankans living and working abroad. The Bank is also exploring the possibility of entering the regional market and assisting the large South Asian expatriate population to send money home.

### **PAWNING**

The Bank ventured into pawning with a view to extending its services to those who cannot offer traditional forms of collateral acceptable to Financial Institutions. The Bank is striving to remove the stigma attached to pawning and to market it like any other banking product.

In this short period, we have been successful in building a solid group of clients and is hopeful of developing this line of business through our extensive branch network.

### **HIGH TAX REGIME**

The tax regulations for the banking industry continue to be an area of great concern. The effective tax rate of banks in the country hovers around 50% to 60% when one combines the Financial VAT and the Income Tax. The Financial VAT being unique to Sri Lanka, is a disincentive for foreign investors wishing to invest in the local financial industry. It should be emphasised that the abolition of this tax and the rationalisation of the tax structure will create a win-win situation for all stakeholders, including the Government of Sri Lanka.

### **THE CHALLENGE OF NEW ACCOUNTING STANDARDS AND BASEL II**

Sri Lanka Accounting Standards No. 44 and No. 45 on Financial Instruments will come into effect from January 2011 and will require more stringent compliance on the part of the banking industry.

The Bank has successfully implemented the standardised approach of BASEL II and is in the process of moving into the advanced approaches.

At the Bank, we are gearing our IT and other systems to cope with these new regulations. The Bank has already conducted a preliminary gap analysis and we will continue to monitor our processes and systems to ensure that we are fully compliant with these new regulations, by end 2010.

## **Managing Director's Review**

### **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

The Bank's commitment to creating a larger social wealth remains unabated. A challenging year has not in any way affected our responsibilities as a modern corporate citizen.

In 2009 too, the Bank supported 25 undergraduates increasing the total number of beneficiaries to 150 and donated an Intensive Care Unit to the Matara Hospital as part of its CSR activities. In 2010, the Bank will invest in reconstructing a railway station in the North showing its solidarity with the Government's '*Uthuru Wasanthaya*' (Flourishing North) programme.

### **RETHINKING STRATEGY**

The end of the three decade long civil war has spurred the Bank to rethink its business strategy. The opening of the North and the East and the new opportunities that are unfolding in those areas and in the country generally have urged the Bank to rethink its business strategy for the short and medium term.

In the short term, the Bank will focus on expanding its operations within Sri Lanka. The Bank has had a strong presence in the North since the 1920s and its branch in Jaffna functioned without any interruption even during the conflict. The Bank intends using this goodwill to expand its operations in this region of the country whilst participating in infrastructure projects that will form part of the rehabilitation process.

The Bank will look at strengthening its personal banking services while developing new products for different segments of the population. Sri Lanka has a rapidly aging population and we will explore how we could service this segment of the population more effectively and productively.

The Bank's ATM network continues to be one of its biggest strengths and this network will be further expanded. We are currently looking at the option of partnering with other financial institutions so as to make the Bank's ATM network accessible to customers of those institutions too.

We will continue to expand our operation with regard to remittances. This sector has been a consistent source of income for the Bank and we see a lot more potential in this area.

The Bank has made substantial investments in IT over the past years. We will continue with this process and ensure that the Bank leads the industry with regard to secure and technologically savvy banking products. The enhanced use of mobile phones to conduct banking transactions is one area we are focusing on very closely.

The energy sector and leisure industry will be key areas of growth in the near future. The Bank is particularly interested in promoting environmentally friendly renewable energy projects such as hydro, wind and biomass. The Bank entered into a Risk Sharing Agreement with International Finance Corporation (IFC) with a view to promoting particularly wind and biomass energy initiatives. The Bank has already taken steps to support several hydro power projects and a few pioneering wind power projects in the country.

Microfinance and SMEs are two other potential growth areas and the Bank will prioritise and continue to invest in these two sectors in the near future.

Colombo Stock Exchange (CSE) has emerged as one of the best performing markets in the world. With a view to developing local capital markets as well as to seize the opportunities created due to surge in stock market activities, the Bank is seeking to venture into Stock Broking and Margin Trading.

## Managing Director's Review

### The Forecast is Bright

*In last year's Annual Report we noted that while 2008 was a challenging year for the Bank, 2009 could be better or worse. While our performance in the first three quarters was modest, the Bank's performance in the last quarter helped it cut a swathe through what was an intensely challenging environment and post a robust performance at the end of the year. Our overall performance for the year is testimony to suppleness of the Bank's processes and the solid foundation we have laid that enables us to respond with alacrity in times of crisis.*

*The forecast for Sri Lanka is a bright one. The end of the war has breathed a new lease of life into the country and it is with a mood of optimism that we step into 2010. The remnants of the financial crisis hover like a dark cloud but the worst is certainly past us and the silver lining is slowly but surely beginning to shine through.*

*The first half of 2010 is likely to be challenging because of the recently concluded Presidential Election and the Parliamentary Election which is due to take place in April. However, once the effects of these two elections abate, we can expect the economy and the country to move forward at a heightened pace.*

*The forecast for the Bank is also a bright one. The Bank has been through a two year period of modest growth but I am confident we have turned the corner and have commenced a new phase in the life of the Bank. There is heightened interest on the part of foreign investors in the Bank and we take this as a sound sign of confidence in the future of the institution. We welcome the Government's intention of easing off the restrictions on the capital account which will no doubt help in developing Sri Lanka as a financial hub.*

*The end of the war presents a unique opportunity for the country to move forward. This opportunity must be grasped and a sustained investment made in forging national unity and promoting reconciliation among all ethnic groups.*

*The Bank is ready and willing to be an active player in this unique process of social transformation.*

#### GRATITUDE

I take this opportunity to thank the Board of Directors for their valuable contributions in moving the Bank in the right direction. I applaud the staff for their tireless efforts to steer the Bank forward in this challenging year. Further, I would also like to extend my gratitude to the officers at all levels of the Central Bank of Sri Lanka for their corporation and regulatory guidance given, Messrs Ernst & Young for their professional approach in carrying out the audit and issuing the report enabling the Bank to hold the Annual General Meeting on time.



**A.L. Gooneratne**  
Managing Director

Colombo  
February 18, 2010

### Deposits Continued to Grow

	As at March 31, 2009	As at June 30, 2009	As at September 30, 2009	As at December 31, 2009
Deposits (Rs. Bn.)	204.30	215.73	223.21	234.74
Growth (Rs. Bn.)	4.41	11.43	7.48	11.53

## The Macroeconomic Environment

The following section reviews briefly the global economy and those developments that pertain to the business fortunes of the Bank. The fortunes of the global economy are closely linked to the fortunes of the Bank. The macroeconomic environment of Sri Lanka and Bangladesh are reviewed in slightly greater detail given that the major part of the Bank's operations is in these two countries.

### TURNING THE CORNER

A strong policy response from Governments in the developing and developed world has helped stabilise the global economy and impede on a further economic downturn. A range of fiscal and monetary interventions by Governments and regulators, especially in the advanced economies, has brought a level of sanity and stability to the financial and housing markets in those countries.

China and India, which avoided some of the worst effects of the crisis, are showing signs of resurgence and this is likely to have a positive impact on the rest of the global economy. In some of the other emerging economies stronger commodity prices and more prudent state policies are helping to boost those economies. Despite an unprecedented unemployment rate, the US economy is also showing signs of an upward movement. Growth in Europe is sluggish as the different economies show varied levels of resilience.

### World Economic Outlook (% Change)

	2009	2010*
<b>World Output</b>	<b>(0.8)</b>	<b>3.9</b>
Advanced Economies	(3.2)	2.1
United States	(2.5)	2.7
Euro Area	(3.9)	1.0
Germany	(4.8)	1.5
Italy	(4.8)	1.0
Japan	(5.3)	1.7
United Kingdom	(4.8)	1.3
Russia	(9.0)	3.6
Developing Asia	6.5	8.4
China	8.7	10.0
India	5.6	7.7
Middle East	2.2	4.5

\* Projections

Source: IMF, January 2010

In 2010, world output is expected to rise by 4%. Output in the advanced economies is now expected to expand by 2% in 2010, following a sharp decline in output in 2009. Growth in emerging and developing economies is expected to rise about 6% in 2010.

Source: World Economic Outlook (January 26, 2010).

## The Macroeconomic Environment

### ECONOMY: SRI LANKAN

The Sri Lankan economy grew by 2.6% in first nine months of 2009 and the projected growth rate for the year is 3.5%. The consequences of the global economic crisis hindered further growth. The annual average rate of inflation in December 2009 based on the Colombo Consumers' Price Index (CCPI) was 3.4% when compared to 22.6% a year ago. This is the lowest recorded inflation rate since 1985. The rate of unemployment was 5.8% at the end of the third quarter of 2009.

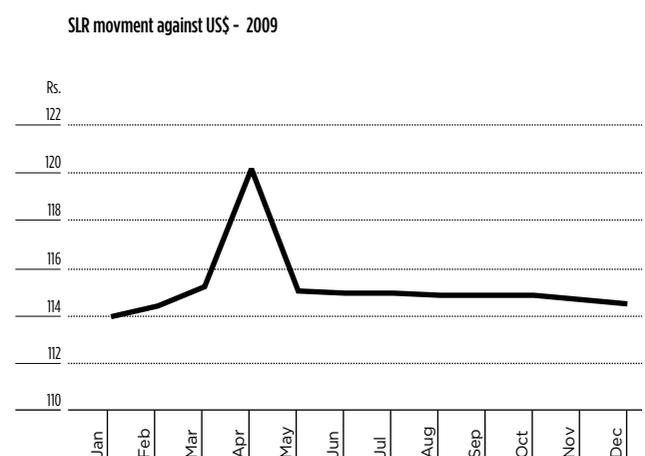
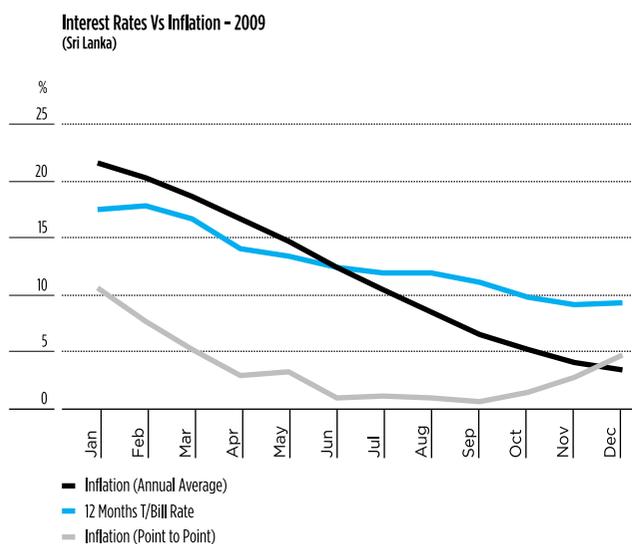
Benign inflation during the year had enabled the Central Bank of Sri Lanka (CBSL) to gradually relax its monetary policy stance on several occasions. Over the year, the CBSL lowered its policy interest rates progressively in order to support economic activity and followed it at the end of the year with a sharp reduction.

In response to this market interest rates declined, albeit with a time lag. During 2009, benchmark yield rates on Treasury Bills of all maturities declined by more than 960 basis points, as did the AWDR and AWFDR too.

The Government loosened its reins on the 'managed peg' with regard to the dollar in October 2008. At that time it could no longer afford to defend the currency as foreign currency reserves fell to alarmingly low levels. This applied pressure on the rupee to depreciate. However, after the conflict ended in May 2009, foreign exchange inflows have responded favourably, and have applied pressure on the rupee to appreciate.

Between January and July 2009, the exchange rate (LKR/USD) rose from 108 to around 120. However, the surge in foreign fund inflows, after the IMF approved their Stand by Arrangement of USD 2.6 Bn., helped to maintain the exchange rate at a relatively stable figure of Rs. 114.80 per US Dollar since May 2009.

The gross official international reserves surpassed the USD 5 Bn. mark with the receipt of USD 329 Mn. from the IMF: the second tranche of the IMF-SBA (Stand-by-Arrangement of the IMF) facility. The country's external reserves are likely to strengthen in the coming year.



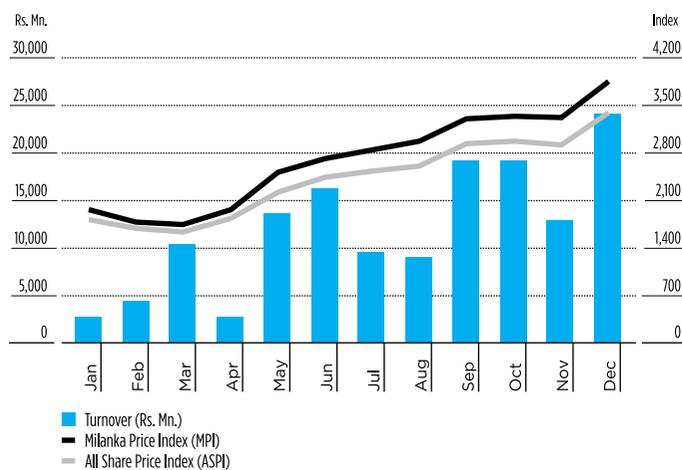
## The Macroeconomic Environment

Exports contracted by 12.7% (in USD terms) while imports decreased by 29.5% in 2009. The decline in exports was mainly the result of declines in agricultural and industrial exports. Exports of textiles and garments, which account for about 46% of Sri Lanka's total exports, declined by 5.6% and tea exports by 6.8% during the year.

As a result, the trade deficit had narrowed to USD 2.798 Bn. during the year compared to USD 5.897 Bn. in 2008, which was a 52.5% contraction. Private remittances reached USD 3.330 Bn. compared to USD 2.918 Bn. in 2008, representing a growth of 14.1%. The budget deficit continues to be an area of concern. It is likely to be around 8.4% of the GDP in 2009.

The Sri Lankan Share Market (Colombo Stock Exchange) recorded a phenomenal rise in 2009 with the All Share Price Index (ASPI) recording an increase of 125% and the blue chip Milanka Index increasing by an even higher 136%. Market capitalisation exceeded Rs. 1 Tn. for the first time in October 2009 and was Rs. 1.092 Tn. at end December 2009. The share market also recorded the highest ever turnover for a single year in 2009. This superlative performance made Reuters rank the CSE as one of the best performing markets in the world in 2009.

Sri Lanka Stock Market Performance - 2009



## The Macroeconomic Environment

### ECONOMY: BANGLADESH

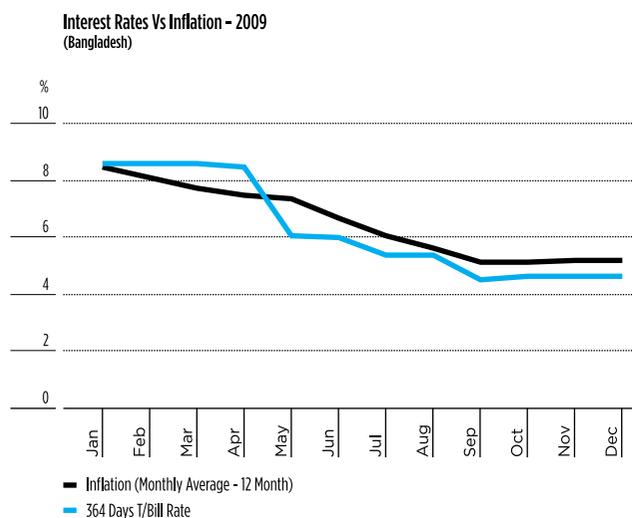
Despite the impact of the global downturn, two consecutive floods and cyclone Sidr, that hit Bangladesh last year, its economy remained relatively stable. The economy was able to withstand the shocks of the global meltdown and economic growth for 2008-09 is expected to hover around 5.9%.

Inflation for 2009 is estimated to have averaged around 4.5%. Inflation is expected to accelerate to an average of 6.5% in 2010 as global oil prices increase and the prices for agricultural commodities rise. Yields on treasury securities and interest rates on bank deposits declined as the market was awash with liquidity. In line with the increasing liquidity and falling interest rates, Bangladesh Bank issued mandatory instructions to banks on their lending rates particularly for the priority economic sectors to ensure the growth.

Bangladesh's long term growth prospects are hampered by a weak business environment, poor infrastructure and an unskilled labour force. Political stability however, appears to have returned to the country after the election last year and Bangladesh is slowly emerging on the global investors' radar as a 'frontier market'. Its vast population, low-cost labour and strategic location adjacent to India and China make it a potentially attractive destination. Overall, in the short term, the prospects for economic growth and stability are bright.

The projected GDP growth rate for 2010 is 5.6%. Although the agricultural sector accounts for a smaller proportion of the total GDP when compared with the industrial sector, it provides employment for more than half of the labour force and is one of the key drivers of private consumption growth. Worker remittances are another driver of private consumption and although inflows have been healthy in recent months, the pace of growth will slow as the overseas job market continues to shrink.

Private consumption will continue to be the main driver of economic expansion and GDP growth. Bangladesh is also expected to continue to benefit from relatively strong inflows of foreign aid, which will support investment growth. The Government is expected to maintain an expansionary fiscal policy stance as it attempts to tackle a host of domestic and external challenges.



## The Banking Sector in 2010

The service sector plays the dominant role in the Sri Lankan economy. It contributes about 60% to the GDP and employs about 40% of the total workforce. The financial sector, which comprises of banking, insurance and real estate, contributes to approximately 9% to the GDP.

The banking sector is the largest sub-segment of the financial sector, accounting for 55% of financial-sector assets. The six largest commercial banks and the state-owned National Savings Bank, the largest licensed specialised bank, account for 75% of total banking system assets.

Except for a very few instances, Sri Lankan banks have not ventured out beyond the shores of the country. The acquisition of the Bangladesh operations of Credit Agricole Indosuez in 2003 by Commercial Bank, which presently operates 17 delivery points and 13 ATMs, was hitherto considered as the only such transaction in Sri Lanka's banking history.

The industry sustained its profitability in 2009 despite an unfavourable macroeconomic environment, which resulted in a considerable increase in non-performing loans, amidst a contraction of advances portfolio. Hence, the banking industry reported a substantial increase in the non-performing advances ratio during the year. However, a positive turnaround in this trend was seen towards the last quarter. The year, also saw a significant decline in lending rates, mainly driven by regulation in an effort to stimulate the economic activity and arrest the trend of declining advances.

Banks experienced a higher growth in assets, which exceeded Rs. 3 Tn., consequent to the growth in deposits, which exceeded Rs. 2 Tn. at the year end. Lack of credit demand compelled the banking sector to invest in Government Securities, resulting in a substantial increase in the liquid assets of banks; collectively, their liquid assets ratios increased substantially by the end of the year. Despite the after-effects of the global financial crisis, the sector experienced an increasing trend in remittances.

Banks were able to maintain profitability as a result of interest margins maintained at same levels as in previous years, low growth recorded in operational expenses and reduction in provisions during the year. There was a substantial drop in the provision cover due to the increase in non-performing advances as well as the drop observed in provisions during the year. The Bank's capital remained at satisfactory levels despite recording adverse movements in key performance indicators.

A number of major developments affecting the sector was introduced during the year under review. Among these were:

- Banking Act directions on corporate governance to strengthen the banks' internal control mechanism and financial reporting system.
- A new set of listing rules by the Colombo Stock Exchange, intended to strengthen mandatory and regulatory supervision of listed companies.
- Provisions of the Banking Act on abandoned property to safeguard the interests of owners of such properties.
- The rupee-denominated Treasury Bill and Treasury Bond market was opened up to the Sri Lankan diaspora and migrant workforce, allowing them, to purchase them in the secondary market.
- Sri Lanka's first certification authority, under the brand name of 'LANKASIGN', to promote public confidence in the authenticity, integrity and reliability of electronic records was launched.

## The Bank's Response to Salient Risks and Uncertainties

Recent turbulence in the financial markets world over has forced the bankers to re-think their strategies as to what went wrong, how they should respond and act pro-actively in future. Despite the magnitude and severity may be different, Sri Lanka was no exception. Clearly risk avoidance is not the answer. Managing a bank is managing risks for the attendant rewards. Given below are the various risks identified by the Bank and the measures taken to manage them for the optimum risk – reward trade-off.

Risks and Uncertainties	Bank's Response
<p><b>Stiff Competition</b></p> <p>Competition among banks to increase volume and market share will be intense in the future. It will be necessary for the Bank to maintain its strong competitive position through sustainable growth strategies.</p>	<ul style="list-style-type: none"> <li>● <b>Product Development</b> introduce new products such as Paymaster and ComBank e-Load and sophisticated products for corporate and high-end individual customers, e.g., customised Treasury-related solutions</li> <li>● <b>Product diversification</b> through the introduction of Pawning, Super Savings Account etc.</li> <li>● <b>Sustain the unique position</b> as the largest private-sector bank in terms of profits and total assets</li> <li>● <b>Use state-of-the-art technology</b> to drive the overall business strategy</li> <li>● <b>Customer attraction and retention</b> through strategic positioning and strong corporate brand image</li> </ul>
<p><b>Thinning Margins</b></p> <p>Intense competition and pressure from regulators will put interest margins under pressure.</p>	<ul style="list-style-type: none"> <li>● <b>The Assets and Liabilities Committee</b> of the Bank proactively manages the maturities of assets and liabilities thereby mitigating pressure on interest margins due to maturity mismatches</li> <li>● <b>Diversify sources of interest income</b> through innovative products to enable the Bank to improve its interest margins while minimising the associated risks</li> <li>● <b>Manage income</b> by strategically shifting from low-yielding investments to relatively high-yielding ones, being watchful of market developments</li> <li>● <b>Intensify recovery and monitoring procedures</b> to minimise non-performing advances</li> </ul>
<p><b>Financial Disintermediation</b></p> <p>Financial disintermediation occurs when depositors withdraw their savings from financial institutions and invest directly in the marketplace to earn higher yields, albeit at greater risk. Similarly borrowers satisfy their funding requirements through the debt and equity markets.</p>	<ul style="list-style-type: none"> <li>● <b>Bolster retail banking</b> through geographical expansion, particularly in the North and the East</li> <li>● <b>Instil the investor confidence</b> through recognitions awarded on stability and performance through the Bank</li> <li>● <b>Concentrate on new fee-based income sources</b> such as derivative products and investment banking</li> <li>● <b>Move into markets</b> with low-banking penetration</li> </ul>
<p><b>Quality of Assets</b></p> <p>The quality of a bank's assets, principally loans and advances depends on the borrowers' credit worthiness and the level of non performing advances.</p>	<ul style="list-style-type: none"> <li>● <b>Adopt a holistic approach to lending decisions.</b> The Executive Credit Policy and Risk Management Committees, establish strategic direction, risk tolerance levels and ethics in asset management</li> </ul>
<p><b>Increasing Tax Burden</b></p> <p>Excessive taxes exert pressure on relatively low Return on Assets levels of banks.</p>	<ul style="list-style-type: none"> <li>● <b>Use internal and external tax planning</b> expertise to optimise tax savings</li> <li>● <b>Lobbying through various forums</b> to get the tax burden reduced</li> <li>● <b>Assessing the tax impact</b> prior to undertaking new lines of business or investing further in existing businesses</li> </ul>

## The Bank's Response to Salient Risks and Uncertainties

Risks and Uncertainties	Bank's Response
<p><b>Pressure on Capital</b></p> <p>Banks are required to ensure that they possess adequate financial strength at all times. Capital adequacy is thus a regulatory benchmark.</p>	<ul style="list-style-type: none"> <li>● <b>Retention of adequate profits</b> to facilitate growth</li> <li>● <b>Mobilise adequate Tier II capital</b> to supplement the Core Capital</li> <li>● <b>Regularly participate in local and regional forums</b> to attract potential investors</li> </ul>
<p><b>Adoption of New Accounting Standards</b></p> <p>The mandatory adoption of Sri Lanka Accounting Standard (SLAS) No. 44 on Presentation of Financial Instruments and Sri Lanka Accounting Standard (SLAS) No. 45 on Recognition and Measurement of Financial Instruments, effective January 01, 2011, will have a significant impact on banks.</p>	<ul style="list-style-type: none"> <li>● <b>A gap analysis</b> of the likely impact on the Bank of the new standards is currently in progress</li> <li>● <b>Improve the technical knowledge</b> of the staff on the new standards through the use of internal and external resource personnel</li> <li>● <b>Maintain close and strong relationships</b> with the relevant regulatory bodies to obtain guidance and direction.</li> <li>● <b>Knowledge sharing</b> with industry representatives</li> </ul>
<p><b>Implementation of Advanced Approaches of Basel II</b></p> <p>This would involve a significant shift in credit evaluation procedures and necessitates an internal rating system for evaluating borrowers, supervised by the regulator. This will demand a high degree of expertise and sophisticated IT resources.</p>	<ul style="list-style-type: none"> <li>● <b>Explore the possibility of using the present IT infrastructure</b> to meet the data requirements of Basel II</li> <li>● <b>Improve the staff awareness</b> on regulatory requirements, reporting requirements and implementation procedures with respect to Basel II</li> </ul>
<p><b>Maintaining the Cost Structure of the Bank</b></p> <p>Cost: income ratio is used as a measure of efficiency by banks all over the world. Commercial Bank will face tremendous pressure in maintaining the desired cost structure in the face of competition and inflationary pressures.</p>	<ul style="list-style-type: none"> <li>● <b>The Bank has adopted an investment approach</b> to managing costs and seeks to maintain a balance between cost structure and strategic execution</li> <li>● <b>Build and maintain a culture of cost-consciousness</b> that instinctively evaluates costs incurred against value added for any cost centre</li> <li>● <b>Outsource non-key functions</b> of the Bank to maintain efficient cost structure</li> <li>● <b>Enhance the level of automation</b> in such areas as processes and document management</li> </ul>
<p><b>Limits on Off-shore Expansion</b></p> <p>Constraints on capital requirements and other qualitative factors may act as obstacles to the Bank's strategy to expand into international markets</p>	<ul style="list-style-type: none"> <li>● <b>Move into overseas markets</b> through BPOs and exchange houses</li> <li>● <b>Continually seek new opportunities</b> overseas while consolidating operations in Bangladesh</li> </ul>
<p><b>Reputational Risk</b></p> <p>Banking being a highly geared business that essentially works on trust, adverse developments may damage reputation of the Bank.</p>	<ul style="list-style-type: none"> <li>● <b>Conduct all business activities</b> in an ethical manner respecting the law and order</li> <li>● <b>Uphold best practices</b> in Corporate Governance</li> <li>● <b>Actively promote</b> communication with all categories of stakeholders</li> </ul>
<p><b>Adverse Macroeconomic Conditions</b></p> <p>Macro economic developments impact disposable incomes and savings patterns of customers which in turn has a bearing on the Bank's business.</p>	<ul style="list-style-type: none"> <li>● <b>Corporate plan and the budget</b> captures some of the future uncertainties in the planning process of the Bank</li> <li>● <b>A dedicated team engaged in monitoring economic trends</b> and their implications to the Industry</li> <li>● <b>Continually review the suitability</b> of the risk policies and controls</li> <li>● <b>Monitoring the economic impacts</b> on vulnerable sectors</li> </ul>

'Risk Management at Commercial Bank' on pages 106 to 124 of this Annual Report details the approach to Integrated Risk Management.

## Four Strategies that will Drive the Bank

The strategic direction of the Bank has been mapped by 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 4 different divisions along with detailed action plans and specific timeframes.

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

Four strategies that will drive the Bank in 2010 are:

### 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. Its goal has been to simplify banking, expand delivery channels and allow our broad base of customers easy access to our products.

Our constant aim is to continue to develop products that cater to the specific needs of our customers. In particular, we have focused on web-based delivery, which in turn enhances the quality and accessibility of our physical infrastructure.

### Building a high-performance culture

- The Bank has been bestowed with a significant base of knowledge assets, among them its team of people, has enabled the Bank to deliver consistent value over the years. We will continue to consolidate and expand these assets in line with market forces and strategic direction.

Knowledge enhancement and knowledge acquisition are two key components in this endeavour. The Bank's target driven performance culture has motivated its employees to push the bar higher and higher.

### Expanding into overseas markets

- Our vision is one of a regional presence and reduced dependence on any single national market. We have managed successfully to enter new markets overseas, and the quest to further such opportunities is ongoing, with much time and effort devoted to this by the management. Though difficult, time-consuming and expensive, the evaluation of potential new markets receives top priority.

The Bank is currently represented in ten countries, through fully-fledged branches, BPO offices and agents affiliated to exchange houses. In addition, it has a network of 50 correspondent banks in 24 different countries and is linked to ATM networks around the globe, enabling customers to perform ATM transactions at locations of their choice.

The Bank has explored the possibility of entering into certain emerging markets in the Asian and Middle Eastern Regions. However, restrictive regulatory regimes for foreign banks or high capital requirements pose challenges in setting up a fully-fledged banking operation in the countries being pursued. The Bank is determined to overcome these obstacles and enter these markets in the future.

## ***Four Strategies that will Drive the Bank***

### **Prudent growth**

- Commercial Bank has, in the past decade, outpaced market growth consistently and with increasing momentum. It has been a record of all-round growth encompassing new avenues, market shares, balance sheet and profitability. The pursuit of growth has not, however, obviated the practice of prudence; both coexist in harmony within the Bank's strategic intent.

For the Bank, the cornerstone of prudence is a quality portfolio of advances and deposits. Our loans and deposits portfolios are widely diversified across sectors and across instruments. We have a relatively lower non-performing loans ratio in the industry.

The Bank's well developed corporate planning process with a rich history of proven sustained performance over the years is a key contributor in setting the Bank's strategic direction. Corporate Plan and the Budget is a mid term plan, being prepared annually covering a period of 5 years on a rolling basis. Towards end of 2009, the Bank developed the plan for the period covering 2010-2014.

In the planning process, the Bank extensively deliberated on strategies to be adopted for the plan period encapsulating the above 4 broad strategies.

The respective contributions to be made by the four business divisions in driving the strategies forward are detailed under 'Performance by Divisions' on pages 34 to 45.





### Negative Trend in Quarterly Profits Reversed

Profit After Tax	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2009 (Rs. Mn.)	866.20	1,111.10	956.80	1,370.89
2008 (Rs. Mn.)	1,000.30	1,258.70	920.90	1,088.47
Growth (Rs. Mn.)	(134.10)	(147.60)	35.90	282.42

## Financial Review

The volatile macroeconomic conditions which heightened due to the war and the after effects of the global financial crisis, posed a challenging year for the entire banking industry. This resulted in a deterioration of the performance measurement indicators across the industry.

Despite the uncertain macroeconomic environment that prevailed in the first half of the year, the Bank was able to sustain its profitability and maintain its pre-eminent position as the best local bank operating in the country today.

The Bank operates in the midst of a competitive environment where 22 commercial banks and 14 licensed specialised banks compete for a share of a relatively small market. The Commercial Bank, with its 144 branches, 4 CSPs, 24 supermarket counters, and a network of 355 ATMs, manages approximately 12% of the country's banking assets.

What follows below is a detailed review of the Bank's performance in 2009.

### PERFORMANCE DURING THE FIRST NINE MONTHS

On a cumulative basis, the Bank's profits dipped in the first nine months of the year in comparison to the corresponding period of the previous year. A lack of economic activities as well as an increase in servicing cost of money borrowed on floating rate arrangements pushed borrowers to a corner. This resulted in a substantial decline in advances and a sizable increase in non-performing advances leading to a deterioration of the asset quality of the Bank. The Bank witnessed an increase in the suspended interest on these loans, which would otherwise have been credited to the Income Statement.

Contrary to the decrease in advances, the deposits grew significantly during this period outperforming most of the other players in the market. This is partly attributable to the confidence placed by the general public on stable banks after the collapse of some financial institutions during the previous year.

As a result, the Bank's Statutory Liquid Assets Ratio (SLAR) recorded an increase during the year forcing the Bank to invest in low-yielding gilt edged securities. The annual average SLAR for 2009 was around 33% in comparison to the mandatory requirement of 20%.

All of these factors contributed to the reduction in the net interest income of the Bank.

The Bank witnessed a sharp increase in exchange profits due to the volatility of the rupee, especially during first half of the year which peaked at Rs. 120.00 per US\$ in April.

## Financial Review

The following table captures the performance of selected indicators during the first three quarters and compares it with the performance in the previous year.

	December - 2008 Rs. Mn.	March - 2009 Rs. Mn.	June - 2009 Rs. Mn.	September - 2009 Rs. Mn.
Deposits	199,881.0	204,296.7	215,732.6	223,213.2
Net Advances	180,401.2	173,756.6	166,194.3	166,573.7
Non-Performing Advances	6,203.8	8,882.2	11,408.8	10,178.4
Total Assets	281,213.7	287,499.1	300,402.3	310,765.7

	1st 3 Months			1st 6 Months			1st 9 Months		
	2009 Rs. Mn.	2008 Rs. Mn.	Variance Rs. Mn.	2009 Rs. Mn.	2008 Rs. Mn.	Variance Rs. Mn.	2009 Rs. Mn.	2008 Rs. Mn.	Variance Rs. Mn.
Pre-Tax Profit	<b>1,600.4</b>	1,763.5	(163.1)	<b>3,384.5</b>	3,783.2	(398.7)	<b>4,995.6</b>	5,650.2	(654.6)
Post-Tax Profit	<b>866.2</b>	1,000.3	(134.1)	<b>1,977.3</b>	2,259.0	(281.7)	<b>2,934.1</b>	3,179.9	(245.8)

### PERFORMANCE DURING THE LAST THREE MONTHS

The Bank's performance during the last three months improved substantially. The macroeconomic environment was more conducive from the third quarter of the year resulting in a drastic change of the business sentiments after the conclusion of the three-decade long war.

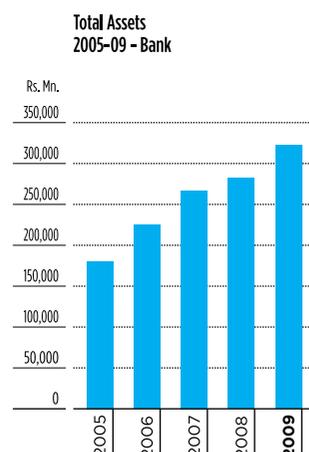
Sri Lanka's foreign reserves were around US\$ 5.1 Bn. at the end of the year, up from a precarious US\$ 1.2 Bn. in the middle of the year. This enabled the Government to maintain a stable rupee during the fourth quarter.

The Government took initiatives to stimulate the dwindling credit demand during the fourth quarter. The Statutory Reserve Ratio (SRR) was reduced to 7% during 2009. That resulted in the release of about Rs. 9 Bn. into the economy which had previously been held at the Central Bank.

A sharp reduction in the lending rates of state-owned banks in the last quarter forced the private banks to also reduce their rates within a short period of time. All of this contributed to drive the demand for credit up.

The Bank was able to prevent new transfers to the non-performing category whilst re-transferring a bulk of the advances lying in the non-performing category to the performing section. This had a favourable impact on the Income Statement of the Bank.

The Bank closed the year on a positive note and with a great sense of satisfaction. It recorded a growth in most key areas of operations and maintained its position both as the 'best bank' and the largest private-sector banking institution in the country.



## Financial Review

### BUSINESS VOLUMES

The Bank's deposits grew by 17.44% or Rs. 34.9 Bn. during the year. Total deposits at the end of the year stood at Rs. 234.7 Bn. A drop in the interest rates during the latter part of the year triggered a shift from high cost deposits to low cost deposits, resulting in a favourable shift in the deposit mix.

Net advances however, recorded a drop of 4.67% or Rs. 8.4 Bn. over the previous year. Total advances stood at Rs. 171.9 Bn. at end 2009.

Most importantly, the Bank was able to restrict its non-performing advances portfolio to Rs. 12.1 Bn., a ratio of 6.84%, which compares well with the rest of the banking industry.

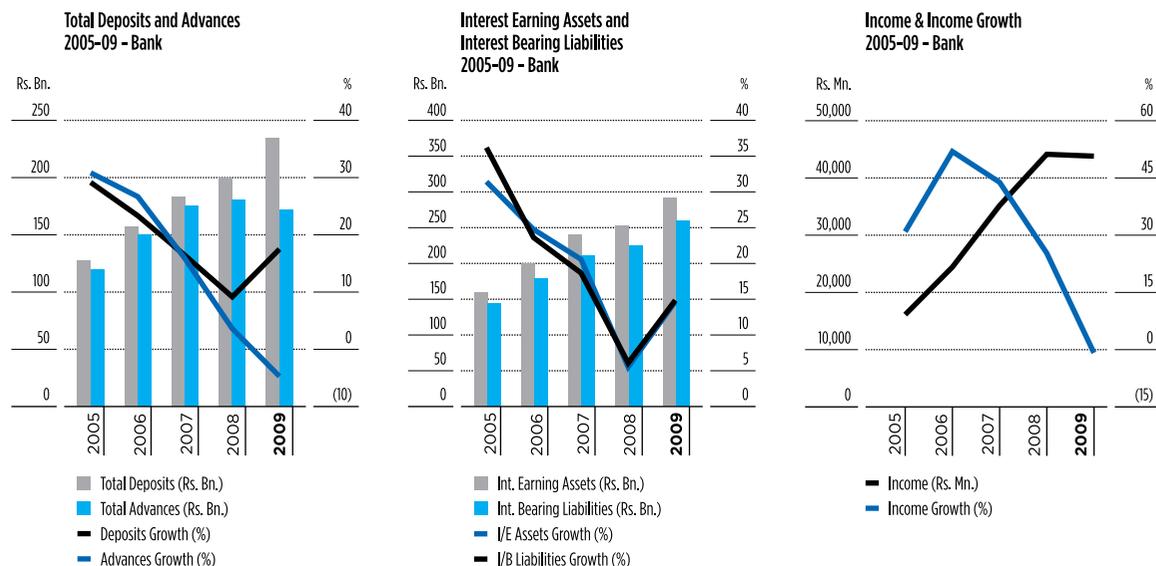
As a result of the high growth in deposits, the total interest-earning assets of the Bank rose to Rs. 292.0 Bn. in comparison to total interest-bearing liabilities of Rs. 258.1 Bn. Total assets of the Bank increased to Rs. 322.3 Bn., a significant growth of 14.62% or Rs. 41.1 Bn. by the end of 2009. This is the first time a local private commercial bank had exceeded Rs. 300.0 Bn. in total assets.

### INCOME ON FUND-BASED OPERATIONS

Stiff competition coupled with increased volumes in non-performing advances, resulted in net interest margins being squeezed during the year. The Bank's net interest income for the year was Rs. 12,410.3 Mn., a drop of Rs. 442.2 Mn. or 3.44% over the previous year. Both interest income and interest expenses dropped by around 3.4% during the year.

### INCOME FROM FEE-BASED OPERATIONS

Foreign exchange income for the year was Rs. 2,962.2 Mn., a growth of 12.49% when compared to the previous year. However, fees and commission income recorded a drop of 6.82% in comparison with the previous year, mainly due to commission from a few sources falling short of the 2008 levels.



## Financial Review

Other income recorded a substantial growth of 47.21% or Rs. 745.3 Mn. to end the year at Rs. 2,323.9 Mn. This growth was mainly contributed by significant capital gains on Treasury Bills and Bonds, and the recovery of bad debts.

The growth in the Bank's other operating income compensated the decline in net interest income. As a result, the Bank recorded a modest growth of 2.26% in total operating income to end the year at Rs. 20,226.4 Mn., a satisfactory growth given the volatilities in 2009.

### OPERATING EXPENSES

The Bank's operational expenses grew by 23.21% during the year under review. This excludes loan loss provisions, Financial VAT on profit, and the provision made for the oil hedging transaction.

The main factors that contributed to this increase were the enhanced employment benefits paid to non-executive staff in accordance with a new collective agreement the Management signed with the Ceylon Bank Employees' Union. Total staff expenses grew by 29.39% while all other expenses grew by 15.79% over the previous year.

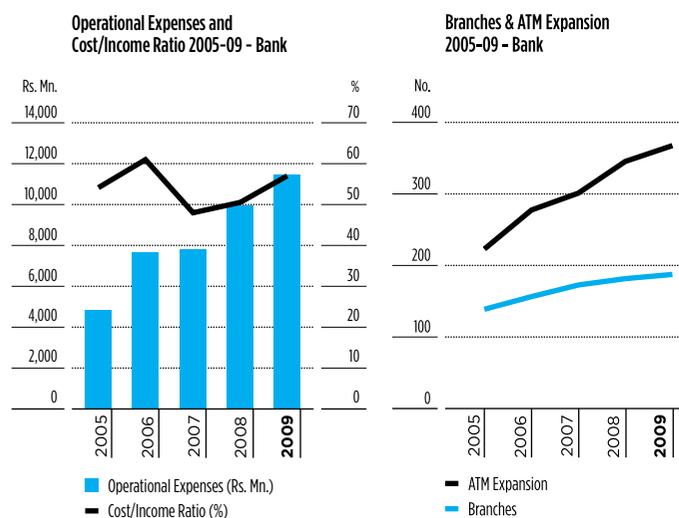
Although the Bank increased the number of its service centres and upgraded some centres to fully-fledged branches, it managed to maintain its head count growth at less than 1%. Sustained improvements in staff and operational productivity in the past few years, have helped the Bank to keep its staff intake at an optimum level.

The Bank made a provision of Rs. 368.2 Mn. on oil hedging transactions during the year.

### COST/INCOME RATIO

The modest growth in total income compared to the significant increase in overhead expenses resulted in the cost/income ratio of the Bank increasing substantially from 50.46% in 2008 to 56.86% in 2009.

In general, banks witnessed a similar increase in the cost/income ratio. Despite the substantial increase, Commercial Bank recorded one of the best cost/income ratios among local banks according to results published upto September 30, 2009.



## Financial Review

### LOAN LOSS PROVISIONS

Provisions for loan losses decreased substantially mainly due to the drop in general provisioning consequent to the decline in the advances portfolio during the year. The Bank was able to maintain the total specific provision at the previous year's level in spite of the stringent provisioning policies adopted. These provisioning policies are given in detail in Note L 6.2 in the Section on Accounting Policies on pages 221 to 223 of this Annual Report.

The Bank fully complied with the 1% general provision requirement on performing and overdue loans and advances as of March 31, 2009, as stipulated by the regulator.

As a result of the increase in non-performing advances, the Net Provision Cover of the Bank came down to 28.53% while the Open Credit Exposure ratio increased to 28.68% by the end of the year.

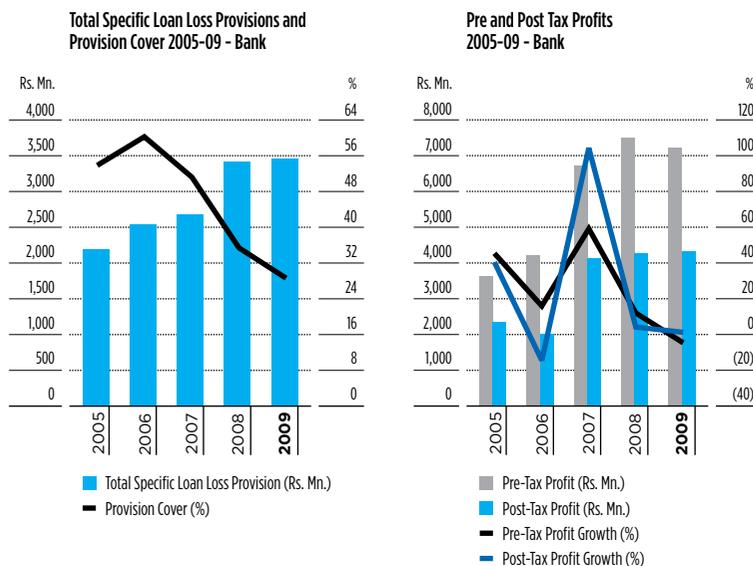
### PROFITABILITY

The Bank's pre-tax profit for 2009 was of Rs. 7,191.8 Mn., a drop of 4.37% or Rs. 328.3 Mn. when compared with 2008. This was mainly due to the increase reported in total income being inadequate to absorb the increased operational expenses. However, the Bank was able to restrict the drop at this level despite the uncertainties that prevailed in the country as clearly evidenced in quarterly profits reported by the Bank, detailed earlier in this analysis.

The Bank's post-tax profit for 2009 was Rs. 4,305.0 Mn., a growth of 0.86% over the previous year. This increase was a result of the income tax reducing by 11.22% largely due to effective tax management by the Bank.

### GROUP PERFORMANCE

The Commercial Bank Group made a pre-tax profit of Rs. 7,129.8 Mn. in 2009 as against Rs. 7,416.2 Mn. in 2008. This represented a drop of Rs. 286.4 Mn. or 3.86%. The post-tax profit of the Group was Rs. 4,193.0 Mn. in 2009 compared to Rs. 4,120.4 Mn. of the previous year. This represents a growth of 1.76%. This growth was facilitated by a relatively higher reduction in corporate tax when compared to the drop in the pre-tax profit of the group.



## Financial Review

### KEY INVESTOR INFORMATION

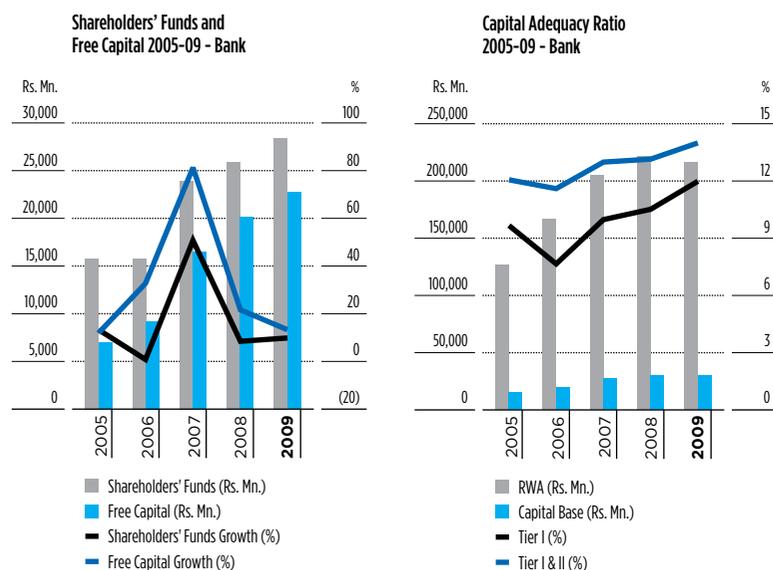
#### Shareholders' Funds, Free Capital and Capital Adequacy Ratio

Financial Institutions operating in the country are faced with a dilemma of securing the capital for future business expansion as approximately 55-60% of their profit are subject to Government taxes. Due to the prudent policies adopted by the Bank over a period of time, the Bank has been able to build-up the shareholders' funds and free capital to Rs. 28.5 Bn. and Rs. 22.6 Bn. respectively as at December 31, 2009. These figures are the highest among local banks.

Similarly, the Bank is dependent on the retention of profits to supplement the enhanced capital requirements consequent to the increase in the asset base. CAR of the Bank gradually improved during the last few years. The Tier I and Tier I & II of CAR as at December 31, 2009, stood at 11.90% and 13.91% respectively.

#### RETURN ON ASSETS (ROA) AND RETURN ON EQUITY (ROE)

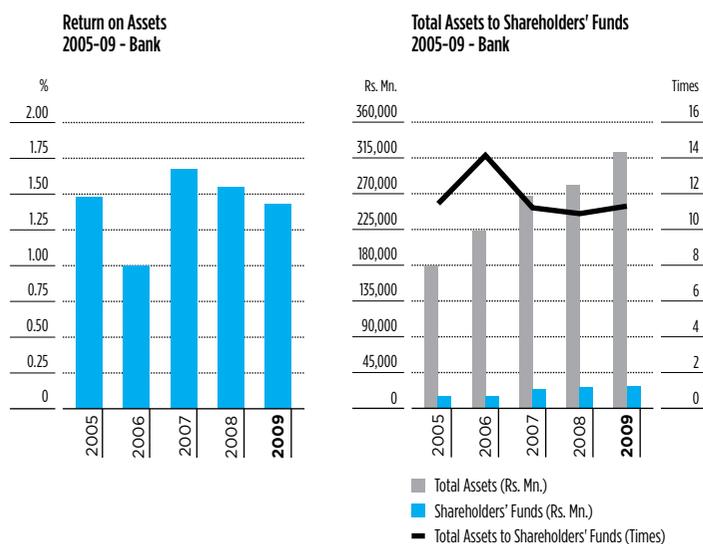
Due to the modest growth in pre-tax profit and average assets and average equity recording a higher growth, both the ROA and ROE recorded drops when compared with the previous year. The ROA and ROE were 1.43% and 15.83% respectively for 2009. However, due to actions initiated by the Bank during the year and the positive sentiments that prevailed in the market, the Bank is hopeful of recording growths in these key investor ratios in the ensuing year.



## Financial Review

Despite unanticipated adverse macroeconomic conditions that prevailed in most parts of the year, the Bank was able to achieve many of the targets set at the beginning of the year, as detailed below:

	2009 Actual	2009 Budget	2008 Actual
<b>Key Objectives</b>			
Total Revenue (Rs. Mn.)	47,740.9	47,729.7	44,115.2
Pre-Tax Profit (Rs. Mn.)	7,191.8	7,686.9	7,520.1
Post-Tax Profit (Rs. Mn.)	4,304.9	4,249.2	4,268.3
<b>Ratios</b>			
Return on Average Shareholders' Funds (%)	15.83	15.98	17.13
Return on Average Assets (%)	1.43	1.38	1.55
Earnings per Share (Rs.)	17.22	17.06	16.96
Cost/Income Ratio (%)	56.86	55.41	50.46
Non-Performing Advances (%)	6.84	5.73	5.19
Capital Adequacy Tier I (%)	11.90	10.12	10.51
Tier I & II (%)	13.91	12.15	13.09
Deposits (Rs. Mn.)	234,744.7	227,658.0	199,880.9
Advances (Rs. Mn.)	178,891.2	204,923.0	186,885.5



## Financial Review

The Bank's income is derived from four main business drivers. The contribution made by each of these four business divisions - Corporate Banking, Personal Banking, Treasury and International Operations in terms of profit and business volumes is summarised below:

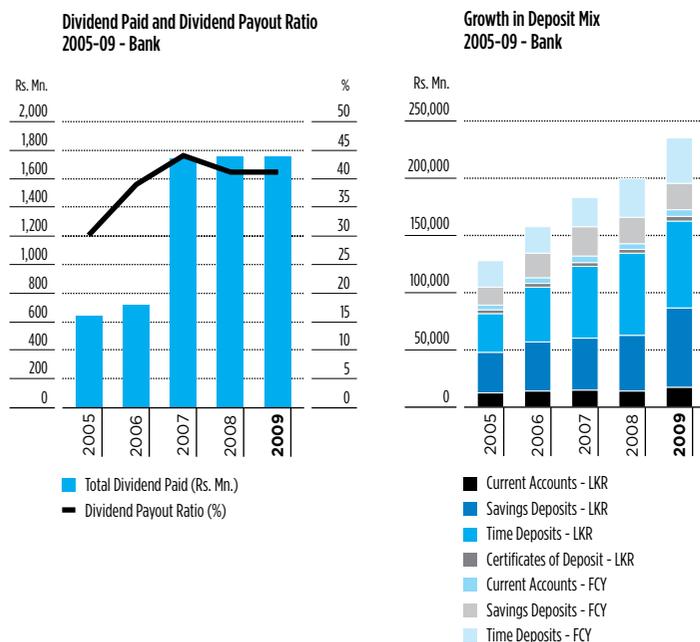
	2009		2008*	
	Rs. Mn.	%	Rs. Mn.	%
<b>Profit before Tax:</b>				
- Corporate Banking	1,480.3	20.58	2,102.9	27.96
- Personal Banking	3,455.9	48.05	3,199.4	42.56
- Treasury	1,240.2	17.24	1,128.7	15.00
- International Operations	1,015.4	14.12	1,089.1	14.48
<b>Total</b>	<b>7,191.8</b>	<b>100.00</b>	<b>7,520.1</b>	<b>100.00</b>
<b>Loans and Advances</b>				
- Corporate Banking	64,048.8	35.80	69,194.5	37.02
- Personal Banking	91,903.6	51.37	96,506.8	51.63
- International Operations	22,938.8	12.83	21,184.2	11.35
<b>Total</b>	<b>178,891.2</b>	<b>100.00</b>	<b>186,885.5</b>	<b>100.00</b>
<b>Deposits:</b>				
- Corporate Banking	27,407.7	11.67	26,081.0	13.04
- Personal Banking	181,660.8	77.38	150,664.1	75.37
- International Operations	25,676.2	10.95	23,135.9	11.59
<b>Total</b>	<b>234,744.7</b>	<b>100.00</b>	<b>199,881.0</b>	<b>100.00</b>

\*Restated

## DIVIDENDS

The Directors have recommended a final dividend of Rs. 4.00 per share to be paid on April 6, 2010. This together with the two interim dividends already paid totalling to Rs. 3.00 per share, add up to a total dividend of Rs. 7.00 per share for the year 2009 (Rs. 7.00 in 2008).

This amounts to a total dividend of Rs. 1,749.3 Mn. and to a dividend pay out ratio of 40.64% which is well-above the minimum prescribed rate of 25% under the Deemed Dividend Tax rule.

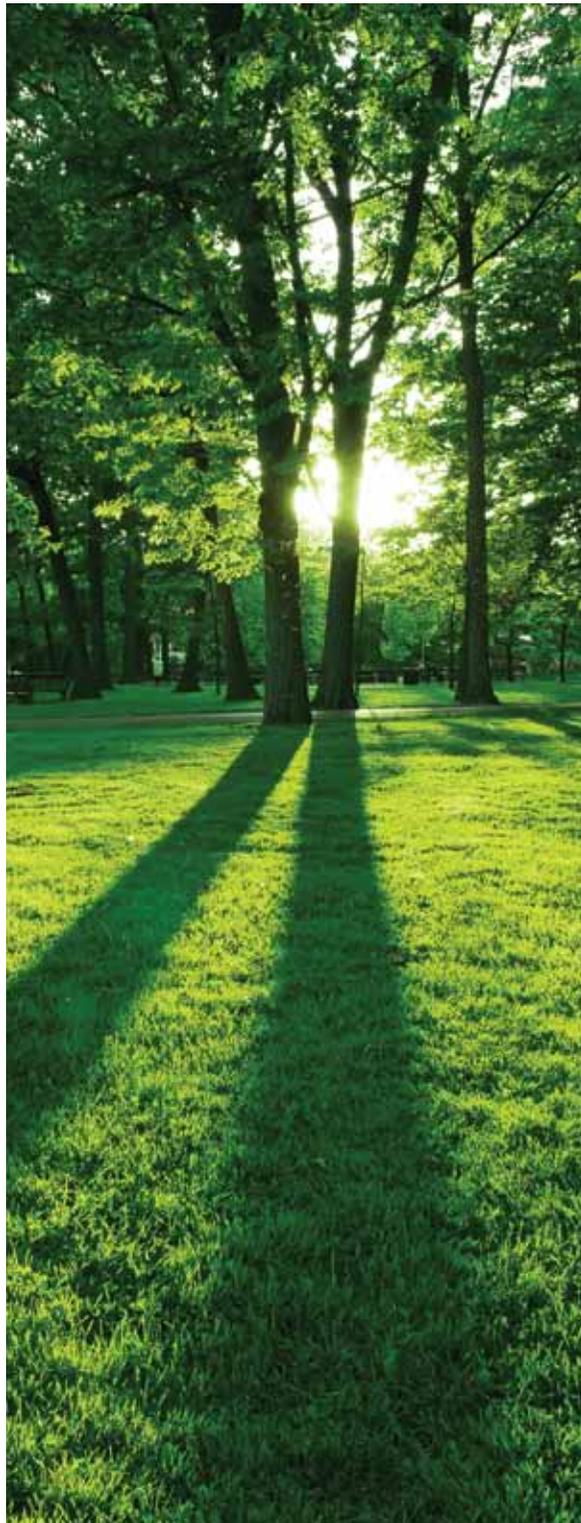
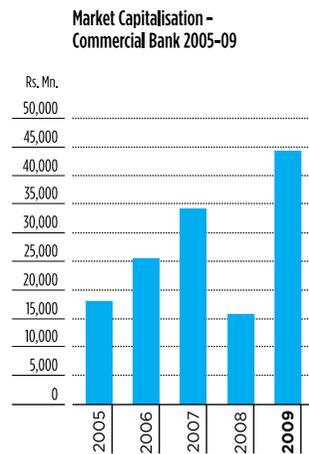


## Financial Review

### MARKET CAPITALISATION

Commercial Bank has the largest market capitalisation of Rs. 44.3 Bn. among all listed banks and financial institutions in Sri Lanka. It ranks fifth (No. 4 in 2008) among all listed companies on the Colombo Stock Exchange (CSE) at end of 2009.

Market capitalisation of the year recorded a sharp increase when compared to Rs. 15.6 Bn. as at December 31, 2008, due to the market buoyancy experienced subsequent to the end of the war.



## Performance by Division

### PERSONAL BANKING

#### Overview

Amidst a challenging environment not considered conducive to vibrant economic activity, all branches continued to operate and serve their customers literally at their door steps, with the added convenience of not only 24/7, but 365-day-banking. The number of delivery points islandwide was cautiously increased to 172 outlet of which 47 offer holiday banking and 355 ATMs.

Public confidence on Commercial Bank continued to rise in as evidenced by the growth in its deposit base, which reached Rs. 181.6 Bn. at the year end. Usage of our ATMs, credit and debit cards increased substantially, while e-banking services made banking from home or office a habit of thousands of customers. The e-exchange remittance service saw good uptake by overseas workers, who sent home Rs. 56.0 Bn. via this service in the year under review.

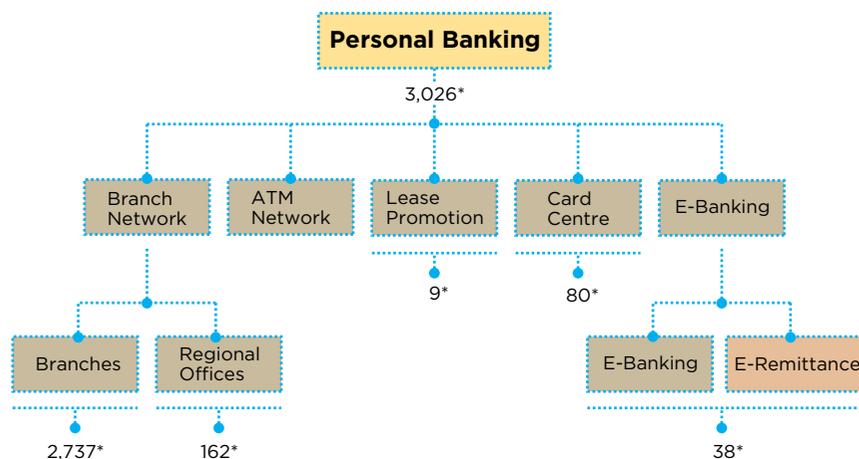
Housing loans, development credit, leasing and personal loans continued to serve the diverse requirements of a broad customer base. Following the identification of an opportunity in pawn broking, such facilities have been made available at 25 branches and are being progressively introduced at others.

Core Competencies	Products/Services
<ul style="list-style-type: none"> <li>● ComNet links the Bank's branches and ATMs, the single largest network of any Sri Lankan bank</li> <li>● Wide portfolio of innovative products</li> <li>● 24 hours 365 days service</li> <li>● Availability of Visa, MasterCard, debit card and travel card</li> <li>● Speedy decision-making due to region-wise setup</li> <li>● State-of-the-art technology</li> <li>● Branch net work spread out in every part in the country</li> <li>● A target oriented work culture</li> <li>● Lower cost income ratio</li> <li>● An integrated Risk Management Department</li> <li>● Highest rating among local banks</li> <li>● Recognition as the Best Bank in the Country</li> </ul>	<ul style="list-style-type: none"> <li>● Current Accounts</li> <li>● Savings (Passbook and Statement) and Fixed Deposit Accounts</li> <li>● Credit Cards, Debit Cards</li> <li>● Minors' Accounts</li> <li>● Teen Saver Accounts</li> <li>● High Interest Savings Accounts</li> <li>● Certificates of Deposit</li> <li>● Tiered Savings Accounts</li> <li>● Salary Remittance Package</li> <li>● Housing Loans with Fixed and Floating Rates</li> <li>● Personal Loans with Top-up Facility</li> <li>● Leasing</li> <li>● Development Loans</li> <li>● Senior Citizens' Deposit Accounts</li> <li>● Foreign Currency Savings Accounts</li> <li>● Utility Bill Payment Service through ATM/Internet</li> <li>● Mobile Phones Reload Facility</li> <li>● SMS Banking Facilities</li> </ul>

## Performance by Division

### Revenue Drivers

Personal Banking division is supported by many sub-divisions in its endeavour to reach the desired performance. We identify below those sub-divisions which directly contribute to the revenue of the Personal Banking division;



\* No. of Staff as at December 31, 2009

### Key Operational Initiatives & Achievements

- Opened 144th branch in Matara (second in the town) and 24th supermarket banking counter at Kiribathgoda
- Introduced pawn broking facilities at 25 branches
- Introduced a new pawning product to grant overdraft facilities secured by gold
- Electronic remittances increased by 25%
- Cash dispensed through ATMs during the year surpassed Rs. 40 Bn.
- Implemented online updating of Telecom payments accepted at branch counters
- Captured 10% share of signature-based debit card market with a 38% market share in spending
- Expansion of ATM network by 20 machines, to a total of 355
- Extended PayMaster facilities to include the statutory payments of corporate clients
- Introduced Saturday banking at Nelliady branch and 365-day banking at Jaffna branch
- Debit card base increased to 1.7 Mn.
- Introduced MasterCard and Visa Shopping Card
- Obtained the highest market share of facilities extended under SMILE III and E-Friends subsidised loan schemes for small and medium industries
- Obtaining ISO 27001 Certification for Card Centre

### Achievements

Objective	Actual		Achievement 2009 over 2008 (%)
	2009 Rs. Mn.	2008* Rs. Mn.	
Deposits as at December 31	181,660.8	150,664.0	120.6
Advances as at December 31	91,903.6	96,506.8	95.2
Profit before Tax	3,455.9	3,199.4	108.0
Cost/Income Ratio (%)	73.2	63.3	
NPA Ratio (%) as at December 31	10.4	7.4	

\* Restated

The Personal Banking division recorded satisfactory results for the year. Despite contraction of the loan book, it recorded a growth in profits when compared to the previous year.

## Performance by Division

### Strategic Snapshot of Personal Banking

The following is a snapshot of initiatives to be undertaken by the Personal Banking Division, broken down in conformity with three of the Bank's four main strategic imperatives: enhancing customer convenience, building a high performance culture and prudent growth is given below:

<b>Enhancing Customer Convenience</b>	
<ul style="list-style-type: none"> <li>• More delivery channels</li> <li>• Extended hours of service at selected branches</li> <li>• Introduction of user-friendly formats, brochures, documents and vouchers in all national languages</li> <li>• Establishing a call centre at a central location</li> <li>• More dedicated pawn broking counters at branches</li> <li>• Plans to introduce pawn broking as alternative loan security for farmers</li> <li>• Upgrade the card issuing and acquiring applications in line with the MasterCard and Visa security standard</li> <li>• Plans to introduce password automation and two factor authentication for more secure internet banking</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion of the ATM net work</li> <li>• Tele-banking in both Sinhala and Tamil</li> <li>• Introducing bancassurance</li> <li>• Implementing a payment gateway</li> <li>• Plans to introduce smart credit and debit cards based on microchip technology</li> <li>• SMS alerts for credit and debit card holders</li> <li>• Plans to introduce mobile-phone-based fund transfer facility for personal customers</li> <li>• Plans to introduce an electronic customer-evaluation system</li> </ul>
<b>Building a High-Performance Culture</b>	
<ul style="list-style-type: none"> <li>• Setting guidelines for staff to maintain uniformity in the lending process</li> <li>• Enhancing the contributions of middle management through cross-functional training</li> </ul>	<ul style="list-style-type: none"> <li>• Conducting periodic product awareness programmes for staff</li> </ul>
<b>Prudent Growth</b>	
<ul style="list-style-type: none"> <li>• Use CSR Trust activities to improve the Bank's national image</li> <li>• Lease promotions to identified dealers of vehicles and machinery</li> <li>• Real time settlement of utility bills upon payment at branches</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce reward schemes to encourage ATM withdrawals and POS usage</li> <li>• Speed up approvals procedure for personal loans through centralised credit cells</li> <li>• Extending pawning facilities to 50 locations in the branch network, including the Northern Peninsula</li> <li>• More dedicated remittance counters at branches</li> </ul>

## Performance by Division

### CORPORATE BANKING

The global financial crisis which affected many financial centres around the world in the year under review had, as might be expected, an adverse impact on the Sri Lankan economy as well. Consequently large-scale domestic and foreign investments in the Sri Lankan industry witnessed a decline. BOI projects acceptable for lending purposes by the Off-shore Banking Centre too experienced a similar trend.

Despite these adverse impacts hampering the growth in advances, the Corporate Banking Division successfully maintained a quality loan book.

Corporate Banking division is equipped to offer its customers a total financial solution package under one roof. Further, it is in a position to cater to the requirements of large multinationals due to its higher single borrower limit at competitive rates utilising the funds mobilised through well spread branch network of the Bank.

Over the years, the Foreign Branch, main delivery channel of the Corporate Banking Division has achieved a reputation for expertise in trade finance and caters to a diverse clientele engaged in many kinds of business. Its customers vary from medium-sized Sri Lankan companies to multinationals and blue-chip domestic corporates.

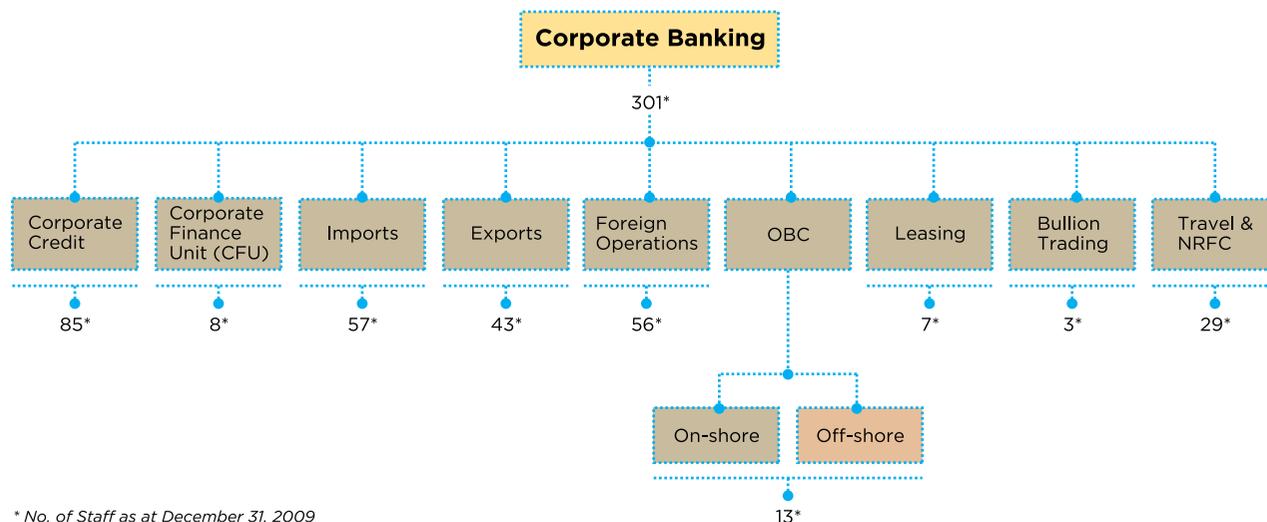
One distinct advantage our customers enjoy is an established and trusted network of correspondents covering every part of the world.

Core Competencies	Products/Services
<ul style="list-style-type: none"> <li>• Large single-borrower limit</li> <li>• Expertise in corporate credit and trade finance</li> <li>• High level of professionalism</li> <li>• In-house legal expertise</li> <li>• Cost effective operations</li> <li>• Wide spectrum of investment banking products</li> <li>• Catering to diverse business activities/diverse client portfolio</li> <li>• Lower Non-Performing Loans Ratio</li> <li>• Partnering with IFC for a Risk Sharing Scheme for certain loan projects</li> <li>• Settlement Bank for Colombo Stock Exchange</li> <li>• State-of-the-art technology</li> <li>• Well established and trusted Correspondent Banks</li> <li>• A target oriented work culture</li> <li>• Low cost income ratio</li> <li>• An integrated Risk Management Department</li> <li>• Highest rating among local banks</li> <li>• Recognition as the Best Bank in the Country</li> </ul>	<ul style="list-style-type: none"> <li>• Letters of Credit</li> <li>• Shipping and other guarantees</li> <li>• Import and Export Finance</li> <li>• SWIFT Facilities</li> <li>• Syndicated Loans</li> <li>• Project Financing</li> <li>• Securitisation</li> <li>• Structuring, Managing and Underwriting of Initial Public Offerings and Private Placement of Equity</li> <li>• Company Valuations, Restructuring and Rehabilitation</li> <li>• Investment Advice and evaluation</li> <li>• Structuring of Corporate Debt Instruments</li> <li>• Working capital Financing</li> <li>• Leasing</li> <li>• Domestic and International Factoring</li> <li>• Off-shore Banking Facilities</li> <li>• Internet Banking</li> <li>• Sponsor of the Colombo Stock Exchange</li> <li>• Bullion Trading</li> <li>• Payment Solutions to Corporate Clients</li> </ul>

## Performance by Division

### Revenue Drivers

Corporate Banking division is supported by many sub-divisions in its endeavour to reach the desired performance. We identify below those sub-divisions which directly contribute to the revenue of the Corporate Banking division:



\* No. of Staff as at December 31, 2009

### Key Operational Initiatives & Achievements

- Commercial Bank was voted 'best local trade services bank' for 2009 by Euromoney
- The Division was actively involved in setting up a social and environmental management system within the Bank
- The CFU also entered into a risk-sharing agreement with the International Finance Corporation that enables the Bank to consider financing more renewable-energy projects
- The CFU prepared the ground for the commencement of margin-trading operations in the current year, and is now set to offer this new service to the Bank's customers engaged in share trading activities
- In the slow economic environment of 2009, the CFU focused largely on financing renewable-energy projects. The Bank approved facilities totalling Rs. 3.6 Bn. to part-finance several such projects, including Sri Lanka's first wind-power plant and a mini-hydro power project in Uganda
- The non-performing loans ratio as at December 31, 2009 was a low 4.6%, reflecting the high quality of the loan book of the Corporate Banking Unit
- The CFU facilitated the appointment of Commercial Bank as a settlement bank by the Colombo Stock Exchange

### Achievements

Objective	Actual		Achievement 2009 over 2008 (%)
	2009 Rs. Mn.	2008* Rs. Mn.	
Advances as at December 31	64,048.8	69,194.5	92.6
Profit before Tax	1,480.3	2,102.9	70.4
Import Turnover	126,059.8	164,617.3	76.6
Export Turnover	128,770.1	151,092.1	85.2
Cost/Income Ratio (%)	30.0	26.8	
NPA Ratio (%) as at December 31	4.6	4.1	

\* Restated

The above performance was achieved in an economic environment which was not favourable for business. However, Corporate Banking Division continued to satisfactorily maintain a quality loan book due to its prudent lending policies.

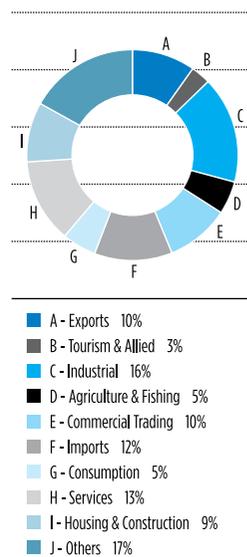
## Performance by Division

### Strategic Snapshot of Corporate Banking

The following is a snapshot of initiatives to be undertaken by the Corporate Banking Division, broken down in conformity with three of the Bank's four main strategic imperatives: enhancing customer convenience, building a high performance culture and prudent growth is given below:

Enhancing Customer Convenience	
<ul style="list-style-type: none"> <li>Greater focus on Web-based delivery channels</li> <li>Introduction of wealth management service to high net worth customers</li> <li>To develop a fully web-based banking solution for corporate customers</li> </ul>	<ul style="list-style-type: none"> <li>Carrying out periodic, scientific market surveys in order to understand and serve customers better</li> </ul>
Building a High-Performance Culture	
<ul style="list-style-type: none"> <li>Continuous staff training on cross-selling to attract new business and retain customers</li> </ul>	
Prudent Growth	
<ul style="list-style-type: none"> <li>Introduction of lending guidelines to maintain process uniformity</li> <li>Offer foreign-currency lease facilities</li> <li>Setting up a specialised marketing team for pricing, structuring, documentation and recovery aspects of leasing and hire-purchase</li> </ul>	<ul style="list-style-type: none"> <li>Housing loan facilities offered to high-end NRFC customers</li> <li>Developing and launching lending and leasing products with Islamic banking features</li> <li>Commencement of margin-trading operations</li> </ul>

Sectoral Classification of Loans & Advances - 2009



## Performance by Division

### TREASURY

#### Overview

Treasury operated in a turbulent environment during the first half of the year, which improved towards the latter half of the year. Volatilities in the market allowed Treasury to achieve significantly higher performance during the year by correctly interpreting market direction in both foreign exchange and money markets. In addition to the exchange profit contribution, Treasury managed to improve the Bank's net interest income by investing and trading in tax efficient Sri Lanka Government Foreign Currency Sovereign and Development Bonds, further to investing in LKR excess funds in Treasury Bills and Bonds.

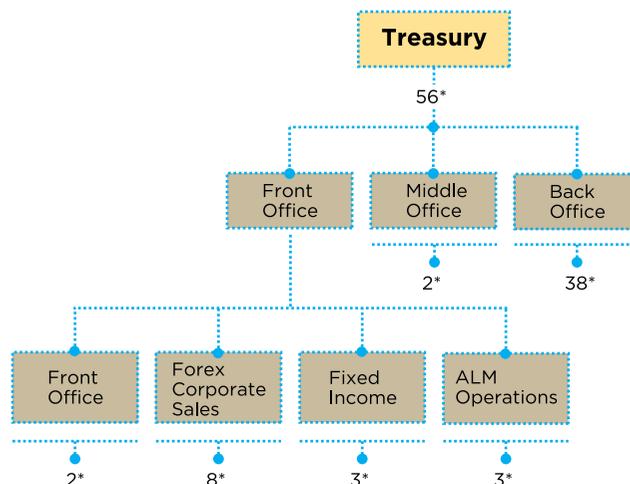
The Bank's Treasury is a distinct profit centre headed by the Head of Global Treasury and the Head of Global Markets, who report directly to the Managing Director of the Bank.

Treasury is entrusted with managing the Bank's interest rate, liquidity and foreign exchange risk, mobilising resources from domestic as well as international markets, achieving preferred balance sheet mix and maximising the returns while minimising risk to the Bank. The ALM function too is under the purview of the Treasury, and is responsible in allocating funds for retail and corporate banking.

Core Competencies	Products/Services
<ul style="list-style-type: none"> <li>• Fully-customised Treasury software application</li> <li>• Risk management unit with integrated ALM/FTP and customer profitability</li> <li>• Competitive rates on the strength of FX resources</li> <li>• Ability to mobilise foreign currency funds from International operations</li> <li>• Innovative and customised treasury products</li> <li>• Ability to mobilise local currency funds due to well established island wide branch network</li> <li>• Well-trained Treasury team</li> <li>• State-of-the-art technology</li> <li>• Well established and trusted Correspondent Banks</li> <li>• A target oriented work culture</li> <li>• Highest rating among local banks</li> <li>• Recognition as the Best Bank in the Country</li> </ul>	<ul style="list-style-type: none"> <li>• Foreign Exchange Dealings</li> <li>• Forward Interest Rate Swaps and Futures Trading</li> <li>• Currency Swaps, Interest Rate Swaps</li> <li>• Forward Rate Agreements</li> <li>• Caps</li> <li>• Floors and Collars</li> <li>• Commodity Price Hedging</li> <li>• G7 and LKR FX Options</li> <li>• Dual Currency Deposits and other Yield Enhancing Structures</li> <li>• Hedging FX and Interest Rate Risk</li> <li>• FIS Trading</li> </ul>

#### Revenue Drivers

The Diagram below details the sub divisions which come under the Treasury division from a business perspective.



\* No. of Staff as at December 31, 2009

## Performance by Division

### Key Operational Initiatives & Achievements

- Made significant progress in enhancing Treasury compliance-readiness through the development of policies in risk management, operations and processes
- Recorded significant income from foreign exchange and interest income by positioning the Bank to benefit from declining interest rates and exchange rate volatility.
- Aggressively invested in tax-efficient foreign currency bonds, SLDB and SLSB, which delivered profit margins sufficient to negate the negative effect of high cost of foreign currency deposits
- Streamlined the funds-transfer pricing system to improve its effectiveness as a business management tool
- Setting up the ALCO Sub-Committee to assist the ALCO
- Undertook progressive action to resolve various legislative issues that arose from disputed commodity linked derivative transactions
- Registered as a derivative dealer with the CBSL and developed a policy, operating procedures, documentation requirements and compliance measures for derivatives trading

### Achievements

Objective	Actual		Achievement 2009 over 2008 (%)
	2009 Rs. Mn.	2008* Rs. Mn.	
Interest Income	12,165.4	12,025.7	101.1
Foreign Exchange Income	2,253.3	1,684.3	133.8
Profit before Tax	1,240.2	1,128.7	109.8
Interest Earning Assets as at December 31	104,104.4	61,795.1	168.5
Cost/Income Ratio (%)	35.0	48.6	

\* Restated

Treasury recorded satisfactory results during the year. It recorded impressive growth in foreign exchange income mainly due to gains realised from US\$/LKR Swaps as a result of sharp decline in LKR rates during the year. Further, volumes handled by the Treasury increased substantially due to the excess liquidity in the market.

### Strategic Snapshot

A snapshot of initiatives to be undertaken by the Treasury, broken down in conformity with three of the Bank's four main strategic imperatives; enhancing customer convenience, building a high performance culture and prudent growth is given below:

#### Enhancing Customer Convenience

- Begin providing SMS updates on currency-market volatility to selected corporate clients
- Organise client seminars and social meetings to build customer relationships

#### Building a High-Performance Culture

- Organised training campaigns on Treasury products at selected branches

#### Prudent Growth

- Introduction of IT-based dealer profitability measurement system
- Appointment of a team of Treasury business promotion officers to work closely with the corporate sales team and branch staff
- Acquired suitable software for derivative booking, valuation and risk management

## *Performance by Division*

### **INTERNATIONAL OPERATIONS**

#### **Bangladesh Operations**

Bangladesh economy showed resilience despite after effects of the global financial crisis and the natural catastrophes. It was able to maintain stability and would expect to record around 6% growth in GDP.

During the year, lending climate became very uncertain and sluggish due to the excessive and unprecedented liquidity situation in the market. The businessmen are vary of new investment or expansion and the delay in venturing into any new capital investment projects by the Government contributed to the worsening of credit demand.

Our operations recorded a substantial growth in deposits. This contributed to a consistent excess liquidity of the Bank.

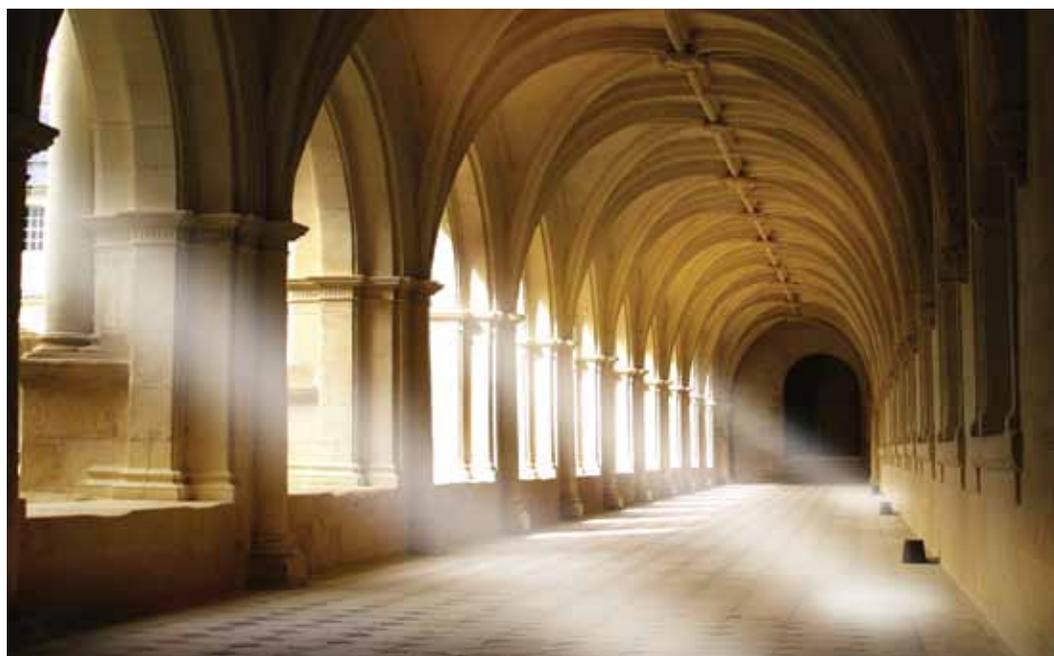
#### **Remittances**

The Bank's instant money transfer facility, ComBank e-Exchange, offers a secure, sophisticated yet low-cost real-time online money transfer facility for Sri Lankan and Bangladeshi expatriates through an agent network in over 50 countries.

In order to improve customer service by reducing the turnaround time on remittances and facilitating collection by beneficiaries in Sri Lanka, the Bank introduced dedicated remittance counters at 26 of its branches. More such counters will be opened in 2010.

#### **Maldivian Operations**

Bank's Off-shore Banking Centre which primarily focused on lending to high end tourism industry of the Maldives slowed down due to the aftermath of the financial crisis which triggered a negative economic impact on the tourism industry of this country.



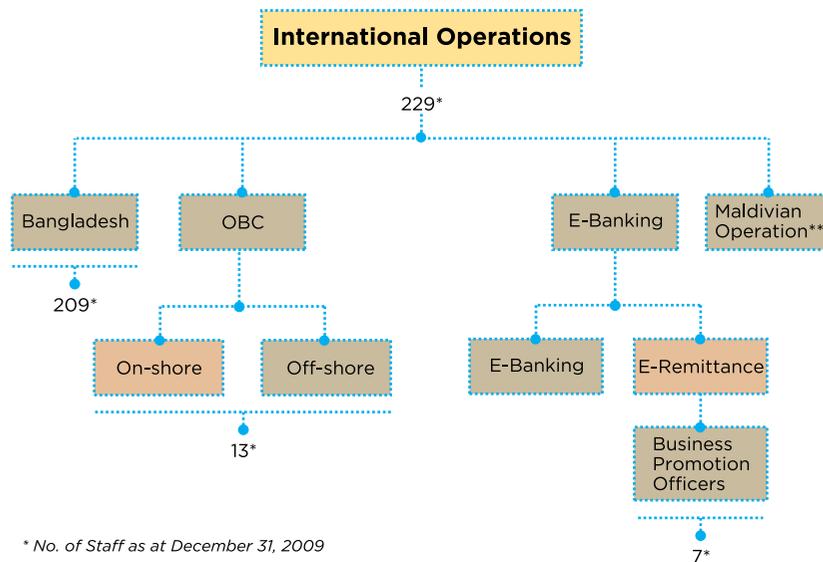
## Performance by Division

Core Competencies	Products/Services
<p><b>Bangladesh Operations</b></p> <ul style="list-style-type: none"> <li>• Strong international presence in corporate banking</li> <li>• 24/7 Call Centre</li> <li>• High level of professionalism</li> <li>• AA + Rating by Credit Rating Information Services Ltd. Bangladesh.</li> <li>• STI (short term high safety and liquidity) rating by Credit Rating Information Services Ltd., Bangladesh</li> </ul> <p><b>Remittances</b></p> <ul style="list-style-type: none"> <li>• Strong, global agent network</li> <li>• Placement of business promotion officers in the main corridors for ground-level marketing</li> <li>• State-of-the-art technology</li> <li>• Well established and trusted Correspondent Banks</li> <li>• Recognition as the Best Bank in the Country</li> </ul> <p><b>Maldivian Operations</b></p> <ul style="list-style-type: none"> <li>• Well established, longstanding relationships with Maldivian customers</li> </ul>	<ul style="list-style-type: none"> <li>• Current, Savings, Fixed Deposits, Margin, Money Market Accounts</li> <li>• Bonus Savings accounts</li> <li>• Dream Planner Savings accounts</li> <li>• Dot Com Teen Saver accounts</li> <li>• SHAMRIDDHI Tiered Savings accounts</li> <li>• FC Plus Savings accounts</li> <li>• High 5 FD</li> <li>• Dollarmart FC account</li> <li>• Personal, Term, SME, Housing, Auto Loans</li> <li>• Lease financing</li> <li>• Import demand loans</li> <li>• Packing credit loans</li> <li>• Trust receipt loans</li> <li>• Corporate privilege loans</li> <li>• PRODRIDDHI loans</li> </ul> <ul style="list-style-type: none"> <li>• Combank e-Exchange – Web-based money transfer facility</li> </ul> <ul style="list-style-type: none"> <li>• Project financing for resort development</li> <li>• Lender in syndicated facilities</li> </ul>

## Performance by Division

### Revenue Drivers

The diagram below details the composition of our International Operations.



### Achievements

Objective	Actual		Achievement 2009 over 2008 (%)
	2009 Rs. Mn.	2008* Rs. Mn.	
Deposits as at December 31	25,676.2	23,135.9	111.0
Advances as at December 31	22,938.8	21,184.2	108.3
Profit before Tax	1,015.4	1,089.1	93.2
Cost/Income Ratio (%)	37.8	32.9	
NPL as at December 31 (%)	0.17	0.04	

\* Restated

Our Bangladesh operations withstood the challenging global economic climate which prevailed due to the financial crisis to achieve a growth in both deposits and advances. Remittances recorded substantial growth both in value and volumes during the year.

## Performance by Division

### Key Operational Initiatives & Achievements

Bangladesh	Remittances and Maldivian Operations
<ul style="list-style-type: none"> <li>Set up a fully-fledged card centre</li> <li>Named 'Best Commercial Bank' by Financial Mirror magazine</li> <li>Launched Eid Loan product</li> <li>Re-branded shopping card and the ComBank Global Credit Card</li> <li>Credit Rating Information Services Ltd., a rating agency, conferred AA+ (Long Term) rating for high safety and high credit quality</li> <li>Credit Rating Information Services Ltd., conferred ST1 for short term high safety and liquidity</li> <li>Opened the seventh branch and two SME centres</li> <li>Introduced electronic banking for overseas customers</li> </ul>	<ul style="list-style-type: none"> <li>Improved ComBank e-Exchange remittances by over 25%</li> <li>Opened 26 dedicated Remittance Counters at branches</li> <li>E-remittances recorded a volume growth of 24.7% and value growth of 25.2% in the year under review</li> <li>Online file transfer mechanism introduced to remittance platform to accommodate remittances from major banks</li> <li>Obtaining ISO 27001 Certification for e-Banking</li> </ul>

### Strategic Snapshot

A snapshot of initiatives to be undertaken by the International Division, broken down in conformity with the Bank's four main strategic imperatives; enhancing customer convenience, building a high performance culture, prudent growth and expanding to International markets is given below:

<b>Enhancing Customer Convenience</b>	
<ul style="list-style-type: none"> <li>Further expansion of Bangladesh operations with special emphasis on the SME sector and ATM network</li> <li>Introducing tailor-made special loan schemes for overseas workers</li> </ul>	<ul style="list-style-type: none"> <li>Providing remittance customers with a Web-tracking facility, enabling them to check the status of their remittances at any time</li> <li>Commencing commercial operations at our own exchange house in Italy</li> </ul>
<b>Building a High-Performance Culture</b>	
<ul style="list-style-type: none"> <li>A target oriented work culture</li> </ul>	<ul style="list-style-type: none"> <li>Expanding the reach of remittance operations to the Far East, Middle East and Europe under the Commex brand name</li> </ul>
<b>Prudent Growth</b>	
<ul style="list-style-type: none"> <li>Expanding the branch network in Bangladesh</li> </ul>	
<b>Expanding to International Markets</b>	
<ul style="list-style-type: none"> <li>Exploring opportunities to establish operations to venture into new markets</li> </ul>	

## The Macroeconomic Outlook: Emerging from Conflict

The end of the war in May 2009 opened a window of opportunity for Sri Lanka. For the first time in thirty years, the Government's writ runs over the entire country. The potential for economic take-off is strong. Both local and foreign investor confidence have begun to grow and the country is likely to benefit from substantial investments in a number of sectors.

The economy is projected to grow by 6-7% in 2010. Inflationary pressures are expected to be moderate; enabling inflation to be maintained at single digit during the year. On an annual average basis, inflation is projected to be about 5-6% by the end of 2010.

It will be a challenging year for the Government, as it continues several large ongoing infrastructure projects while giving priority to reconstruction activities in the North and the East. It is unlikely that the Government reached the 2009 deficit target and achieving 2010 target would be a challenge.

Tourism, agriculture, fisheries, financial services and construction are likely to take-off in 2010, with a positive spillover effect on other sectors. Once the dust settles after the Presidential and Parliamentary elections, many other sectors are also likely to experience growth.

Exports and imports are projected to increase in the medium term, boosting economic activity. It is further expected to generate a healthy BOP surplus over the medium term.

Therefore, it is essential that the national budget for 2010, when it is prepared, ensures borrowing from the banking system does not exceed safe levels, thereby enabling the low inflation regime to continue.

With the end of the conflict, the Sri Lankan economy has entered into a new era of rapid social and economic development, which will substantially increase demand for diversified financial facilities.

The banking industry will have to comply with major regulatory changes in the years to come.

*Adoption of new accounting standards:* It is mandatory for banks to adopt Sri Lanka Accounting Standard No. 44 on the Presentation of Financial Instruments and Sri Lanka Accounting Standard No. 45 on Recognition and the Measurement of Financial Instruments, from January 01, 2011. These standards would bring enormous changes in terms of measurement, recognition and disclosure requirements to the banking industry in Sri Lanka.

The companies are required to adopt Sri Lanka Accounting Standard No. 39 on Share-Based Payment with effect from January 01, 2010.

*New NPA Guidelines* stipulates the classification of the entire portfolio as NPA upon the classification of one facility.

Bank is gearing itself to comply with these developments.



## **Sustainability Supplement**

### **Undiminished Responsibility**

Juggling a challenging year meant juggling shareholder expectations and corporate responsibilities. Managing a challenging year and a challenging macroeconomic environment meant ensuring that CSR activities did not take a back seat.

We continued with our CSR work, through our dedicated CSR Trust Fund, discharging our social responsibilities as the No. 01 private sector Bank should.





### Helping New Lives

This is the newly refurbished maternity ward at the Galewela Government Hospital in the Central Province.

To mark the 35th anniversary of the Bank's Galewela Branch, the Bank's staff participated in the refurbishment of the ward. The Bank also donated medical and other equipment to the hospital.



## CHAIRMAN'S MESSAGE

Dear Stakeholder,

I have much pleasure in presenting to you our Sustainability Supplement.

The world is pre-occupied - and rightly so - with sustainability of corporate entities. It is grappling today with the consequences of a global order of the past that enshrined a 'make, sell, earn' business model to the exclusion of all else. The impact of such a parochial business model on environment, society and economies has spawned the likes of global warming, ozone depletion, sea level rises, deforestation, pollution and El Nino.

***We have seen the devastation wrought by economic imprudence and lax governance. The global economic crash was nothing short of catastrophic. Although economies across the world are showing signs of a 'turn around', I do believe that we cannot truly apply this phrase with confidence, in the overall global economic context as yet.***

Thankfully today, the world thinking has changed, and due focus is paid to morals and ethics and the conduct of business in a sustainable manner.

Closer to home, the cessation of war in 2009 promises great opportunity. A 'National Corporate Plan' that envisions the way ahead is a must. However, there is much we can accomplish ourselves if we harness growth and new opportunities based on the four key drivers of the Bank's core business - Enhancing Customer Convenience, Building a High Performance Culture, Expanding to International Markets and Pursuing Prudent Growth, discussed under 'Management Report' on pages 22 to 46 of this Annual Report.

The one proviso I would truly seek would be the creation of an enabling environment within which efforts such as ours will translate into prosperity to the Nation and our people.

The many 'firsts in sustainable business' that the Bank has recorded over the years, most of them largely unsung, speak of an enterprise 'on the move'.

This year, we have widened our scope as per the Guidelines of Global Reporting Initiative (GRI). GRI provides a generally accepted framework for reporting on an organisation's key parameters, namely Economic, Environment and Social Performance, that has been developed using a global, multi-stakeholder consensus seeking approach.

In this backdrop, I would like to briefly outline the context within which this Report is being presented to you.

We have taken care to report in a transparent manner on every aspect in order to give a true and fair picture of the activities of the Bank. The 'Managing Director's Review' on pages 9 to 13 presents a detailed review on the key events, achievements, failures, challenges and future outlook of the Bank.

Commercial Bank places sustainability at the core of our business. Our activities don't make sustainability 'another subject' relegated to a 'Committee' to report on. Sustainability is an integral part across every aspect of the Bank.

And we are moving ahead...



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

Colombo  
February 18, 2010

## INTRODUCTION

The production, distribution and consumption of wealth are integral elements to any business organisation. Being in the financial services sector, we consciously strive to create sustainable long term wealth to our stakeholders by managing our risks and exploring the opportunities arising from economic, environmental and social developments.

This is the first 'Sustainability Report' produced by Commercial Bank based on Global Reporting Initiative's Sustainability Reporting Guidelines (GRI G3). A Global Reporting Initiative (GRI) content index has been provided on pages 101 to 105 of this Annual Report. Commercial Bank's self-declared GRI Application Level for this inaugural report is 'C'. The GRI Application Level Grid on page 105 provides a summary of the different levels of GRI reporting.

Commercial Bank began with a 'C' level of application and progress over time to the more comprehensive B and A levels of application by including additional topics and indicators in the reports in subsequent years.

### Impacts, Risks and Opportunities

The Bank being a service-oriented organisation does not engage in activities which directly have an impact on society and environment. The Bank has taken every measure to minimise possibilities of lending to activities detrimental to society and environment.

The Bank has a 'Social and Environmental Policy' in place to ensure effective social and environmental management practices across all its activities, products and services. This policy also evaluates the impact Bank's lending will have on sustainability aspects from the activities to be undertaken by the borrowers. The Bank is in the process of making the lending officers familiar with this requirement, enabling them to implement it both in letter and spirit.

Another area of perceived risk arises on profiling the customer, i.e., to find the 'right fit' between the Bank and the customer. Additionally, in conducting its business operations, the Bank is exposed to a variety of risks. The Bank's Integrated Risk Management Unit continuously monitors such risks to identify and mitigate the potential adverse impacts.

By engaging in sustainable business, the Bank has the opportunity to win public confidence and thereby increase its business volumes. Mitigating the impact of risks will enable the Bank to minimise associated losses and maximise returns to its stakeholders.

## ORGANISATIONAL PROFILE

The history of Commercial Bank dates back to 1920s, when we started our operation with a single branch. Today we have become a National Bank. In 2008, we became the First Sri Lankan Bank to be ranked among the Top 1,000 Banks in the world. A snapshot of the historical land marks of the Bank is found on page 286 of this Annual Report.

The Bank had an employee population of 3,862 in Sri Lanka and 209 in Bangladesh as at December 31, 2009, and its total assets amounted to Rs. 322.315 Bn., total equity as at that date was Rs. 28.499 Bn., while its income and profit after tax amounted to Rs. 43.741 Bn. and Rs. 4.305 Bn., respectively.

**Our Products, Services and Operational Structure**

The activities of the Bank are mainly conducted within an operational structure which consists of four divisions - Corporate Banking, Personal Banking, Treasury and International Operations which offer a gamut of financial services to customers through our widespread delivery channels. Given below is a summary of the products and services offered, delivery channels and product/services logos:

	Personal Banking	Corporate Banking	Treasury	International Operations
Products	Please refer the section on 'Personal Banking' in the Management Report on pages 34 to 36 of the Annual Report	Please refer the section on 'Corporate Banking' in the Management Report on pages 37 to 39 of the Annual Report	Please refer the section on 'Treasury' in the Management Report on pages 40 and 41 of the Annual Report	Please refer the section on 'International Operations' in the Management Report on pages 42 to 45 of the Annual Report
Delivery Channels	Branch network, ATM network, Internet Banking, Holiday Banking Centres, Saturday Banking, Priority Banking, Telephone/SMS Banking, Mobile ATM, Mobile Phone Banking Facility	Branch Network, ATM Network, Internet Banking	Branch Network, Treasury Division	Branch network, ATM network, Business Promotion Officers in Exchange Houses

**Logos of our Products and Services**



### Level of Outsourcing

The Bank does not outsource key functions involving the use of its strategic capabilities, leading to sustainable competitive advantage.

However, it always explores the possibilities of outsourcing non-key functions with the aim of maximising return to stakeholders. Some of the functions outsourced by the Bank include:

- The sorting of cash and cash transportation
- Building maintenance and janitorial services
- Security services
- Transport services
- Back office and support staff - including office helpers, typists and telephone operators
- IT support services
- Printing and dispatching of bank statements
- Courier services
- Maintenance of the Share Ledger and related work

### Our Geographical Presence

The Bank has established operations in Sri Lanka and Bangladesh and also has placed Business Promotion Officers in Kuwait, UAE, Qatar, Oman and Jordan. The Bank is continuously exploring opportunities to venture into other overseas markets with a view to making our presence globally more visible.



## Awards And Accolades

The Commercial Bank has won a haul of awards and accolades from various bodies in recognition of its manifold achievements. Awards received during the reporting period are given in blue in the table below:

	1999/00	2001	2002	2003	2004	2005	2006	2007	2008	2009
<ul style="list-style-type: none"> <li><b>Ratings by Fitch Ratings Lanka Ltd.</b> Senior Debt</li> </ul>		SL AA +	SL AA +	SL AA +	AA+ (sri)	AA+ (sri)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)
<ul style="list-style-type: none"> <li><b>Awards by The Global Finance Magazine (USA)</b> Best Bank in Sri Lanka</li> </ul>	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner
<ul style="list-style-type: none"> <li><b>Awards by The Banker Magazine (UK)</b> Bank of The Year in Sri Lanka</li> </ul>		Winner	Winner	Winner	Winner	Winner		Winner	Winner	
<ul style="list-style-type: none"> <li><b>Award for Excellence by Euro Money Magazine (UK)</b> Best Bank in Sri Lanka (1st Bank in Sri Lanka to win this award)</li> </ul>								Winner		
<ul style="list-style-type: none"> <li><b>Award for Excellence by Trade Finance Magazine (UK)</b> Best Local Trade Bank</li> </ul>										Winner
<ul style="list-style-type: none"> <li><b>Awards by Finance Asia</b> Best Bank in Sri Lanka</li> </ul>										Winner
<ul style="list-style-type: none"> <li><b>Awards by Ministry of Labour Relations and Manpower together with ILO Office in Sri Lanka</b> National Decent Work Award</li> </ul>										Gold
<ul style="list-style-type: none"> <li><b>Bracken Award by The Banker Magazine (UK)</b> Sri Lanka's Bank of The Year</li> </ul>								Winner		
<ul style="list-style-type: none"> <li><b>Annual Report Awards by The Institute of Chartered Accountants of Sri Lanka</b></li> </ul>										
Overall		Winner	Winner	Winner	Winner	Winner	1st R. up	Joint Winner		
Banking Sector		Winner	Winner	Winner	Winner	Winner	Winner	Winner	Joint 1st R. up	
Corporate Governance Disclosure		Winner	Winner	Joint 1st R. up	Winner				Joint 1st R. up	
Corporate Social Responsibility			Joint 2nd R. up	Joint 1st R. up						
Management Commentary								Joint 1st R. up	2nd R. up	
<ul style="list-style-type: none"> <li><b>Annual Report Awards by the South Asian Federation of Accountants (SAFA)</b></li> </ul>										
Overall					Winner	2nd R. up	1st R. up	Joint Winner		
Financial/Banking Sector		Winner	Winner	Winner	Winner	Winner	Winner	Winner	Joint 1st R. up	
Corporate Governance Disclosure						Winner				
<ul style="list-style-type: none"> <li><b>National Business Excellence Awards by the National Chamber of Commerce of Sri Lanka</b></li> </ul>										
Overall							Winner	N/A		
Large Scale Investments						N/A	N/A	Winner		
Extra Large Sector						2nd R. up	Winner	N/A		
Block Buster Performance						N/A	Winner	N/A		
Banking Sector						Winner	Winner	N/A		
Business & Financial Sustainability						Winner	Winner	N/A		
<ul style="list-style-type: none"> <li><b>Human Resource Management (HRM) Awards</b></li> </ul>										
National/Overall/Gold		Winner						Winner		Winner
Overall (Large Sector)						Winner				
Most Innovative HR Practice (Large Sector)						Winner				
<ul style="list-style-type: none"> <li><b>National Best Quality Software Awards by The British Computer Society (Sri Lanka Section)</b></li> </ul>										
Financial Sector (Com e-Load Product)								Silver		
Financial Sector (Com Bank Online Product)								Merit		
<b>BANK'S ACHIEVEMENTS IN BANGLADESH OPERATIONS</b>										
<ul style="list-style-type: none"> <li><b>Credit Ratings by Credit Rating Information Services Ltd.</b></li> </ul>					AA	AA	AA	AA	AA+	AA+
<ul style="list-style-type: none"> <li><b>'A Class Bank' by CAMELS Rating</b></li> </ul>					A	A	A	A	A	A
<ul style="list-style-type: none"> <li><b>Partex Business Awards by Robintex Financial Mirror</b> Best Foreign Bank</li> </ul>						Winner	Winner	Winner	Winner	Winner
<ul style="list-style-type: none"> <li><b>Arthakantha Business Awards for Outstanding Achievements</b> Best Foreign Bank (Banking Sector)</li> </ul>					Winner	Winner				Winner
<ul style="list-style-type: none"> <li><b>Financial News Services (FNS) Business Awards</b> Best Performing Foreign Bank</li> </ul>						Winner				
<ul style="list-style-type: none"> <li><b>The Industry-Business Awards by The Industry Magazine</b> Best Foreign Bank</li> </ul>					Winner			Winner		
<ul style="list-style-type: none"> <li><b>Institute of Cost and Management Accountants of Bangladesh</b> National Best Corporate Award</li> </ul>								2nd R. up		2nd R. up
<ul style="list-style-type: none"> <li><b>Deshar Kagaj Business Award</b> Best Foreign Bank</li> </ul>								Winner		

### Markets Served

The Bank pushed ahead with modest growth in terms of providing added facilities to its customers, in a year that challenged growth.

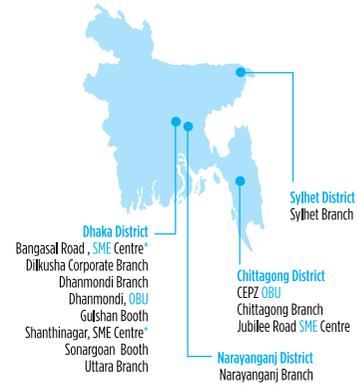
Our delivery points expanded to 172 in Sri Lanka and 15 in Bangladesh. Also our ATM network grew by 20 in Sri Lanka and 3 in Bangladesh to reach 355 and 13 respectively at the end of the year.

### Banking Hours

Abb/Suffix	Description	Weekdays	Saturday	Sunday	Bank Holidays
		9 to 3	-	-	-
●		9 to 3	9 to 3	9 to 3	9 to 3
*		9 to 3	9 to 3	9 to 3	9 to 1.30
☒	Branches	10 to 7	10 to 7	10 to 7	10 to 7
❖		9 to 3	9 to 1.30	-	-
○		9 to 3	-	9 to 1.30	-
⊙		9 to 4	-	-	-
(-)		10 to 5	10 to 5	-	-
CSP ◆	Customer Service Points	9 to 3	-	-	-
MiniCom ☆	Banking Centres at Cargills	9.30 to 7	9.30 to 7	9.30 to 7	9.30 to 7
MiniCom ■	Food City Supermarkets	10 to 7.30	10 to 7.30	10 to 7.30	10 to 7.30
ASP ✕	Banking Centres at Arpico Supercentres	10 to 7.30	10 to 7.30	10 to 7.30	10 to 7.30
SP ⊕	Service Points	9.30 to 7	9.30 to 7	9.30 to 7	9.30 to 7
SP +		10 to 7.30	10 to 7.30	10 to 7.30	10 to 7.30

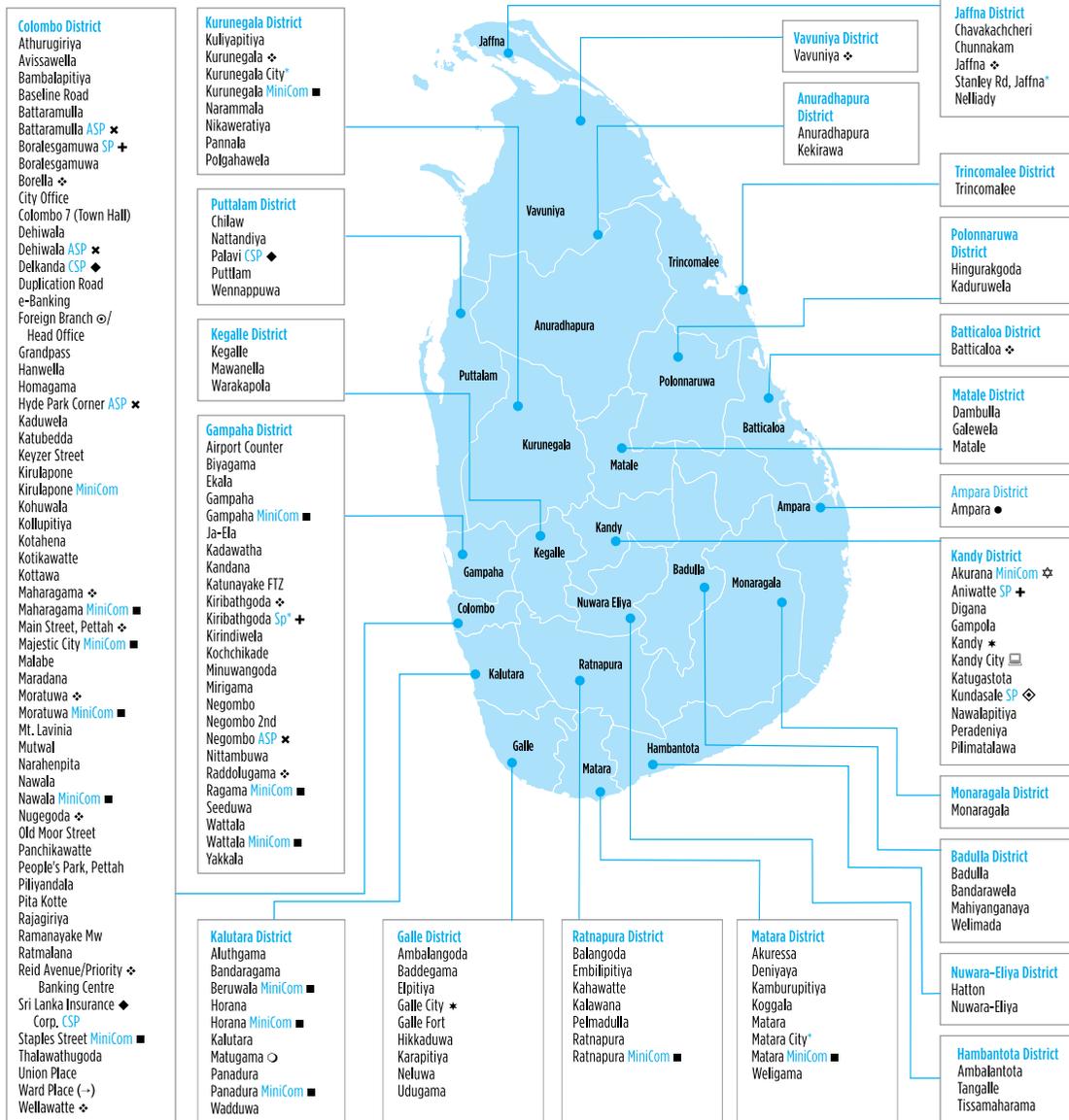
Branches open from 9 a.m. to 1.30 p.m. on Bank holidays will be notified by press releases

### Network of Outlets in Bangladesh



\* Opened in 2009 / SME Small & Medium Enterprises / OBU Offshore Banking Unit

### Network of Outlets in Sri Lanka



\* Opened in 2009

## REPORT PARAMETERS

### Report Profile

The reporting period covered by this first Sustainability Supplement prepared as per Global Reporting Initiatives Guidelines is the Bank's financial year ended December 31, 2009. The Bank intends to publish this report annually.

**Our contact point** for inquiries or clarifications regarding this Sustainability Supplement is:

The Central Accounts Department at Commercial Bank's Head Office which is located at 'Commercial House', 21, Bristol Street, Colombo 01, Sri Lanka. For any information or clarification please write to the above address or E-mail: **email@combank.net**.

### The Scope and Boundary

This Report is based on the 'Triple Bottom Line' principles and is guided by the criteria applicable to Level C of GRI-G3 Guidelines.

A summary of stakeholder engagement appears on pages 59 to 61 of this Report.

The content of this Report is limited to the Sri Lankan operations of the Bank. In ensuing years we will strive to improve our reporting to more-fully encompass the provisions stipulated by the GRI.

The financial data presented in this report has been extracted from the Audited Financial Statements where applicable.

The Section on Economic Performance has been prepared based on the data obtained from the Bank's Audited Financial Statements for the year ended December 31, 2009, which in turn has been prepared in accordance with the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka. These Financial Statements have been audited by the Bank's External Auditors, Messrs Ernst & Young, Chartered Accountants and their Report is found on page 205 of this Annual Report.

Information on Environment has been compiled from actual data maintained by various business units of the Bank.

The data on Social Performance, namely, Labour and Human Rights, Products and Service Responsibility and Society were obtained on site.

## GOVERNANCE, COMMITMENTS AND ENGAGEMENT

### Governance

Disclosure on the Governance Structure of the Bank including committees under the highest governance body which is the Board of Directors, is given in the Section on 'Corporate Governance' on pages 125 to 162 of the Annual Report.

Commercial Bank conducts an ongoing dialogue with the three employees' unions/ executive associations of the Bank with the objective of obtaining the views of their membership on matters pertaining to good governance.

The Bank also strengthens this 'bottom up' approach through quarterly meetings conducted at regional level with the participation of regional and branch managers who directly interact with customers. These meetings yield a healthy exchange of views as well as viable methods of improving existing processes and procedures. Such matters are then brought to the notice of the highest governing body.

During the year under review, the Bank identified 51 senior officers from different functional areas for a cross functional training programme. This programme is being carried out on an ongoing basis to seek innovative ideas by middle-level managers to ensure highest standards of performance for the Bank.

#### **Linking Compensation with Company Performance**

In this connection, the Bank's Corporate Plan establishes targets and identifies priorities and goals which are to be achieved by each profit centre on which the individuals are rewarded based on the levels of achievement of the targets. Further details in this regard is found in the Board Human Resources and Remuneration Committee Report on pages 158 to 160 of the Annual Report.

#### **Putting our Vision, Mission, Values, Ethics and Codes of Conduct to Work**

The Bank's Vision, Mission and Corporate Plan are applied across every facet of business operation to promote a target/performance driven culture within the Bank.

Aspects of special focus include - ensuring that all activities undertaken by the Bank are consistent with the applicable requirements of our Social and Environmental Management System (SEMS). 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.

In this regard, the Bank has set the following goals:

- To identify and assess social and environmental impacts, both adverse and beneficial, in a 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 promote improved social and environment performance of our client companies through the effective use of management systems.

All projects are evaluated in terms of the degree of risks associated in relation to social and environmental issues. Thereafter it is linked to project evaluation based on internal guidelines prepared by the Bank. In addition, Social and Environment due diligences are also carried out as part of the appraisal process, if required.

Further, every employee is a signatory to an Oath of Secrecy and a Code of Conduct, developed internally, to which they must adhere to during their tenure of employment with the Bank.

## Commitments to External Initiatives

### Identifying and Managing Sustainable Business Initiatives at Board Level

The Bank has several mechanisms in place enabling the Board of Directors to be adequately informed and equipped to oversee the economic, environmental and social performance and to steer its activities in the right direction.

Given below are some of the mechanisms in place in achieving the objective stated above:

- The Chief Risk Officer (CRO) is required to conduct presentations to the Board of Directors, at least on a quarterly basis on the risk management strategies and outcomes of the Bank.
- A 'Social and Environmental Co-ordinator' has been appointed making him and his team responsible to the Board of Directors for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities and compliance with internal circulars and regulatory requirements.
- An extensive SWOT Analysis is carried out by the Bank in preparation of its Annual Corporate Plan with a view to identifying its strategic position. The findings from this analysis are then used to develop strategies to maximise the use of opportunities through its strategic capabilities while neutralising the effects of weaknesses and threats.
- A system is in place to update the Board of Directors on a quarterly basis on compliance in respect of both Sri Lanka and Bangladesh operations of the Bank. The information provided is validated by the Internal Audit Department of the Bank.
- The Assets and Liabilities Management Committee (ALCO) of the Bank supports the Board of Directors to maximise the yield on its assets and liabilities taking timely action in repricing them.

### Addressing the Principle of Precaution

- The Bank has recently obtained ISO 27001 on its information security functionalities. Commercial Bank became the first Sri Lankan bank to obtain this international certification. This certification yields definite positive leverage for the Bank over competition by enhancing the levels of customer confidence.
- All critical processes and procedures of the Bank are well-documented to ensure smooth functioning and to avoid multiple interpretations or repetitions.

### The Bank as a Party/Adherent to External Initiatives and Charters

The Bank is a signatory to 'United Nations Global Compact' (UNGC) Principles.

The Bank ensures due compliance with the Codes of Best Practice for Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka, the details of which are given on pages 125 to 153 of the Annual Report.

### Memberships that Matter

Commercial Bank maintained strong and vibrant membership in several key associations. These organisations are:

- The Ceylon Chamber of Commerce of Sri Lanka
- International Chamber of Commerce of Sri Lanka
- European Chamber of Commerce of Sri Lanka
- The National Chamber of Commerce of Sri Lanka
- Society for International Development (SID)
- Lanka Swift User Group (LSUG)
- Institute of Bankers of Sri Lanka (IBSL)
- Sri Lanka Banks' Association (Guarantee) Ltd.
- Clearing Association of Bankers

### Stakeholder Engagement

The Bank defines 'Stakeholder' as any group or individual who can affect or be affected by the achievement of/failure to achieve the Bank's objectives.

The Bank maintains regular engagement with key stakeholder groups. The frequency of engagement varies from annual to ad-hoc meetings, discussions and other forms of communication as explained in the table below:

Stakeholders	Topics Discussed/Matters Raised during Engagement	Methods/Frequency of Response
<ul style="list-style-type: none"> <li>• Shareholders</li> <li>• Debentureholders</li> <li>• Beneficiaries of the Employee Share Option Plan (ESOP) of the Bank</li> <li>• Rating Agencies</li> <li>• Financial Analysts</li> </ul>	<ul style="list-style-type: none"> <li>• Reasons for increase in Non-Performing Loans and Advances of the Bank</li> <li>• Reasons for negative growth in advances portfolio of the Bank</li> <li>• Current status of the oil hedging transactions entered into by the Bank</li> <li>• Plans to improve provision cover</li> <li>• Plans to improve cost to income ratio</li> <li>• Plans to raise capital to improve Capital Adequacy Ratio</li> <li>• Plans to invest excess liquidity</li> <li>• Ways of minimising tax liability through effective tax planning</li> <li>• Branch expansion plans</li> <li>• New products to be launched</li> <li>• Increase in foreign exchange income due to excellent treasury management</li> <li>• Privilege cards to shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Reports</li> <li>• Annual General Meeting</li> <li>• Interim Financial Statements</li> <li>• Press conferences and media releases</li> <li>• Dividend announcements</li> <li>• Corporate website: <a href="http://www.combank.net">www.combank.net</a></li> <li>• One-to-one discussions</li> </ul>

Stakeholders	Topics Discussed/Matters Raised during Engagement	Methods/Frequency of Response
<ul style="list-style-type: none"> <li>Customers</li> </ul>	<ul style="list-style-type: none"> <li>Include factors such as friendliness and helpfulness of employees, professionalism, treating customers with respect, and handling transactions in good time and without mistakes etc., in rewarding employees as a key components of the performance appraisal system of the Bank</li> <li>Branch layout supporting customer convenience and the Bank's continuing efforts to improve such layouts</li> <li>Facilitating customers in making payments for utility bills such as electricity, water, telephone, mobile, insurance, school fees and payments for credit cards in selective banks</li> <li>Interest rates, securities, terms &amp; conditions etc.</li> </ul>	<ul style="list-style-type: none"> <li>Branches</li> <li>Minicomms</li> <li>Customer service points</li> <li>Internet feedback facility</li> <li>Relationship/Account managers engaging directly with corporate customers</li> <li>Mobile banking</li> <li>Customer-relationship workshops</li> </ul>
<ul style="list-style-type: none"> <li>Employees</li> <li>Employee Unions and Executive Associations</li> </ul>	<ul style="list-style-type: none"> <li>Liquidity and funding strategy</li> <li>Environmental legislation</li> <li>Remuneration packages</li> <li>Staff welfare</li> <li>Validation of credit and market risk models</li> <li>Compliance with the National Regulations</li> <li>Implementation of anti-money laundering practices</li> <li>Bank's future plans to improve current position</li> <li>Basel II implementation</li> <li>New Accounting Standards</li> </ul>	<ul style="list-style-type: none"> <li>Annually: <ul style="list-style-type: none"> <li>Relationship building exercises with all three Trade Unions/Executive Associations</li> <li>Special events such as Quiz Competition, Children's Party, Art Competition, Sports Competitions, etc.</li> </ul> </li> <li>Quarterly: Com Pulse (internal newsletter)</li> <li>Daily: Operational communications (operational updates via email)</li> <li>Cross functional training programmes which facilitate emergence of new ideas from middle level managers</li> <li>Scheduled meetings</li> <li>Adhoc meetings held with the employees and unions when need arises</li> <li>Collective agreement negotiations</li> </ul>
<ul style="list-style-type: none"> <li>The Sri Lanka Banks' Association (Guarantee) Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>Impact of new Accounting Standards &amp; other regulatory requirements</li> <li>Discussions with policy makers on industry specific tax matters</li> </ul>	<ul style="list-style-type: none"> <li>Formal and informal interaction with the Sri Lanka Banks' Association</li> <li>Industry specific communication</li> </ul>

Stakeholders	Topics Discussed/Matters Raised during Engagement	Methods/Frequency of Response
<ul style="list-style-type: none"> <li>Suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Possible procurement opportunities offered by the Bank</li> <li>Process of engagement and registration on preferred supplier database</li> <li>Contractual performance</li> </ul>	<ul style="list-style-type: none"> <li>Supplier-relationship management</li> <li>On-site visits and meetings</li> </ul>
<ul style="list-style-type: none"> <li>Communities and Youth</li> </ul>	<ul style="list-style-type: none"> <li>Investments in corporate social responsibility</li> <li>Channeling funds to maximise impact on communities</li> <li>Scholarships to university students</li> <li>Reach the youth segment through sponsorships</li> <li>International profiling of the brand through sports and arts</li> </ul>	<ul style="list-style-type: none"> <li>Workshops and seminars</li> <li>Conferences</li> <li>Scholarships</li> <li>Sponsorships</li> </ul>
<ul style="list-style-type: none"> <li>Central Bank of Sri Lanka</li> <li>Department of Inland Revenue</li> <li>Finance Ministry</li> <li>Registrar of Companies</li> <li>Other Government Organisations</li> <li>Donor Agencies</li> <li>Ceylon Chamber of Commerce</li> <li>External Auditors</li> <li>Colombo Stock Exchange</li> <li>Securities and Exchange Commission of Sri Lanka</li> <li>Professional Organisations and Business Community including The Institute of Chartered Accountants of Sri Lanka</li> <li>Financial Ombudsman</li> <li>Employers' Federation of Ceylon</li> </ul>	<ul style="list-style-type: none"> <li>Financial services sector specific regulations by the Central Bank of Sri Lanka</li> <li>Other Government regulations including taxes</li> <li>Compliance with the Code of Best Practices for corporate governance issued by The Institute of Chartered Accountants of Sri Lanka &amp; Securities Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka</li> <li>Banking license fee</li> <li>Role of business in society</li> <li>International financial crisis</li> <li>Small and Medium Enterprise (SME) access to finance</li> <li>Implementation of Social and Environmental Management System in line with the guidelines of the International Finance Corporation</li> <li>Issues that affect the well-being of employees</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder meetings</li> <li>Directives</li> <li>Filing of returns</li> <li>Consultations</li> <li>In areas of socio-economic sensitivity, engagement is dictated by the issues raised</li> </ul>
<ul style="list-style-type: none"> <li>Media</li> </ul>	<ul style="list-style-type: none"> <li>Interim and annual results</li> <li>New products, services and geographical locations</li> <li>Microfinancing and SME development</li> <li>Corporate Social Responsibility initiatives</li> <li>Staff recruitments</li> <li>Communication with the general public</li> </ul>	<ul style="list-style-type: none"> <li>Formal and informal communication</li> <li>Press conferences</li> <li>Media briefings</li> <li>Press releases</li> </ul>





### Providing 'Safe' Light

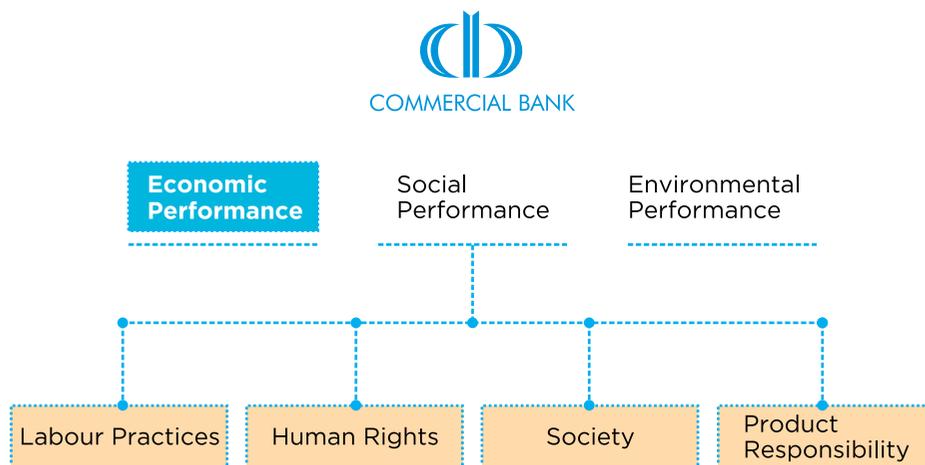
The Bank donated 15,000 'Bottle Lamps' to school children in the Kaduruwela, Galewela and Polonnaruwa areas in the North-Central Province. Two lamps were donated for each child's home. Before the lamps were donated, a short skit was performed at each school to show children how these lamps should be used.

Every year, homes without electricity experience accidents because of unsafe lighting devices powered by kerosene oil. School children who tend to study by lamp light are often the first casualties.

The 'Safe Bottle Lamp Foundation' has designed a low cost 'bottle lamp', made out of re-cycled glass. The lamp has a low centre of gravity with a heavy bottom and two flat sides to prevent toppling. It also comes with a screw - on metal cap that prevents kerosene spillage.

In the coming years the Bank will make safe lighting devices more widely available throughout the country through its CSR Trust Fund.

## Our Approach to Economic Performance



We at Commercial Bank are well aware of our responsibility towards all our stakeholders, given the fact that we are in an extremely competitive industry. Therefore, our economic policy has been developed with due attention to these factors whilst ensuring sustainable performance and growth.

The economic indicators we report in this Sustainability Supplement will facilitate to understand capital flows among different stakeholders and the main impacts of the organisation throughout society.

### OUR POLICY

*Commercial Bank is committed to delivering sustainable economic performance and growth to all its stakeholders. As such each and every activity of the Bank is directed at ensuring the response to the question of 'Will it add value to the stakeholders?' which is our litmus test.*

### GOALS AND PERFORMANCE

Our Bank which is considered as the benchmark private sector bank in Sri Lanka prepares a comprehensive Corporate Plan and the Budget and sets directions to all business units in the form of challenging targets which are aligned centrally, focusing on the maximisation of stakeholder value. The Corporate Plan and the Budget is prepared annually covering a period of 5 years on a rolling basis. In addition, Management Accounts are prepared on a monthly basis and variances are identified, analysed and reported for information of the Board of Directors, with action plans to improve performance.

Core strategies formulated are adequately discussed at regular meetings of the Board of Directors and at various Management Committee meetings. Functional strategies and targets which stemmed from core strategies are communicated to appropriate levels in a timely manner. The Strategic Business Units of the Bank consist of Corporate Banking, Personal Banking, Treasury and International Operations. Details on the performance of these Strategic Business Units are discussed in detail in the Management Report on pages 34 to 45 of the Annual Report.

The performance driven culture under which each individual's objectives are set, is designed to align with the goals of the overall strategy of the Bank. In this endeavour, the Bank's corporate value system drives initiatives to achieve organisation wide economic goals.

Further, the functions of the Bank are well-linked to the strategy which provides guiding principles for its Vision and Mission. The Vision and Mission of the Bank are found on the back cover of this Annual Report as well as in the Bank's Website: '[www.combank.net](http://www.combank.net)'.

Information on 'Financial Goals and Achievements' are given on page 3 of the Annual Report.

Further, compliance with all statutory laws and regulations and payment of all dues within specified time frames of these statutory requirements are among the key priorities of the Bank.

The Financial Statements of the Bank have been prepared in compliance with the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka and the relevant provisions of the Companies Act No. 07 of 2007. The Bank has put in place a superior governance mechanism, the details of which are found in the Section on 'Stewardship' from pages 125 to 173 of this Annual Report.

The details of the economic performance of the Bank during the year under review appear in the following sections that elaborate on our success stories and short-comings, changes to systems and structures to improve performance, strategies for implementing policies to achieve superior performance while focusing on related risks and opportunities.

- 'Financial Highlights and Operating Highlights' on pages 2 and 3,
- 'Management Report' on pages 9 to 46,
- 'Investor Relations Supplement' on pages 176 to 190, and
- 'Risk Management' on pages 106 to 124 of this Annual Report.

## KEY PERFORMANCE INDICATORS - ECONOMIC

Economic performance by Commercial Bank is evaluated using the following indicators:

### Economic Value Added (EVA)

EVA is a measure of profitability which takes into consideration, the cost of total invested equity. At Commercial Bank, we are deeply conscious of delivering maximum value to all our stakeholders consistently. We still remain as one of the very few companies in Sri Lanka that has embraced EVA as a measure of performance. The EVA created over the last five years is tabulated below:

	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000	2006 Rs. '000	2005 Rs. '000
<b>Invested Equity</b>					
Shareholders' Funds	28,498,980	25,891,229	22,936,037	14,842,841	13,861,828
Add: Cumulative Loan Loss Provision	5,014,604	4,954,774	3,557,301	2,536,465	2,192,293
	<b>33,513,584</b>	<b>30,846,003</b>	<b>26,493,338</b>	<b>17,379,306</b>	<b>16,054,121</b>
<b>Earnings</b>					
Profit after Taxation and Dividends on Preference Shares	4,304,989	4,227,688	3,991,065	1,815,210	2,133,888
Add: Loan Losses and Provisions	1,533,698	2,278,212	1,777,476	655,070	414,864
Less: Loan Losses Written-Off	(23,412)	(5,141)	(1,836)	(7,698)	(5,011)
	<b>5,815,275</b>	<b>6,500,759</b>	<b>5,766,705</b>	<b>2,462,582</b>	<b>2,543,741</b>
Cost of Equity based on 12 months Weighted Average					
Treasury Bill Rate plus 2% for the Risk Premium	15.45%	20.92%	18.07%	12.91%	10.87%
Cost of Average Equity	4,971,778	5,997,695	3,963,893	2,158,128	1,636,637
<b>Economic Value Added</b>	<b>843,497</b>	<b>503,064</b>	<b>1,802,812</b>	<b>304,454</b>	<b>907,104</b>

In EVA terms, we have created Rs. 843.497 Mn. during the year 2009 and more than Rs. 4.3 Bn. over the past five years.

### Sources and Distribution of Income

The purpose of this exercise is to analyse the principal sources of income of the Bank and how this income was distributed among various stakeholders. The distribution of value so created during the last five years is summarised below:

### Sources and Distribution of Income

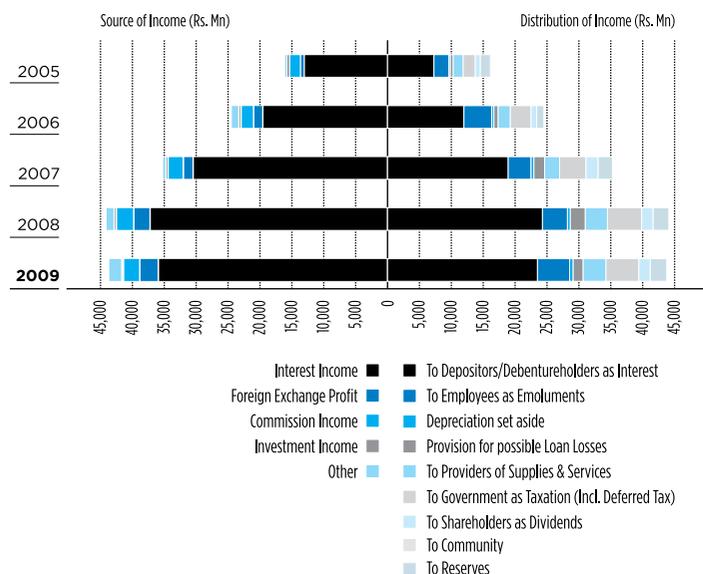
For the year ended December 31,

	2009	2008	2007	2006	2005
	Rs. Mn.				
<b>Source of Income</b>					
Interest Income	35,925	37,188	30,503	19,532	13,033
Foreign Exchange Profit	2,962	2,633	1,545	1,439	587
Commission Income	2,530	2,715	2,383	2,011	1,760
Investment Income	219	359	310	305	441
Other	2,105	1,220	482	1,182	279
	<b>43,741</b>	<b>44,115</b>	<b>35,223</b>	<b>24,469</b>	<b>16,100</b>

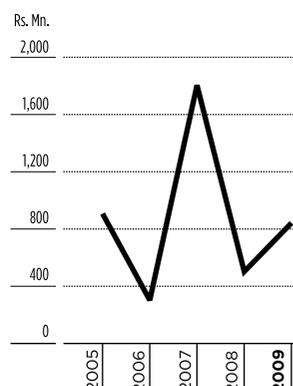
### Distribution of Income

To Depositors/Debtentureholders as Interest	23,515	24,336	18,951	11,955	7,226
To Employees as Emoluments	5,081	3,926	3,539	4,374	2,364
Depreciation/Amortisation set aside	506	421	411	376	299
Provision for Possible Loan Losses	1,534	2,278	1,777	655	415
To Providers of Supplies & Services	3,619	3,511	2,252	1,905	1,517
To Government as Taxation (Incl. Deferred Tax)	5,159	5,352	4,159	3,178	1,905
- Income Tax	2,887	3,252	2,601	2,201	1,278
- Financial VAT	2,264	2,091	1,552	971	623
- Debits Tax	8	9	6	6	4
To Shareholders as Dividends	1,749	1,786	1,856	911	869
To Community	22	23	30	14	10
To Reserves	2,556	2,482	2,248	1,101	1,495
	<b>43,741</b>	<b>44,115</b>	<b>35,223</b>	<b>24,469</b>	<b>16,100</b>

Sources and Distribution of Income 2005-09



Economic Value Added 2005-09

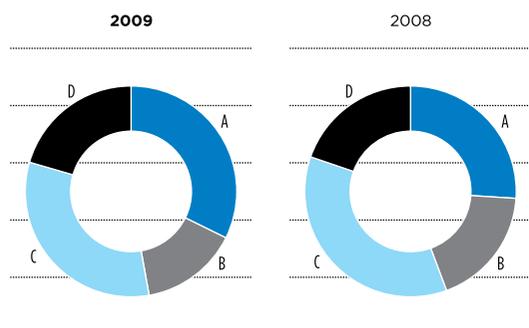


### Value Addition and Distribution

This shows how the wealth was generated, and how it was distributed among the key stakeholders of the Bank, taking into account the amounts retained and re-invested for the replacement of assets and improvements to operations. The information on Value Addition is given in the table below:

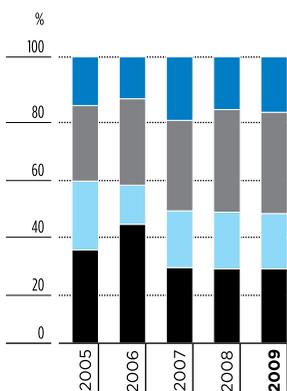
	2009		2008	
	Rs. '000	%	Rs. '000	%
<b>Value Added</b>				
Income from Banking Services	42,736,346		43,236,404	
Cost of Services	(26,436,480)		(26,805,168)	
Value Added by Banking Services	16,299,866		16,431,236	
Non-Banking Income	1,004,587		878,845	
Loan Losses and Provisions	(1,533,698)		(2,278,212)	
	15,770,755		15,031,869	
<b>Distribution of Value Added</b>				
<b>To Employees</b>				
Salaries and Other Benefits	5,080,531	32.22	3,926,397	26.12
<b>To Providers of Capital</b>				
Dividends to Shareholders	1,749,336		1,786,498	
Interest to Debentureholders	625,759		977,881	
	2,375,095	15.06	2,764,379	18.39
<b>To Government</b>				
Income Tax	2,796,005		3,260,795	
Financial VAT	2,264,116		2,091,468	
Debits Tax	8,257		9,150	
	5,068,378	32.14	5,361,413	35.67
<b>To Expansion and Growth</b>				
Retained Profit	2,555,653		2,481,874	
Depreciation	577,808		483,611	
Deferred Taxation	90,848		(9,025)	
	3,224,309	20.44	2,956,460	19.67
<b>To Community Investments</b>				
Donations	22,442		23,220	
	22,442	0.14	23,220	0.15
	15,770,755	100.00	15,031,869	100.00

Distribution of Value Added



- A - To Employees
- B - To Providers of Capital
- C - To Governments
- D - To Expansion & Growth
- E - To Community

Distribution of Value Added 2005-09



- To Providers of Capital
- To Governments
- To Expansion & Growth
- To Employees
- To Community

Details of value of 'Community Investments' carried out by projects completed are given below:

	2009 Rs. '000	2008 Rs. '000
<b>Projects</b>		
Rural School Development Projects	1,225.80	1,528.00
Health Care Assistance	938.50	1,229.70
Welfare Project for Disabled Soldiers	2,000.00	-
Village Development Projects	1,922.50	182.80
Undergraduate Scholarship	1,472.50	3,250.00
Community Service	5,036.50	6,489.30
<b>Total</b>	<b>12,595.80</b>	<b>12,679.80</b>

#### Financial Implications and other Risks and Opportunities due to Climate Change

The Bank is not directly exposed to risks arising from climate changes. However, due to the fact that it provides financial accommodation to customers engaged in industries/sectors such as agriculture, fisheries and exports, businesses that are highly vulnerable to climate changes, any adverse climate conditions could in turn indirectly impinge on the performance of the Bank due to defaults by customers.

Further, dealings with entities engaged in tourism and allied services and imports and exports are also exposed to risk from unfavourable climate conditions, both locally and globally.

Details on Significant Concentration on Credit Risk by industry categories are given in Note 20.6 to the Financial Statements on page 251 of the Annual Report.

#### Fulfilling the Obligations under Defined Benefit Plans and Defined Contribution Plans

##### Defined Benefit Plans

The Bank operates two types of Defined Benefit Plans for its employees:

1. An unfunded pension scheme
2. A retirement gratuity - as required by the Payment of Gratuities Act No. 12 of 1983.

The Bank duly carried out actuarial valuations on these retirement benefits obligations as at the year-end and the Bank's Actuary used the Projected Unit Credit Method as prescribed in Sri Lanka Accounting Standards No. 16 (Revised 2006) on 'Employee Benefits' for these valuations. The required provisions for shortfalls were made in full to bring the value of the assets in line with the present value of such obligations.

More details in this regard are given in 'Note M 9' under the Accounting Policies on Defined Benefit Plans on page 227 and under Notes 8, 31 & 38 to the Financial Statements on pages 234, 260 and 272 of this Annual Report.

##### Defined Contribution Plans

The Bank operates/makes contributions to three types of Defined Contribution Plans for its employees:

1. A funded Pension Scheme
2. Employees' Provident Fund
3. Contributions to Employees' Trust Fund

More details in this regard are given in 'Note M 10' under the Accounting Policies for Defined Contribution Plans on page 228 and under Note 8 to the Financial Statements on page 234 of this Annual Report.

**Significant Financial Assistance received from the Government**

The Bank receives financial assistance from Government/Donor Agencies to disburse loans to beneficiaries under refinance schemes. The details of these refinance schemes that were in operation are as follows:

Name of the Scheme	Terms and the Donor	Sectors Eligible	No. of Loans Granted as at December 31, 2009	Cumulative Amount of Loans Granted by December 31, 2009 Rs. Mn.
<b>Interest Subsidy Schemes</b>				
New Comprehensive Rural Credit Scheme	8% interest Subsidy from the Central Bank of Sri Lanka	Agriculture (Cultivation of selected crops)	5,176	580.33
Govi Sahanaya Scheme (Forward Sales Contract System)	6% interest Subsidy from the Government of Sri Lanka	Agriculture (Cinnamon cultivation)	578	2,683.54
Agro Livestock Development Loan Scheme	5% - 8% interest Subsidy from the Government of Sri Lanka	Diary farming and crop cultivation	346	43.62
Krushi Navodaya Programme	8% interest Subsidy from the Government of Sri Lanka	Agriculture	1,239	110.62
<b>Refinance Schemes</b>				
Kapruka Ayojana Coconut Development Credit Scheme	100% Refinanced by the Government of Sri Lanka	Coconut cultivation and development	200	96.30
Small and Medium Enterprise Regional Development Programme	75% Refinanced by the Asian Development Bank	Sole proprietorships, partnerships and limited liability companies of selected sectors including agriculture, food processing, education, IT, construction, metal, textile, plastic, etc.	61	533.50
SMILE 1 - Revolving Fund	70% refinanced by the Japan Bank for International Cooperation	Construction of factories, purchase of Property, Plant & Equipment, pre-operative expenses and working capital	204	448.30
Post-Tsunami Recovery Loan Schemes A & B	100% refinanced by the European Investment Bank	Private Sector Enterprises directly and indirectly affected by tsunami	41	455.90
Environmentally Friendly Solutions Fund (E-FRIENDS II)	70% refinanced by the Japan Bank for International Cooperation	Sole proprietorships, partnerships and limited liability companies, co-operative societies or other private enterprises for - 1. Purchase of equipment that leads to emission control, improved safety of work place and reduction in use of resources by utilising existing equipment 2. Relocation of highly polluting industries to special estates that are equipped with waste treatment plants	282	2,400.00
SMILE II - Revolving Fund	75% refinanced by the Japan Bank for International Cooperation	Working capital and construction of commercial buildings except for Municipal and Urban Councils in Colombo and Gampaha Districts	246	944.00
SMILE III	70% refinanced by the Japan Bank for International Cooperation	Construction of Buildings, Purchase of Fixed Assets, Permanent Working Capital Requirements etc.	1,692	6,800.00
Construction Sector Development Project Credit Scheme	100% refinanced by the Agence Française de Développement (AFD)	Reconstruction relating to post-tsunami	19	166.00
SREAP Revolving Fund	95% refinanced by the Asian Development Bank	Investments in Fixed Assets	24	19.20

## Market Presence

### Total Compensation and Benefit Strategy of the Bank - A Comparative View

The wage policy of the Bank is based mainly on the Collective Bargaining Agreements that are in operation covering specified employee categories as well as market surveys carried out from time to time, which indicate the highest and lowest range of wage structures in the industry. ***Since there is no regulation in place under the Shop and Office Employees' Act indicating the minimum wage applicable to employees covered under such Act,*** measures such as collective bargaining and continuous dialogue between and among employee associations, corporate peers and labour authorities, allow the Bank to keep abreast of current trends and policies pertaining to wage practices in the Banking industry and the Mercantile Sector as a whole.

The Bank having a special interest in ensuring the economic well-being of its employees recognises the hardships that an employee might have to undergo as a result of certain work related conditions. Cognisance has been taken of the facilities that are available to employees when carrying out feasibility studies prior to setting up branches.

### Policy, Practice and Proportion of Spending on Locally based Suppliers

The Bank follows a procedure whereby all requirements, whether capital or otherwise, are budgeted, for which the approval of the Board of Directors is sought. Once the relevant expenditure is approved, purchases are made with the approval of the Procurement Committee, which consists of well-experienced and proficient senior staff members drawn from the Corporate Management. Quotations/tenders are called for and evaluated and purchases made. The process is centrally driven to enjoy economies of scale and other similar advantages.

### Recruitment Procedures - Methodology

There are two entry levels to the Bank - as Banking Trainees or as Management Trainees. Mid-career recruitment may be considered only in relation to specialised job positions.

The recruitments take place centrally, mainly at the Head Office situated in Colombo. Applicants from all parts of the country are called to Colombo for the examinations and/or interviews. With regard to entry level positions for banking trainees, this approach is now changing towards adopting a more regionalised base.

As the first step, the Bank conducted examinations and selection interviews in the Northern and Eastern regions, in locations such as Jaffna, Trincomalee and Batticaloa, to recruit staff for the branches currently operating and scheduled to be opened in those areas.

In relation to placement of employees at various locations of operation, the Bank considers the home town and the distance required to be travelled by an employee before effecting placements/transfers at all times. This consideration can be overridden however by the exigencies of business.

With regard to mid-career recruitments, the basis of recruitment is the competencies held by the respective individuals and the experience they carry in the required field of work. Hence, this type of recruitment is carried out independent of any geographical consideration.

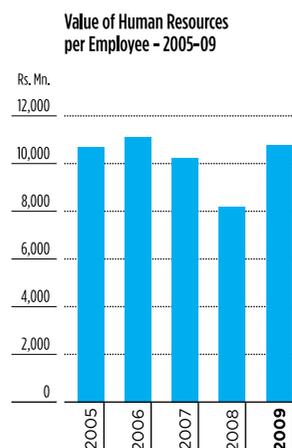
**THE VALUE OF OUR HUMAN CAPITAL IS ESTIMATED TO BE RS. 43.783 BN.**

**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, 2009.

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 8% - 12% on average.
- Total future remuneration of all the employees for each year is discounted to the present value at 15.45%, the 12 months weighted average Treasury Bill rate plus 2% for the risk premium.



**Age Analysis of the Staff as at December 31, 2009**

Category	Corporate Management	Executive Officers	Junior Executive Assistants & Allied	Banking Trainees (BT)/ Graduate Trainees (GT)	Office Assistants and Others	Total for the Year 2009	Total for the Year 2008
Above 60 years	1	1	-	-	-	2	2
51-60 years	13	169	33	-	39	254	236
41-50 years	6	318	148	-	76	548	522
31-40 years	1	656	227	-	25	909	861
21-30 years	-	326	1,155	636	-	2,117	2,084
20 and below	-	-	-	32	-	32	127
<b>Total</b>	<b>21</b>	<b>1,470</b>	<b>1,563</b>	<b>668</b>	<b>140</b>	<b>3,862</b>	<b>3,832</b>

**Service Analysis of the Staff as at December 31, 2009**

Above 20 years	14	358	93	-	84	549	574
16-20 years	1	336	150	-	42	529	396
11-15 years	1	267	86	-	14	368	399
6-10 years	1	143	24	-	-	168	161
Below 5 years	4	366	1,210	668	-	2,248	2,302
<b>Total</b>	<b>21</b>	<b>1,470</b>	<b>1,563</b>	<b>668</b>	<b>140</b>	<b>3,862</b>	<b>3,832</b>

**Factors that Exert Economic Impact**

**Our Propositions Linked to CSR Programmes**

The Bank's Development Credit Unit carried out a number of CSR Projects with a view to giving a helping hand to those living in areas with limited facilities under two concepts, namely, Village Development and Poverty Alleviation.

**Village Development Concept**

Under this concept, following aspects were considered for improvement.

• **Economic Development**

Identifying skillful personnel in the villages and granting them loans to start a business or expand their existing businesses. The purpose was to enhance the standards of living of beneficiaries and the improved money circulation encouraging them to venture into new businesses.

• **Village Infrastructure Development**

Supporting schools, temples, community centres, etc. in selected villages.

- **Livelihood Development**

Providing primary needs of students such as school uniforms, shoes, bags, etc.

- **Educational Development**

- Schools in the selected villages were encouraged to award prizes for the best performers.
- Computer labs were set up at certain selected schools, a syllabus was provided and the students were given exposure to technological developments.
- Computer labs were set up at public places, such as temples. School leavers were provided training and also the opportunity to obtain a certificate from a recognised institute.

- **Improve Health**

- Conducting Eye Camps and Dental Clinics at selected villages.
- Providing counselling for people (mostly for children) who require psychotherapy.

### Poverty Alleviation

Under this concept, given below are the various initiatives taken by the Bank targeting estate workers to cultivate the habit of saving and to improve their standard of living.

- Helping hand for dairy production to fulfill their dairy requirements and to generate an extra income from selling the excess produce.
- Home Gardening - the Bank also encourages estate workers to start up a small vegetable court in their garden. The home gardening model and the required finances are provided by the Bank.
- Animal husbandry - financial assistance is extended to set up poultry farms.
- Arrangements are made with large scale buyers such as Milco, CIC, Cargills, Rich Life, etc., to assure a market to sell the produce of the estate workers.
- Seasonal recovery of instalments (in two seasons, 'Yala' and 'Maha') from the beneficiaries for the finances provided for tractors.

Under this project, approximately 100 loans were granted and the Bank expects to increase this number considerably by the end 2010.

### Future Plans

- To start a micro farming village in Nikaweratiya.
- Forest conservation project in Kendahena Village, Alawwa in Kurunegala District to draw the attention of villagers away from deforestation and poaching.
- Jaffna has been identified as a potential place for introduction of special programmes for cultivation and fisheries.

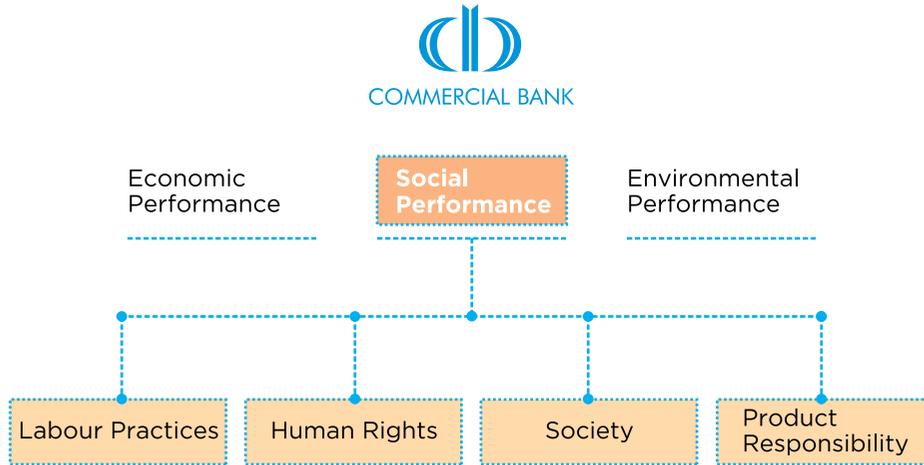


(01) Unveiling the  
Udahingura Wewa



(02) Dental clinic conducted at the  
Udawela Kumara Primary School

## Our Approach to Social Performance



The Bank pays attention on the impact its business has on the social systems within which it operates. Indeed, this is an integral 'pillar' of our sustainability regime.

In this segment, we will review the impact and performance across the key areas of Labour Practices, Human Rights, Society and Product Responsibility.

The Bank is a signatory to the United Nations Global Compact initiative. Given below are the Ten Principles which govern our Social and Environmental Policy based thereon:

### Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: Make sure that they are not complicit in human rights abuses.

### Labour Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: The elimination of all forms of forced and compulsory labour;
- Principle 5: The effective abolition of child labour; and
- Principle 6: The elimination of discrimination in respect of employment and occupation.

### Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: Undertake initiatives to promote greater environmental responsibility; and
- Principle 9: Encourage the development and diffusion of environmentally-friendly technologies.

### Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.





### **Bonding at the Bank**

The Bank's team spirit and work ethic are additional reasons why the Bank is the No. 01 private sector bank in the country. The Bank invests in each employee's skills development and ensures that they all pull together for a common purpose.



## Our Approach to Labour Practices and Decent Work

The Bank's Human Capital Policy places people at the centre. The Bank considers people as its most valuable asset and the manner in which the Bank has managed its people has been a crucial contributor to the Bank's success.

### OUR POLICY

*We at Commercial Bank espouse the 'equal opportunity' approach which is applied without favour across every aspect of operation, which then leads to a highly motivated employee base. This policy can be found in the Banks' website.*

### GOALS AND PERFORMANCE

The Bank's goal is to aspire at all times to be 'The Employer of First Choice'. Through the compassionate management of its Human Capital, the Bank creates a dedicated team who are passionate about what they do and who on their own initiate, direct and synergise their common creativity towards achieving continuous excellence and greater levels of customer convenience.

### ORGANISATIONAL RESPONSIBILITY

The Bank's HR function is headed by the Chief HR Officer, a member of the Corporate Management. He is assisted by two senior managers on aspects related to Human Resource Management and Human Resource Development. These officers handle all matters connected to labour practices and decent work.

### TRAINING AND AWARENESS

The Bank is committed at all times to ensure that its people develop to their utmost potential and to equip them to face challenges of the new millennium effectively and with dignity. Towards this objective the staff attached to the HR Department are regularly trained on current procedures relating to labour laws and regulations.

### KEY PERFORMANCE INDICATORS - LABOUR

#### Employment

##### Details of Workforce by Type, Employment Contract and Region

The Bank's total strength in Sri Lanka for the year under review stands at 3,862. Given below are the details of the spread of employment by type, contract, region and job category.

Type of Employment	No. of Employees
Full Time	3,862
Part Time	-

Province	No. of Branches	No. of Employees
Western	95	2,679
Central	16	257
Southern	20	291
Northern	06	108
Eastern	03	52
North Central	04	66
Uva	05	60
Sabaragamuwa	10	137
North Western	13	202
Sub Total (a)	172	3,852
<b>Others</b>		
BPOs	06	07
Sri Lankan Staff in Bangladesh	01	03
<b>Sub Total (b)</b>	07	10
<b>Total (a+b)</b>	179	3,862

Type of Contract	No. of Employees
Full Time Employees	3,862
Outsourced Employees	577
Confirmed in Service	3,179
Undergoing training/on probation in Service	683

Category	No. of Employees	Percentage (%)
Corporate Management	21	0.5
Executive Officers	1470	38
JEA & Allied	1563	40.5
Banking Trainees	668	17.3
OA & Others	140	3.7
<b>Total</b>	3,862	

### Details of Employee Turnover by Gender, Age Group and Province

The Bank recorded 91 resignations from service for the year under review. We present below details according to gender, age and geographic location.

Gender	No. of Employees	Percentage of Total Staff (%)	Province	Number	Percentage of Total Staff (%)
Male	75	2.0	Central	18	0.5
Female	16	0.4	North	05	0.1
			North Central	02	0.1
			North Western	06	0.2
			Sabaragamuwa	01	-
			Southern	05	0.1
			Uva	01	-
			Western	53	1.4
			<b>Total</b>	<b>91</b>	<b>2.4</b>

Age Group	No. of Employees	Percentage of Total Staff (%)
Above 60	-	-
51 - 60	6	0.2
41 - 50	8	0.2
31 - 40	16	0.4
21 - 30	60	1.6
20 & below	1	-

### Comparative Analysis of Benefits to Full and Part-Time Employees

The full-time employees of the Bank are subjected to annual performance appraisals which are used to remunerate them. In addition, these employees are also entitled to attractive bonus schemes, loans facilities granted at concessionary interest rates, special allowances and holiday bungalow facilities, etc. Further, they are also entitled to special rates of interest on certain categories of deposits and advances.

### Labour/Management Relations

#### Employees covered by Collective Bargaining Agreements

The Collective Agreements of the Bank cover 2,385 or 61.76% of the total staff cadre of 3,862.

#### Minimum Notice to Employees regarding Operational Changes

There is no time frame specified in the Collective Agreements in respect of advance notice on anticipated operational changes. However, current methodology adopted provides for comprehensive discussions between the respective parties, whereupon operational changes will be finalised. All staff members will then be informed by way of an Internal Circular. All circulars of this nature issued to date are found in the Intranet site of the HR Department to which all staff members have access.

### Occupational Health and Safety

#### Employee Representation on Company Health and Safety Committees

Although there are no formalised mechanisms in operation at present in respect of health and safety, the Bank adopts an inclusive approach by accommodating inputs from employee representative bodies and/or individuals, which are addressed as a matter of priority.

#### A Summary of Illnesses, Injuries, Lost Days on the Job

The total number of work-related injuries amongst employees during the year 2009 stood at 5. A total of 105 days were lost during the year to absenteeism in respect of these employees due to health and/or safety issues.

The rate of injury was computed as follows;

$$\begin{aligned}
 \text{Injury Rate} &= \frac{\text{No. of injuries for the year}}{\text{Total man-hours of the year}} \\
 &= \frac{5}{240.5 \times 8 \times 3862} \\
 &= 0.00000067 \text{ Injuries per man-hour}
 \end{aligned}$$

The number of work-related injuries for 2009 stood at 1 from the North Western Province and 4 from the Western Province.

### Education and Risk Control on Health Issues

Although the Bank does not run formalised programmes on prevention of diseases, it has a comprehensive medical screening process for employees at the point of recruitment. These measures are augmented by medical check-up programmes for selected grades and stress thresholds - such as those applicable to drivers - which help maintain a healthy workforce.

With regard to situations of stress and trauma in instances such as bank robberies or natural disasters, affected employees are provided counselling to support their rehabilitation.

The Bank's training programmes for Executive Officers include subjects such as handling work-related stress.

The Bank in association with the Occupational Health Division of the Department of Labour conducts periodic dust and emission tests in relation to certain vulnerable locations across the network.

### Health and Safety Topics covered in Formal Agreements with Trade Unions

The Bank's ongoing Collective Agreements with employees contain full details of agreed upon Medical Schemes and Medical Leave procedures.

In recognition of the advancing role of IT in business, the Bank and the Unions have agreed upon comprehensive measures governing the use of Visual Display Units, where health issues and safety measures relating to the use of computer terminals have been fully addressed to the satisfaction of both parties.

### Training and Development

#### Average Hours of Training per Employee per Category

Category	No. of Employees	Average Hours of Training per Year
Corporate Management	21	8.10
Executive Officers	1,470	17.15
Junior Executive Assistant & Allied	1,563	15.64
Banking Trainees	668	39.39
Office Assistants and others	140	-

### Skills Management and Learning towards Continued Employability

The Bank's Staff Development Centre (SDC) provides our employees with training and development to enhance productivity and skills to perform effectively and achieve professional success.

During the course of 2009, the Bank took this initiative further by routing all staff development through stages of competency analysis, mapping and delivery in order to have strategic direction. This was done with the focus of creating a performance-based culture, building the leadership pipeline, and improving leadership skills of staff. Prior to conducting this training, the Bank internally conducted a Skills Gap Analysis Survey covering all frontline staff in the Personal Banking Division. Ratings were based on an identified set of competencies which were job specific and ratings were analysed against acceptable standards.

Additionally, through an independent survey company, a branch-wide Mystery Shopper Survey was conducted to identify customer service standards of all front-line staff.

This helped to develop a set of competencies (category wise) for over 2,300 staff operating in the front-line. Thereafter, suitable programmes were identified to cater to the development needs covering aspects of Employees Soft Skills (Managerial Skill Development, Relationship Management and Personal Effectiveness) and core banking competencies.

To meet the ongoing needs of our staff to build knowledge in critical job roles, the Bank has looked at initiating Regional Training Centres such as those presently operating in the Southern and Central Regions.

Building the talent pipeline in the avenue of leadership skills has also been in focus, for which Management Development and Cross Functional Team (CFT) Programmes have been conducted for potential managers and business leaders of the Bank.

Along with this, the Bank having procured a Learning Management System is looking at launching e-learning programmes by early 2nd quarter of 2010 for all staff - ensuring that core competency-based programmes are shared for easy access and knowledge enhancement.

The data in the under mentioned table encapsulates relevant information on training:

No.	Name of the Programme	Target Group	No. of Programmes	No. of Participants	Man-Hours
1.	Programme on Project Management	IT Staff	1	21	672
2.	Management Development Programme	EOs	1	30	2,400
3.	Cross Functional Team Programme	EOs & above	1	51	918
4.	Management Development Programme - Jaffna	EOs	1	27	540
5.	Enhancing Negotiation Skills	MGRs & SMs	1	25	200
6.	Communicating with a difference for JEOs	JEOs	3	61	976
7.	Communicating with a difference for BTs & JEAs	BTs & JEAs	4	107	856
8.	Train the Trainer	JEOs & above	1	17	272
9.	Programme on Speech Craft	JEOs & above	1	25	500
<b>Total</b>			<b>14</b>	<b>364</b>	<b>7,334</b>

SM - Senior Manager/EO- Executive Officer/MGR - Manager/JEO - Junior Executive Officer/  
JEA - Junior Executive Assistant/BT - Banking Trainee.

### Percentage of Employees Receiving Regular Performance and Career Development Reviews

All our employees receive regular performance and career development reviews.

### Diversity and Equal Opportunity

The appended data in tabulated format illustrates the composition of the Bank's governance bodies, the breakdown of its employees per category according to gender, age group and other relevant factors, where applicable.

Name of the Governing Body	No. of Males	No. of Females	Age Group		
			Under 30	30-50	Over 50
Board of Directors	08	02	-	01	09
Board Audit Committee	04	01	-	-	05
Board Integrated Risk Management Committee	04	01	-	-	05
Board Nomination Committee	03	01	-	01	03
Board HR & Remuneration Committee	04	01	-	01	04
Management Committee	17	02	-	06	13
ALCO Committee	13	-	-	06	07
Executive Integrated Risk Management Committee	13	-	-	06	07
Employees' Pension Committee	08	01	-	05	04
Employees' Provident Fund Committee	08	01	-	07	02
Management HR Steering Committee	06	-	-	02	04
Procurement Committee	07	-	-	02	05



### Treading Safely

The Bank renovated the access roadway and the accompanying drainage system of the 'Deaf and Blind School' in Ratmalana. The roadway previously fills with rain water due to the lack of proper drains.

The project has enhanced safety levels within the school and made it easier for students to move around.





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The Elevated Roadway and the Drainage System  
was constructed by the Commercial Bank  
as another Community Service Project



## Our Approach to Human Rights

The Bank is committed to uphold the Human Rights Standards enshrined in the Universal Declaration of Human Rights and the Conventions of the International Labour Organisation (ILO). These cover:

- (a) freedom of association and the right to collective bargaining;
- (b) the elimination of all forms of compulsory labour;
- (c) the effective abolition of child labour; and
- (d) the elimination of discrimination with respect to employment.

As a signatory to the UN Global Compact Initiative, the Bank's policies and practices are formulated based on human rights principles and to suit the business and culture of the organisation.

### OUR POLICY

*Commercial Bank is committed to safeguard the human rights of all employees and in no event will be interpreted to suppress or degrade any such right.*

### GOALS AND PERFORMANCE

Commercial Bank's employment practices enshrine human rights values and practices such as shunning forced and compulsory labour, abiding by stipulations of minimum working age and working hours, setting exemplary standards of health and safety in the workplace, prohibiting discrimination and sexual harassment and espousing collective bargaining in a regime of good industrial relations.

### ORGANISATIONAL RESPONSIBILITY

The Bank's HR function is headed by the Chief HR Officer, a member of the Corporate Management. He is assisted by two senior managers on aspects related to Human Resource Management and Human Resource Development. These officers handle all matters connected to human rights.

Collective bargaining is encouraged and due recognition is given to all Employee Organisations within the Bank, representing different employee categories, with Collective Agreements signed in respect of some.

### TRAINING AND AWARENESS

The staff attached to Human Resource Management Division undergoes periodic training programmes on matters related to Human Rights.

The Bank is also committed to provide required on-the-job and in-house training to develop employees to meet desired levels of performance, across all categories and acknowledge the importance and address matters relating to the well-being of its employees.

### MONITORING AND FOLLOW UP

The Bank has signed agreements with job recruitment agencies to ensure that they follow the specifications laid down by the Bank when nominating staff for recruitment at the Bank. In addition, Bank's Internal Audit Department too periodically undertakes reviews to ensure that the Bank follows the procedure laid down.

## KEY PERFORMANCE INDICATORS - HUMAN RIGHTS

### Discrimination

The Bank has had no incidents of discrimination to date.

### Risk to Freedom of Association/Collective Bargaining

The Bank todate has not compromised employees' right to freedom of association and to engage in collective bargaining.

### Possibilities of Risk - Child Labour

All recruitments are based on identification of the suitable, competent individuals who meet the required job profile laid down and at all times recruit persons above the stipulated minimum age of 18 years and will be on the free will of each individual recruited to the Bank, with no coercion by the Management. The Bank's agreements for labour contracts too include a specific clause to ensure that such contractors do not engage persons less than 18 years of age in their business.

The Bank has a zero tolerance of child labour. The Bank takes the position that all children under the age of 18 should have an opportunity to further their education and so does not employ anyone under that age. We attempt to promote this policy with our customers and business partners too.

### Security Practices

The Bank has informed in writing to all the security service providers of the Bank's policies and procedures concerning aspects of human rights and to communicate same to all security officers outsourced to the Bank. The Bank's senior security officer, periodically verify the awareness of these security officers on the above practices to ensure that they are fully aware of the requirements.





### Building New Futures

Horawadunna Junior School, 6 kms. away from Pannala Town, in the Kurunegala District, is one of many rural schools that the Bank has developed over the years.

Every year, the Bank identifies disadvantaged rural schools in consultation with provincial educational authorities and provides funds to upgrade its facilities. So far the Bank has helped in the development of school libraries; the construction of school auditoria; the renovation and building of classrooms; the renovation of IT centres; the provision of roofing material; and the provision of new musical instruments.

## Our Approach towards Society

The Bank's responsibility towards society is a matter of utmost priority. The Bank continues to be vigilant on risks-related to corruption and anti-competitive behaviour. Further, it contributes in the development of public policy while maintaining independence to avoid undue influence.

We generate financial value to reward our shareholders whilst generating social value to reward the community, especially those most disadvantaged and vulnerable. In fulfilling this objective, the Bank setup its 'Commercial Bank Social Responsibility' (CSR) Trust Fund with an initial capital of Rs. 25.0 Mn. in 2004.

### OUR POLICY

*The Bank's CSR Trust will not provide charity and handouts, but rather will seek to empower communities and individuals, to help communities become self-reliant and independent to motivate people to expand their horizons, to encourage individuals to think out of the box, to reward artistic endeavour, to capture and preserve heritage and folk wisdom.*

The CSR Trust Fund provides the required financial assistance for most of the CSR activities of the Bank. The CSR Trust Fund is headed by the Chairman of Commercial Bank. The activities broadly encompass areas such as education, healthcare, cultural heritage, community services and poverty alleviation. Each year, the Bank contributes up to 1% of its post-tax profits to this fund and in 2009 the Bank contributed Rs. 20.8 Mn. making the total contributions to exceed Rs. 100.0 Mn. since its inception.

Commercial Bank is fully alive to the responsibilities and risks attendant to its positioning in society and the diverse communities which its business activities impact.

### GOALS, PERFORMANCE AND ORGANISATIONAL RESPONSIBILITY

The goal of the Bank's CSR Trust Fund is to generate sustainable and constant dividends for different segments of society, but especially for those who require empowerment most urgently. In this regard, the CSR Trust Fund continuously aligns its goals to fall in line with its policy.

This policy has evolved in the wake of the cessation of war in the country, and now encompasses care for those disabled by war and those who were otherwise affected in the war torn regions.

The responsibility on the CSR Trust Fund activities lies with the Co-ordinator of the Fund. The Co-ordinator entertains requests for projects received through branches as well as directly. These proposals are then evaluated against the purposes for which the Fund was established and recommendations are made by the co-ordinator to the Governing Body of the CSR Trust Fund for approval.

### MONITORING AND FOLLOW-UP:

The originating Branch/Department of the Bank bears the responsibility for monitoring relevant CSR projects.

Funding for such projects is initially the responsibility of the originating Branch/s or the Department/s. Once the project is completed, the originators submit a report of financials along with estimates, quotation and invoices of the suppliers to the CSR Trust Fund, which then reimburses the respective Branch/Department, having reviewed the relevant documentation.

**KEY PERFORMANCE INDICATORS - SOCIETY****The Community****Scope and Effectiveness of Programmes within the Community**

A sorely felt need amongst the community has been access to financial solutions for the more impoverished sectors of society. In answer to this need, the Bank offers microfinancing as a viable option. In this regard, the Bank has undertaken projects that cater to the specific needs of the people who live in areas with limited resources.

Commercial Bank's microfinance loan scheme was formally launched in February 2006. The Bank became a Participatory Financial Institution (PFI) for the Government-sponsored Krushi Navodaya loan scheme in October 2006, which caters to the credit needs of micro and small agricultural entrepreneurs.

Apart from the Krushi Navodaya, the Bank offers its own microfinance scheme as well. Through this loan scheme the Bank has provided over 1,200 loans amounting to Rs. 110 Mn. as at the reporting date to finance a range of activities such as animal husbandry, post-harvest processing of agricultural products, construction of poly tunnels and green houses, cultivation of fruits, exotic vegetables, rice milling, purchasing of farm machinery, garment industry, footwear industry, retail business and more.

**Access Points in Low Populated Areas**

The Bank's Development Credit Unit engages in a large number of projects to provide financial assistance to needy people with the help of over 40 branches in the Commercial Bank branch network spread out around the country.

No. of Provinces which Disbursed Loans	No of Branches	No. of Customers	Value in Loans Rs. Mn.
07	42	1,611	202.3

The following branches were opened to improve the economic and living standards and to provide financial and banking facilities to the beneficiaries in these areas:

- Ampara Branch
- Deniyaya Branch
- Hingurakgoda Branch
- Kamburupitiya Branch
- Mahiyangana Branch
- Monaragala Branch
- Neluwa Branch
- Nikaweratiya Branch
- Udugama Branch
- Palavi Branch

The Bank is expected to open new branches in low-populated areas including, Mannar and Thambuttegama in order to provide banking facilities for the people in those areas.

Further, details of these projects are found in the Section on 'Significant Financial Assistance Received from the Government' in the Economic Performance Indicators on page 69 of this Report.

### Corruption

The Bank has a constant training schedule that equips its staff in terms of awareness and competency to deal with various threats from corruption.

The table appended below provides information on such training programmes carried out by the Bank for its staff during the year under review.

Programme	No. of Programmes	No. of Participants	Man Hours
IT Security Awareness	3	73	85
IT Security	6	389	486
Anti-Money Laundering/KYC	2	55	87
Anti-Money Laundering	5	306	477
Common Lapses in Branches/Departments	4	127	215
Branch Accounting and Auditing	1	32	64
<b>Total</b>	<b>21</b>	<b>982</b>	<b>1,414</b>

*KYC - Know Your Customer*

### Public Policy

The Bank is invited by the Government of Sri Lanka to send in proposals for consideration when formulating the Government Budget.

The Bank did not fund or make contributions in-kind to any political parties, politicians and related institutions.

### Anti-Competitive Behaviour

The Bank did not encounter any legal actions for anti-competitive behaviour, anti-trust and monopoly practices during the year under review. Further, the Bank always obtains necessary local authority approvals and strictly adheres to the laid down rules and regulations on display materials, sounds, branding among other factors when conducting marketing/sales promotional activity.

### Contextual Information - CSR Programmes

We present a concise schedule of key CSR programmes that were carried out during the period under review, as a good barometer of the Bank's interaction and intervention with the community at large.

#### Support for National Hospital's ENT Unit

The Bank donated equipment and essential items worth Rs. 1 Mn. through its CSR Trust Fund.



01



02

(01) Donating equipment to the High Dependency unit of the Matara Hospital

(02) Donating equipment and essential items to the ENT unit of the Colombo General Hospital

*Three Projects in Mahiyangana*

- The Bank donated an IT Centre for Rotalawela School situated within the rural village of Diulapelessa.
- A school playground was constructed, musical instruments donated and a computer equipment was provided to Habariyawa School, Girandurukotte.
- A Health Centre was refurbished and a children’s play area constructed at Ulpothagama, Hasalaka.

*Bank Assists the Extension of Northern Railway Line - ‘Uthuru Mithuru’ Programme*

The Bank will meet the cost of constructing the Navatkuli Railway Station - Rs. 17 Mn. - costs to be shared equally by the Bank and its CSR Trust.

*Upgrading Udawela Kumara Primary School - Setting up Two IT Labs*

The Bank’s CSR Trust Fund upgraded this school by refurbishing, providing equipment and sportswear for students, whilst also setting up an IT Lab with 3 computers and other accessories.

The Trust set up yet another IT Lab with 5 computers and accessories at the Sri Sudharmaramaya Temple, to serve school leavers to acquire IT skills.

*Renovation of Dental Clinic at Deniyaya Base Hospital*

The Bank’s CSR Trust Fund refurbished this clinic converting it into a fully equipped facility with significant upgrades.

*Assistance for Matara Hospital*

The Fund assisted the Hospital to set up a High Dependency Unit for Ward 17, through provision of essential equipment such as multi-parameter monitors, syringe pumps and a defibrillator.

*Equipment Donated to Parakumba Maha Vidyalaya, Imbulgoda*

The Trust provided total funding for the required timber component to complete the roof of the Library of the school. It also met the total expenditure incurred to purchase furniture for the Library.

*25 Undergraduate Scholarships Granted by the Trust*

Continuing its endeavours to create wealth for the Nation through support for higher education, the Bank’s CSR Trust presented 25 more scholarships to undergraduates from five faculties at the universities of Jaffna, Colombo, Peradeniya and Ruhuna.



01



02

(01) *The IT Lab at the Sri Sudharmaramaya Temple*

(02) *The Udawela Kumara Primary School upgraded by CBC*

*Helping to Develop Vocational Training Skills*

The Bank donated 5 computers with all accessories to the Galle Prison, in a bid to upgrade vocational training facilities afforded to prison inmates.

*Water Tower and Tank Constructed for Beragama Rural Hospital, Ambalantota*

The Bank constructed a 14,000 litre capacity water tank with tower for this hospital, thus replacing the hospital's old and dilapidated tank, which was irreparable.

*Providing Lighting for Access Road to 'Ridi Viharaya', Kurunegala*

The Bank provided lighting for the pathway to the Temple's Chaithya and Bodhiya, which proved a great boon to devotees visiting the temple at dusk.

*Assisting General Hospital, Polonnaruwa*

The Bank provided a Pulse Oxymeter and a Multi-Parameter Monitor to the hospital's High Dependency Unit alleviating the problems of healthcare for critically ill children.

*Assistance for the School of the Deaf and Blind, Ratmalana*

The Fund assisted the school with the construction of a drainage system to alleviate flooding in the premises.

*Public Address System for Karapitiya Teaching Hospital*

The Bank donated a public address system encompassing the entire hospital, which has been a long standing requirement.

*Training for Microfinance Entrepreneurs*

The Bank trained 160 new entrepreneurs each from the Districts of Ampara and Moneragala in collaboration with the Agromart Foundation. A further 150 each from both districts were trained to upgrade the quality of their products thus commanding better markets and improving their turnover.

*Constructing Wells in Ampara*

The Trust is part-funding the construction of several large wells in the Ampara District to help meet this dire need for water in the District.

*Donation of Computers to Vocational Training Centre - Mallakam/Tellipallai*

The Bank donated 8 computers and necessary accessories to help start computer classes at the Centre.



01



02

(01) Unveiling the wells constructed by CBC in Ampara

(02) Donating of computers to the Galle Prison

*Three-Wheeler Donation*

The Bank donated a three-wheeler to the North Ceylon Sri Paramananda Children's and Elder's Home and Ashram Trust, which is an approved charity. The vehicle allows the home to address critical transport requirements for the sick, elderly and for administrative needs.

*Safe Bottle Lamp Project*

The Safe Bottle Lamp Foundation in Sri Lanka carries forward the pioneering work of Dr. Godakumbura, who received world recognition for his invention. Children from 30 schools in three areas of Kaduruwela, Galewela and Polonnaruwa were gifted 2 lamps each for their homes. The Bank gifted 15,000 lamps under the first phase of this project.

In addition a short skit was performed at each school to illustrate the usage of the lamps.

*Humanitarian Assistance to IDPs*

The Bank, through its branch network in the North with assistance from those in the South raised finances from amongst staff to the tune of Rs. 500,000/- as an initial contribution to help the IDPs in refugee camps in the North.

*Renovating the Path to Sri Pada*

The Bank responded to the request of the Buddhist clergy to restore the pathway through Hatton towards Sri Pada, which was in a dilapidated condition.



01



02

(01) Dr. Godakumbura, of the Safe Bottle Lamp Foundation

(02) The renovated pathway to Sri Pada

## A New Convenience

Enhancing convenience and increasing choice are two aspects we focus on for our customers. Every year we use state-of-the-art technology to make banking easier and provide financial solutions, uniquely tailored for the Bank's diverse customer needs.





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Executive Summary and Reviews

191-281

Financial Reports

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Supplementary Information

## Product Responsibility

The Bank is highly committed to its product responsibility which forms an integral part of the social performance in the Triple Bottom-Line Reporting.

### OUR POLICY

*The Bank takes due cognisance of product responsibility and exercise control in this area to ensure that there is no misrepresentation of facts in terms of its operations, products and services, as doing so would result in adverse consequences for customers.*

### GOALS AND PERFORMANCE

The Bank offers products and services to cover vast banking needs of its diverse customer base. It has pioneered several products and services consequent to identifying unique needs of customers.

One of the key strategies that drives the Bank is enhancing customer convenience while ensuring customer privacy and compliance with laws and regulation. The Bank has an array of delivery channels capable of reaching far and wide; and going out to cater to the customer. When marketing deposit products the Bank takes utmost care in maintaining transparency with regard to interest and other covenants. The Bank also invests heavily on its state-of-the-art technology towards enhancing customer convenience.

### ORGANISATIONAL RESPONSIBILITY

The Chief Operating Officer (COO) of the Bank is in overall charge of Products and Services Responsibility. He is mainly assisted by two Senior Deputy General Managers who are in charge of the Corporate Banking and Retail Banking. In addition, the Bank recently recruited a Marketing Consultant to assist the COO in fulfilling the above tasks.

### TRAINING AND AWARENESS

The Staff Development Centre of the Bank conducts periodic training programmes to make the front-line staff aware of product features including training on refinance schemes. In addition, operational and administrative matters are communicated to employees through internal circulars on a regular basis. The staff of the Bank are provided with access to such circulars displayed in the Bank's Intranet. Further, awareness of Bank's products is verified by way of internal examinations and interviews carried out when the staff at the junior level are considered for promotions.

### MONITORING AND FOLLOW-UP

The Bank monitors the repayment patterns of customers, in addition to the provisions made in line with the Directives of the Central Bank of Sri Lanka. The Bank continuously monitors the requirement for rescheduling lending facilities of customers who are in difficulties; the number of customers that returns to normal repayment patterns; and reasonability of terms and conditions attached to its products to make them more affordable to customers, etc. Further, the Bank provides guidance to its customers who experience difficulties in settlement of credit card debts, personal loans, etc.

## PERFORMANCE INDICATORS - PRODUCT RESPONSIBILITY

### Measuring Customer Satisfaction

The Bank has initiated three research studies in the year 2009 to evaluate and improve customer satisfaction.

Some key initiatives taken in this regard are enumerated below:

- *Mystery Shopper Survey*

The Bank has advocated the 'Mystery Shopper' mechanism to evaluate service quality standards in order to formulate a customer-centric service policy manual and a robust internal communication strategy. These surveys are conducted to determine the following qualitative aspects:

- Observation of branch ambience, uniformity, cleanliness, customer-friendliness of main procedures
- Evaluation of the effectiveness of sales platform and staff by analysing certain interpersonal skills such as :
  - Reliability, responsiveness and reassurance projected at each customer touch point
  - The extent and ability to listen to a problem at hand before presenting a solution
  - Overall friendliness and cooperativeness
  - Time taken to deliver a service (per customer basis) and efficiency
- Knowledge of key products, product modifications, promotions of staff
- Compliance with company standards relating to service, branding and grooming/ presentation etc.
- Comparability study between the Bank and selected competitor banks on service quality levels

Upon a complete evaluation of the key service delivery criteria, a detailed report is submitted to the management as a stepping stone of implementing a 'change agent'. Certain key deliverables are embedded in performance measurements and are mapped over a targeted time period. Training and development measures are formulated (even customised) accordingly.

- *Customer Satisfaction Survey*

The objectives of this survey are as follows:

- Assess the needs, requirements and expectations of the Bank's customers
- Assess the current satisfaction levels amongst the customers across these key expectations
- Determine the relative impact of each of these expectations on overall loyalty of the customers
- Provide strategic direction for improvement in critical areas and identify opportunities for leverage
- To provide a basis to monitor future progress

- *Understanding the Brand Health of Commercial Bank vis-à-vis Competition*

In order to develop future strategies of product development and branding of Commercial Bank as a whole, it is required to understand our Brand health, equity and performance.

The Bank has commissioned this research in order to achieve the above objectives.

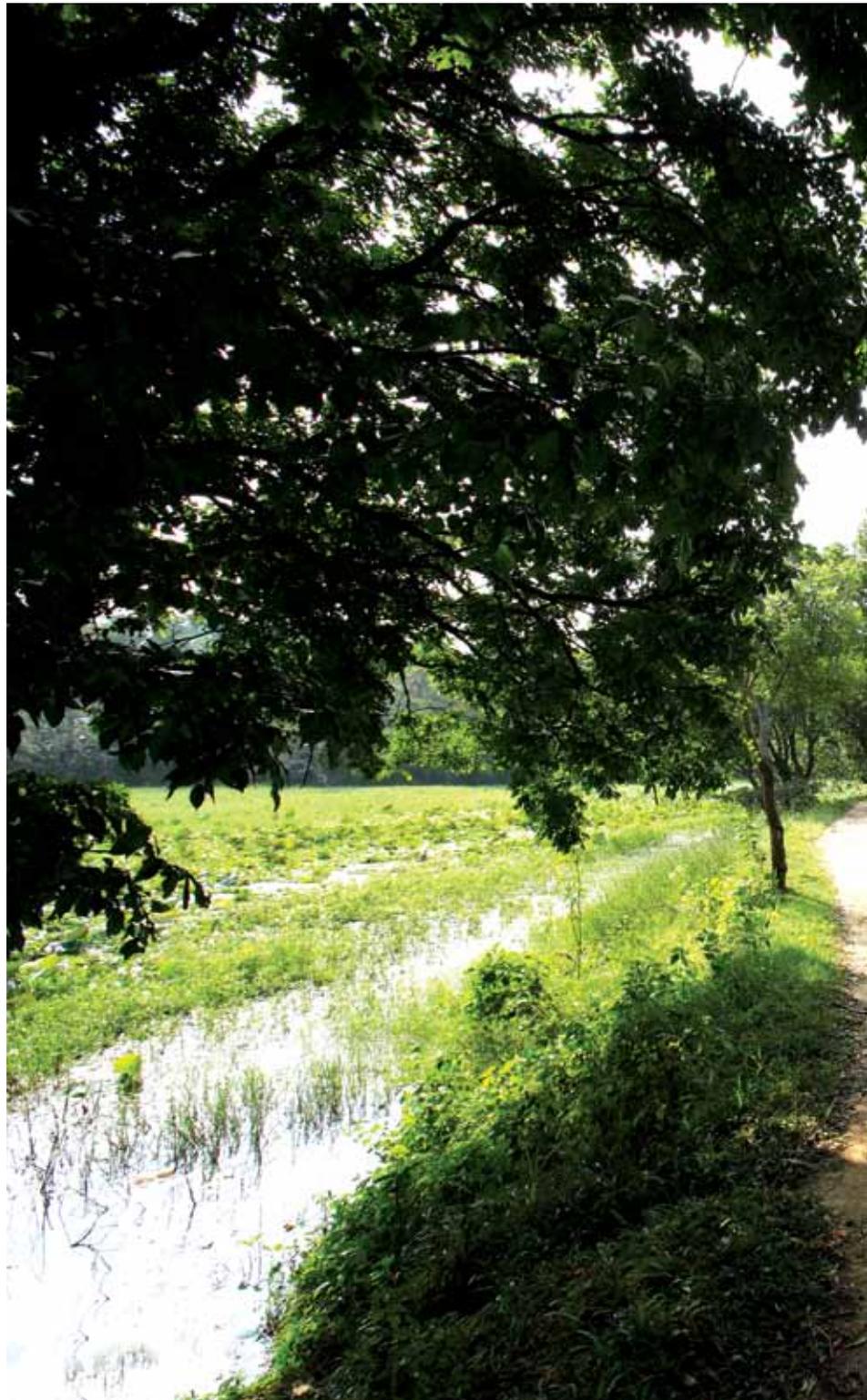
## A New Convenience

Over the past years, the Bank has been engaged in the process of rehabilitating several old tanks located in the Kurunegala and Anuradhapura Districts. So far, the Bank has rehabilitated 5 tanks.

The 'Elabadagama Wewa', in Galewela, pictured here was rehabilitated by the Bank.

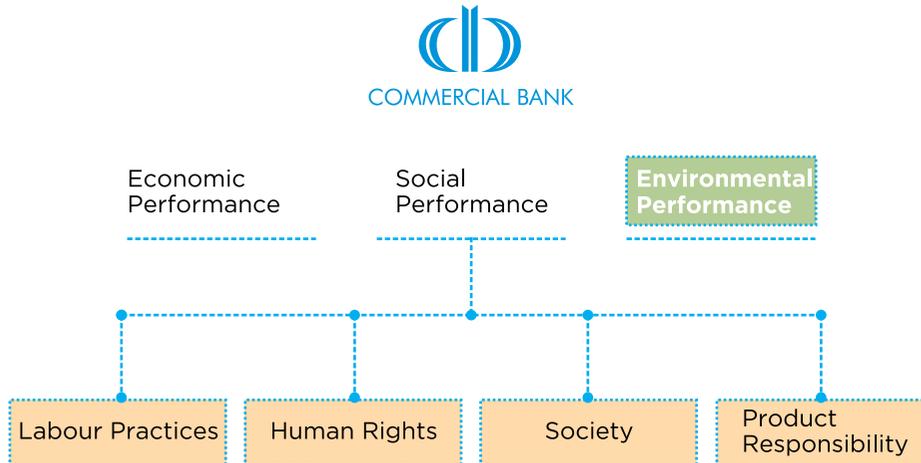
Last year, the Bank helped rehabilitate the 'Udahingura Wewa' near Kekirawa in Anuradhapura District, and handed it over to the farmer associations in the area. The 'Udahingura Wewa' is the largest of the tanks so far rehabilitated by the Bank through the CSR Trust Fund with a water surface area extending over six acres.

The Bank also rehabilitated the 'Aliyamada Wewa', 'Lahu Wewa' and 'Nugampola Wewa', all of which are in the Kurunegala District.





## Our Approach to Environmental Performance



The Bank being a provider of financial services strives to ensure that finances extended to its customers are utilised in operations which are sustainable and environmentally sound.

### OUR POLICY

*Aspects of special focus include - ensuring that all activities undertaken by the Bank are consistent with the applicable requirements of our Social and Environmental Management System (SEMS), which 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.*

### GOALS AND PERFORMANCE

The Bank is committed to promoting sound environmental practices within its key business in line with the Environmental Policy.

In this regard the Bank has set the following goals:

- Ensure that all projects are reviewed against the stipulated Environmental Policy.
- Ensure that all projects financed are expected to be designed, built, operated and maintained in a manner consistent with the requirements, making every endeavour to ensure that such projects are operated in compliance with requirements on an ongoing basis.
- Ensure transparency in all activities and the management of the Bank's clients understand the policy commitments made by the Bank.

The Bank continuously endeavours to ensure effective social and environmental management practices in all its activities, products and services.

## ORGANISATIONAL RESPONSIBILITY

According to designated chain of command *vis-à-vis* sustainability, the Bank's Social and Environmental Co-ordinator reports to the Head of Corporate Finance who oversees the impact and assessment of social and environmental issues of the Bank's operations and ensures that resources are made available for efficient management of such issues.

The Head of Corporate Finance will also sign off on the Bank's annual Environmental Performance Report.

The Social and Environmental Co-ordinator will ensure that all these procedures are implemented for each project and that records of environmental reviews are maintained.

## TRAINING AND AWARENESS

The Bank's designated officer, Social and Environmental Co-ordinator is continuously trained locally and internationally on environmental related matters, their impact and the management.

The Bank plans to make use of this expertise augmented by external resource personnel, to instruct and mobilise the wider employee base of the Bank in this regard.

## MONITORING AND FOLLOW UP

The Bank's employees visit the identified projects, assess and evaluate their impact on environmental issues and assume responsibility for mitigation of any adverse effects up to completion of the project.

In this respect, the Bank has identified employees with the desired aptitude and training them in the respective areas to spearhead this task.

Pre-emptive mitigation is also in practice when evaluating and granting industrial loans. The Bank first carries out an appraisal of the prospective project to ascertain the degree of pollution, if any.

The ultimate granting of financial resources would depend on whether the Bank's findings are in line with acceptable environmental standards.

## ENVIRONMENTAL PERFORMANCE INDICATORS

### Material

The Bank's Paper Management System (PMS) ensures that waste paper within the organisation is recycled and re-used wherever possible. New procedures are being progressively implemented to substantially reduce the use of paper in all our delivery points.

Due emphasis is given to the staff on the importance of the re-use of used envelopes and papers.

Further, it conducts awareness programmes within the organisation with a view to create a paperless office, reduce excessive printing of documents and e-mails etc.

### Energy

The Bank's own building projects ensure the use of environmentally-friendly technologies wherever possible. These would include variable air volume units to control temperature, ventilation systems with energy saving features etc. Further, in its effort to save energy, the air-conditioning facilities of Bank's Head Office and Branches are limited to the normal working hours from 8.30 a.m. to 5.15 p.m.

## Water

The Bank as part of its water management efforts, attempts to reduce the use of water and to recycle the waste water at the Head Office building. Bank's main source of water is from the ground in order to reduce the consumption of water from the National Water Supply System.

## Emissions, Effluents and Waste

The Bank is conscious that greenhouse gases produced as a by-product of its operations would contribute to global warming. Hence, the Bank has decided to voluntarily take measures to reduce its emissions.

The Bank implemented a garbage disposal system to ensure the waste is sorted to facilitate recycling paper, polythene and organic waste. In this regard, staff members are required to segregate the waste material as 'Paper', 'Polythene' and 'Bio degradable Waste' into separate garbage disposal bins provided in three colours 'Blue', 'Red' and 'Green', respectively.

## Products and Services

The Bank's 'Green Loans' provide concessionary funding for those entrepreneurs who adopt environmentally-friendly technologies. The Bank ensures that clients obtain the necessary environmental clearance as and when required, including Environmental Impact Assessment of the project to be undertaken. The Bank's staff are instructed to revisit the compliance of these certifications during the annual credit review of such project loan.

## Encouraging Energy Efficiency

The Bank encourages its customers to adopt energy efficient methods in their businesses by providing loans. Further, the Bank carries out training programmes through its E-Friends refinance scheme.

Given below are the details of loans granted by the Bank through E-Friend II Loan Scheme

Sector	Sub Loan Amount		T/A Loan Amount		No of applications	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.	2009	2008
Noise Control	-	1,245,000	-	-	-	1
Dust Control	-	6,939,400	-	-	-	2
Emission Control	<b>32,316,500</b>	11,335,000	-	90,000	<b>8</b>	5
Energy Saving	<b>44,500,000</b>	87,400,000	-	-	<b>4</b>	5
Resource Saving	<b>306,249,000</b>	100,372,025	-	-	<b>22</b>	17
Waste Recycling	<b>103,300,000</b>	53,625,000	-	-	<b>4</b>	3
Waste Water Treatment Plant	<b>114,448,350</b>	242,226,660	<b>4,913,750</b>	1,250,000	<b>24</b>	22
<b>Total</b>	<b>600,813,850</b>	503,143,085	<b>4,913,750</b>	1,340,000	<b>62</b>	55

## Compliance

The Bank has not been involved in or been party to, any instance of non-compliance with environmental standards and the issue of payment of any fines thus did not arise.

## GRI Compliance Index

Index No.	Description	Status	Report Section	Page
<b>1. Strategy &amp; Analysis</b>				
1.1	Statement from the most senior decision-maker of the Organisation	●	Sustainability Supplement	50
1.2	Description of Key Impacts, Risks & Opportunities	●	Sustainability Supplement	51
<b>2. Organisational Profile</b>				
2.1	Name of the Organisation	●	Corporate Information	Inner Back Cover
2.2	Primary Brands, Products and/or Services	●	Sustainability Supplement Performance by Division	52-53 34-45
2.3	Operational Structure of the Organisation	●	Sustainability Supplement, Group Structure	52 190
2.4	Location of Organisation's Headquarters	●	Corporate Information	Inner Back Cover
2.5	Number of countries where the Organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	●	Sustainability Supplement	55
2.6	Nature of ownership & legal form	●	Corporate Information	Inner Back Cover
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	●	Sustainability Supplement, Notes 20.6 and 39.2 to the Financial Statements	55 251, 275
2.8	Scale of the Reporting Organisation	●	Sustainability Supplement	51
2.9	Significant changes during the reporting period regarding size, structure or ownership	●	Group Structure	190
2.10	Awards received during the reporting period	●	Sustainability Supplement	54
<b>3 Report Parameters</b>				
3.1	Reporting period	●	Sustainability Supplement	56
3.2	Date of most recent previous report	●	Sustainability Supplement	56
3.3	Reporting cycle	●	Sustainability Supplement	56
3.4	Contact point for questions regarding the Report or its Contents	●	Sustainability Supplement	56
3.5	Defining Report Content	●	Sustainability Supplement	56
3.6	Boundary of the Report	●	Sustainability Supplement	56
3.7	Any specific limitations on the scope or boundary of the Report	●	Sustainability Supplement	56
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can affect comparability from period to period and/or between organisations	△		
3.9	Data measurement techniques and the bases of calculations	●	Sustainability Supplement	56
3.10	Explanation of the effect of any re-statement of information provided in earlier reports	△		
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	△		
3.12	GRI Compliance Index	●	Sustainability Supplement	101-105
3.13	Policy and current practice with regards to seeking external assurance for the Report	□		
<b>4 Governance, Commitments &amp; Engagement</b>				
4.1	Governance Structure of the Organisation	●	Corporate Governance	125-162
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	●	Annual Report of the Board of Directors Corporate Governance	195 140

● Disclosed    △ Not applicable    □ Not relevant as per C Level Reporting

## GRI Compliance Index

Index No.	Description	Status	Report Section	Page
4.3	The number of members of the highest governance body that are independent and/or non-executive members	●	Annual Report of the Board of Directors	195
4.4	Mechanisms for Shareholders and employees to provide recommendations or direction to the highest governance body	●	Sustainability Supplement, Corporate Governance	56-57 141
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the Organisation's performance	●	Sustainability Supplement Board Human Resources and Remuneration Committee Report	57 158-160
4.6	Processes in place for the highest governing body to ensure conflicts of interests are avoided	●	Corporate Governance, Directors' Interest in Contracts with the Company Note 40 to the Financial Statements	137 163-165 275-281
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the Organisation's strategy on economic, environmental, and social topics	●	Board Nomination Committee Report	161
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	●	Sustainability Supplement	57
4.9	Procedures of the highest governance body for overseeing the Organisation's identification and management of economic, environmental, and social performance.	●	Sustainability Supplement	57
4.10	Processes for evaluating the highest governance body's own performance	●	Corporate Governance	131
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4.13	Membership in industry/ business association	●	Sustainability Supplement	59
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4.15	Basis for identification and selection of stakeholders with whom to engage	●	Sustainability Supplement	59-61
4.16	Approaches to stakeholder engagement including frequency	●	Sustainability Supplement	59-61
4.17	Key topics and concerns raised through stakeholders engagement and the Organisation's response	●	Sustainability Supplement	59-61
<b>Economic Performance</b>				
EC1	Direct economic value generated and distributed	●	Sustainability Supplement	65-68
EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	●	Sustainability Supplement	68
EC3	Coverage of the Organisation's defined benefit plan obligations	●	Sustainability Supplement	68
EC4	Significant financial assistance received from Government	●	Sustainability Supplement	69
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	●	Sustainability Supplement	70
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	●	Sustainability Supplement	70
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	●	Sustainability Supplement	70
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	●	Sustainability Supplement	88-91
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	●	Sustainability Supplement	71-72

● Disclosed    △ Not applicable    □ Not relevant as per C Level Reporting

## GRI Compliance Index

Index No.	Description	Status	Report Section	Page
<b>Environmental Performance</b>				
EN1	Materials used by weight or volume	△		
EN2	Percentage of materials used that are recycled input materials	△		
EN3	Direct energy consumption by primary energy source	□		
EN4	Indirect energy consumption by primary source	□		
EN5	Energy saved due to conservation and efficiency improvements	□		
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	●	Sustainability Supplement	100
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	●	Sustainability Supplement	99
EN8	Total water withdrawal by source	□		
EN9	Water sources significantly affected by withdrawal of water	□		
EN10	Percentage and total volume of water recycled and reused	□		
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	△		
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	△		
EN13	Habitats protected or restored	□		
EN14	Strategies, current action & future plans for managing biodiversity	□		
EN15	Number of IUCN Red List Species & National Conservation List Species with habitats in areas affected by operations	□		
EN16	Total direct and indirect greenhouse gas emissions by weight	□		
EN17	Other relevant indirect greenhouse gas emissions by weight	□		
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	□		
EN19	Emissions of ozone-depleting substances by weight	□		
EN20	NO, SO, and other significant air emissions by type and weight	□		
EN21	Total water discharge by quality and destination	□		
EN22	Total weight of waste by type and disposal method	□		
EN23	Total Number of & Volume of significant spills	□		
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	□		
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	□		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	●	Sustainability Supplement	100
EN27	Percentage of products sold & their packaging materials reclaimed	△		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	●	Sustainability Supplement Annual Report of the Board of Directors	100 200
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	□		
EN30	Total environmental protection expenditures and investments by type	□		

● Disclosed    △ Not applicable    □ Not relevant as per C Level Reporting

## GRI Compliance Index

Index No.	Description	Status	Report Section	Page
<b>Society</b>				
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities including entering, operating and exiting	●	Sustainability Supplement	87
SO2	Percentage and total number of business units analysed for risks related to corruption	□		
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	●	Sustainability Supplement	88
SO4	Actions taken in response to incidents of corruption	□		
SO5	Public policy positions and participation in public policy development and lobbying	●	Sustainability Supplement	88
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	●	Sustainability Supplement	88
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	●	Sustainability Supplement	88
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	□		
<b>Labour Practices and Decent Work</b>				
LA1	Total workforce by employment type, employment contract, and region	●	Sustainability Supplement	76
LA2	Total number and rate of employee turnover by age group, gender, and region	●	Sustainability Supplement	77
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	●	Sustainability Supplement	77
LA4	Percentage of employees covered by collective bargaining agreements	●	Sustainability Supplement	77
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	●	Sustainability Supplement	77
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programmes	●	Sustainability Supplement	77
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by province	●	Sustainability Supplement	77
LA8	Education, training, counseling, prevention of diseases, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	●	Sustainability Supplement	78
LA9	Health and safety topics covered in formal agreements with trade unions	●	Sustainability Supplement	78
LA10	Average hours of training per year per employee by employee category	●	Sustainability Supplement	78
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	●	Sustainability Supplement	78-79
LA12	Percentage of employees receiving regular performance and career development reviews	●	Sustainability Supplement	79
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	●	Sustainability Supplement	79
LA14	Ratio of basic salary of men to women by employee category	□		

● Disclosed    △ Not applicable    □ Not relevant as per C Level Reporting

## GRI Compliance Index

Index No.	Description	Status	Report Section	Page
<b>Human Rights</b>				
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	<input type="checkbox"/>		
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	<input type="checkbox"/>		
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	<input type="checkbox"/>		
HR4	Total number of incidents of discrimination and actions taken	●	Sustainability Supplement	83
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	●	Sustainability Supplement	83
HR6	Measures taken to eliminate child labour	●	Sustainability Supplement	83
HR7	Measures taken to eliminate compulsory or forced labour	<input type="checkbox"/>		
HR8	Percentage of security personnel trained in Organisation policies & Procedures on Human Rights	●	Sustainability Supplement	83
HR9	Total number of violations of rights of indigenous people and actions taken	<input type="checkbox"/>		
<b>Products Responsibility</b>				
PR 1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	<input type="checkbox"/>		
PR 2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services	<input type="checkbox"/>		
PR3	Type of product & service Information required by procedures and percentage of significant products and services subject to such information requirements	<input type="checkbox"/>		
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	<input type="checkbox"/>		
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	●	Sustainability Supplement	95
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	<input type="checkbox"/>		
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	<input type="checkbox"/>		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	<input type="checkbox"/>		
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	<input type="checkbox"/>		

● Disclosed    △ Not applicable    □ Not relevant as per C Level Reporting

		2002	C	C+	B	B+	A	A+
		In Accordance						
Mandatory	Self Declared	<input checked="" type="checkbox"/>						
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked							

# Risk Management at Commercial Bank

## Approach to Integrated Risk Management

Globalisation of financial services together with the sophistication of the products and services offered by a bank has made the activities of the Bank more complex with increased risk profile.

Considering the above and in order to comply with the regulatory requirements, the Board of Directors of the Bank realised the need to establish a robust Integrated Risk Management infrastructure within the Bank.

In accordance with their directions, Commercial Bank of Ceylon PLC set up formal Integrated Risk Management infrastructure in the year under review. With a view to having an Enterprise-wide Risk Management, the Bank's Integrated Risk Management structure was established and it comprises of experts in Credit, Market and Operational Risk Management.

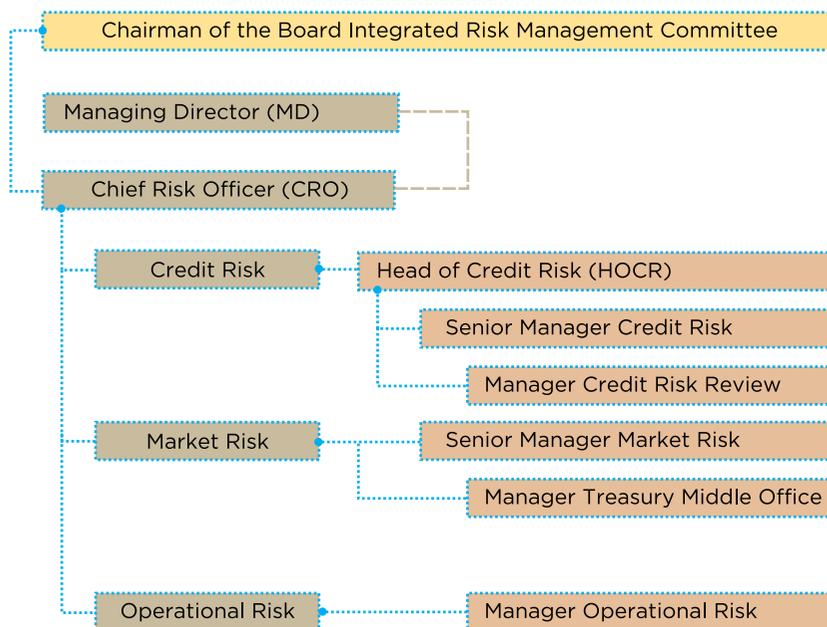
While the Board Integrated Risk Management Committee has an overall responsibility to manage various risks relating to activities the Bank is engaged in, primary responsibility towards assessing and managing the risk exposures is vested with the business line managers and clear directions have been given to them with regard to same.

### ORGANISATION STRUCTURE

The Bank considers the Risk Management function as a very important one and therefore the Organisation Structure has been developed with more specific focus on Risk Management separately from functions such as Compliance, Internal Audit, Business Continuity Planning and Anti-Money Laundering.

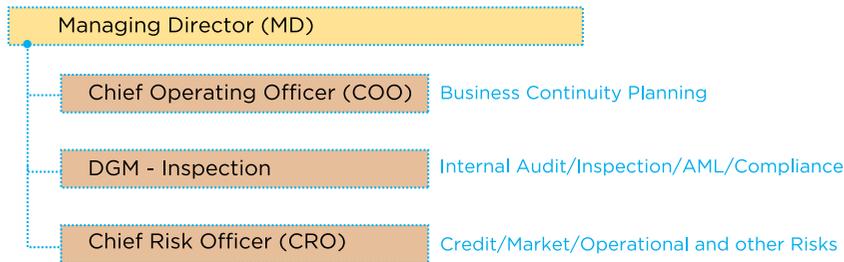
The Bank believes that Risk Management is the process of **measuring and managing** risk while Internal Audit and Inspection are more focused on auditing and assessing the **process** for managing risk.

The Organisation Structure relating to the Risk Management and related activities are as follows:



## Approach to Integrated Risk Management

While Business Continuity Planning (BCP) is under the purview of the Chief Operating Officer, Internal Audit, Inspection and Anti-Money Laundering (AML) are under the purview of the Deputy General Manager (DGM) - Inspection. The following diagram illustrates this structure.



### ROLE OF THE INTEGRATED RISK MANAGEMENT DEPARTMENT (IRMD)

The IRMD is headed by the Chief Risk Officer who directly reports to the Board Integrated Risk Management Committee. (BIRMC)

Key objectives of the IRMD are to ensure:

- That the Bank-wide risks are properly identified, assessed and monitored on a continuous basis.
- The Bank's exposure is within the risk appetite limits established by the Board of Directors.
- Establishment of a Bank-wide effective risk monitoring and mitigating mechanism with due emphasis at the regional levels.
- Providing necessary inputs from the risk perspective prior to launching new products and services of the Bank.
- Proposing suitable training programmes, review and provide input to training material so that line managers are fully conversant with their responsibilities for managing risk within their business or functions.

The IRMD is expected to manage major types of risks (i.e., Credit, Market and Operational Risks) in a centralised manner.

### Risk Management Committees

A number of committees have been established to manage various risks in an efficient and objective manner. These committees include:

- Board Integrated Risk Management Committee (BIRMC)
- Executive Integrated Risk Management Committee (EIRMC)
- Assets and Liabilities Committee (ALCO)
- Executive Committee on Monitoring of Non-Performing Assets
- Executive Credit Policy Committee

## Approach to Integrated Risk Management

### Board Integrated Risk Management Committee (BIRMC)

BIRMC which is chaired by the Bank's Chairman consists of 05 Directors including the Managing Director. As per the charter of the BIRMC, its main responsibility is to have an overall bank-wide risk management oversight and to assist the Board in fulfilling its statutory, fiduciary and regulatory responsibilities. Hence, the BIRMC functions as the apex body in managing overall risks in the Bank in an integrated manner. The Committee meets at least quarterly to review key risk indicators of various business segments and takes appropriate decisions in managing risks across all business units.

BIRMC reviews risk management policies and procedures of the Bank and makes appropriate recommendations to the Board of Directors. Further, Stress Testing/Sensitivity Analysis done based on different scenarios are reviewed by the BIRMC to assess the impact of such scenarios. BIRMC is also provided with all information and vital decisions taken at Executive-level committees allowing it to evaluate the effectiveness of the executive decisions taken and the Bank's exposure to various risks.

### Executive Integrated Risk Management Committee (EIRMC)

EIRMC is chaired by the Managing Director and represented by heads of various business units, Risk Management, Internal Audit/Inspection and Finance. The Committee exercises the powers and authority of the Board with respect to day-to-day management of risk including Credit, Market and Operational Risk in accordance with the policies and directives determined by the Board. Managing the balance sheet and off-balance sheet exposures and capital within the performance and risk parameters laid down by the Board is a key responsibility of EIRMC.

It also 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, considering the concentrations, scenarios and stresses and give appropriate directions to relevant business units.

EIRMC monitors key Credit, 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.

Selected Risk Indicators submitted to EIRMC/BIRMC are given below:

Key Risk	Indicator	Measure
<b>Credit Risk</b>		
Default Risk	NPA - Region wise	MoM & Cumulative variance
	- Business Unit wise	MoM & Cumulative variance
	Provision Cover	Variance
Concentration Risk	High Risk Segments	MoM & Cumulative variance
	Exposure - Product wise	MoM & Cumulative variance
	- Sector wise	MoM & Cumulative variance
	Credit Ratings	Rating migration
	Large Exposures	MoM & Cumulative variance
Cross Border Exposures	Sovereign Rating wise	Exposure distribution
Counterparty Bank Exposures	Bank Credit Rating	Exposure distribution

## Approach to Integrated Risk Management

Key Risk	Indicator	Measure
<b>Market Risk</b>		
Interest Rate Risk	Interest Rate Shocks	Impact to profit at 50,100,150,200 bps
	Net Interest Margin	MoM & Cumulative variance
	Re-pricing Gaps	Level of RSA/RSL
Liquidity Risk	Statutory Liquid Assets Ratio	Within CBSL Guidelines
	Advances to Deposits Ratio	Within Credit Policy Guidelines
	Core Funding Ratio	MoM variance
	Liquidity Gaps	Level of Period Gap/ Cumulative Gap
Foreign Exchange (FX) Risk	Exchange Rate Shocks	Impact to profit at different bps
	Marking to Market Gains/ Losses	MoM variance
Concentration Risk	Rupee Deposit Concentration	Within Liquidity Policy Guidelines
	FCY Deposit Concentration	Within Liquidity Policy Guidelines
<b>Operational Risk</b>		
Execution, Delivery & Process Management	Failed transactions processing or process management	Frequency & Value
Business Disruption & System Failures	Disruption of business or system failures	Frequency & Value
Damage to Physical Assets	Loss or damage to physical assets from natural disasters or other events	Frequency & Value
Clients, Products & Business Practices	Unintentional or negligent failure to meet a professional obligations to specific clients etc.	Frequency & Value
Employment Practices and Workplace Safety	Acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events	Frequency & Value
External Fraud	Acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party	Frequency & Value
Internal Fraud	Acts of a type intended to defraud, misappropriate property or circumvent regulations by an employee	Frequency & Value
<b>Stability</b>	Capital Adequacy Ratio	Within CBSL guidelines
	Statutory Reserve Ratio	Within CBSL guidelines

MoM - Month on Month; bps - Basis Points; RSA - Rate Sensitive Assets; RSL - Rate Sensitive Liabilities; CBSL - Central Bank of Sri Lanka.

### Assets and Liabilities Committee (ALCO)

ALCO which is headed by the Managing Director is responsible for reviewing recent performance compared with budget and history and gives directions to improve the key performance drivers.

ALCO also reviews economic conditions and trends in interest rates, exchange rates, market liquidity, projected cash flows, liquidity, mismatches in maturities and pricing and gives directions/guidance to the Bank's Treasury and other Departments in order to better position the Bank and improve its performance.

Another key function of ALCO is managing Fund Transfer Pricing (FTP) to sharpen the focus and motivation of Business and Branch Managers on key performance drivers whilst minimising the profits or losses incurred by the Funding Centre.

## Approach to Integrated Risk Management

### Executive Committee on Monitoring NPAs

In order to focus on minimising the Non-Performing Advances (NPAs), the Bank set up a special committee chaired by the Chief Operating Officer (COO) to review all substantial advances transferred to NPA. The Committee's aim is to analyse the underlying reasons for delinquency and to take corrective actions to turn them around or to expedite the recovery actions. The Committee is represented by all Assistant General Managers (AGMs) and DGMs in Corporate Banking/ Personal Banking/Recoveries as well as Chief Risk Officer and Head of Credit Risk.

This Committee's decisions on NPAs also enrich Bank-wide lending decisions and portfolio/relationship management competencies of Lending Officers at all levels.

### Executive Credit Policy Committee

Credit Policy Committee which is chaired by the Managing Director 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. The Committee members include all Lending Officers at the Corporate Management level, Deputy General Manager - Inspection, Deputy General Manager - International, Assistant General Manager - Recoveries, Chief Risk Officer and the Head of Credit Risk.

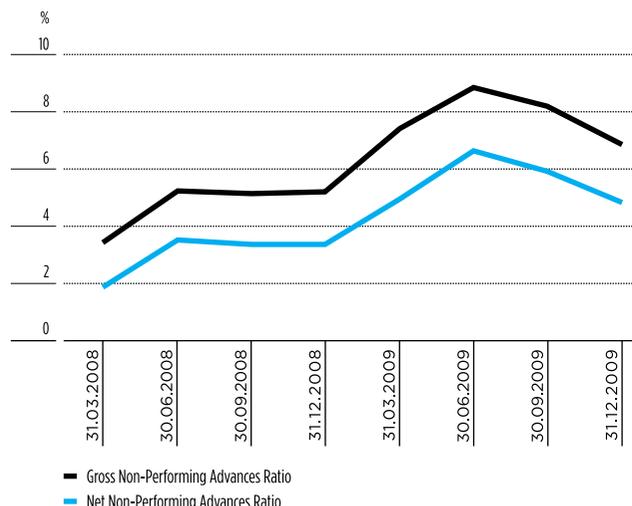
During the year under review, the Bank's Credit Policy document was reviewed and a fresh version together with Lending Guidelines was adopted.

## CREDIT RISK

### Credit Risk Management

Credit risk is the risk of financial loss the Bank may face as a result of a borrower or a counterparty not meeting its obligations in line with the original contractual terms. Credit Risk can be defined as the major risk faced by a financial institution due to its direct lending as well as off-balance sheet exposures such as Guarantees, Letters of Credit etc, to their customers. Managing credit risk in the Bank has therefore become the most crucial task. Given the fast changing, dynamic global economic scenario and the increasing pressure of globalisation, liberalisation and consolidation, it is essential for the financial institutions to have robust credit risk management policies and procedures that are sensitive and responsive to these changes. This enables the banks to minimise losses and earn an acceptable level of return for shareholders.

Movement of Gross and Net Non-Performing Advances Ratios During Years 2008 and 2009



## Approach to Integrated Risk Management

### Scope of Credit Risk Management

The Bank's Credit Risk derives mainly from loans, trade finance and treasury business. Currently, the Bank is in the process of establishing credit risk governance structures and control frame-works which are designed for all stages of economic and financial cycles, including the current economic environment prevailing in the country.

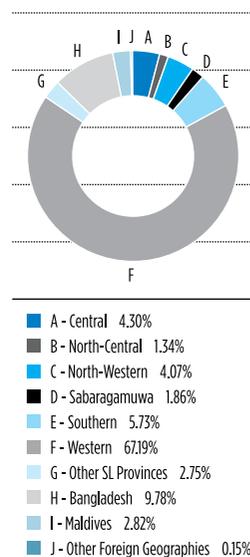
Primary responsibility of Credit Risk Management vests with the Lending Officers at various levels of the organisation. The Lending Officers actively manage/monitor their respective portfolios in accordance with the credit policies and established procedures. All types of lending are subject to detailed credit risk evaluation which includes obligor's financial, business, management risks as well as risks relating to the collaterals and facility structures.

The Credit Risk Management encompasses identification, measurement, matching mitigations, monitoring and controlling of the credit risk exposures to ensure that:

- The individuals who take or manage risks clearly understand them.
- The organisation's Credit Risk exposures are within the limits established by the Board of Directors (BOD).
- Risk taking decisions are in line with the business strategy and objectives set by the BOD.
- The expected payoffs compensate the risks taken.
- Risk taking decisions are explicit and clear.
- Sufficient capital as a buffer is available to take risk.

Although 67% of the advances have been granted by the branches located in the Western Province, a sizable portion of these lending has been utilised to finance industries located throughout the country. For example, most of the large corporates which have island-wide operations have been accommodated by the Branches and Corporate Banking Division in the Western Province.

The Geographical Distribution of the Advances Portfolio as at 31.12.2009



## Approach to Integrated Risk Management

### Credit Risk Mitigation

Credit Risk Mitigation techniques constitute an important factor in managing lending portfolios. The Bank adopts different policies and procedures in mitigating credit risks in its lending activities. Although, as a principle the Bank does not grant credit facilities solely on the basis of collaterals provided, the most common and traditional way of mitigating the credit risk continues to be obtaining various collaterals such as lien over deposits, mortgages, guarantees etc. Values of the fixed assets taken as collaterals are usually required to be assessed by designated professional valuers. The value of the collateral is periodically monitored by the Lending Officers.

### Lending Guidelines

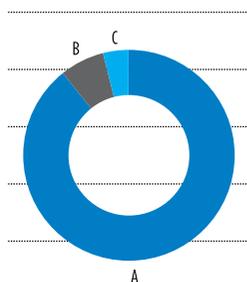
The Bank's 'Lending Guidelines' which outline the views of the senior management on business development priorities, risk appetite and the parameters within which the credit proposals are to be approved was issued during 2009. This will assist the Lending Officers in managing their lending portfolios and canvass new lending business in an efficient manner. These guidelines will be regularly updated taking into consideration the changes in the economy, competitive business environment and the evolution of the Bank's loan portfolio.

### Establishment of Exposure Limits

Establishing and maintaining the Bank's policy on large credit exposures, ensuring that concentrations of exposure by counterparty, specified sector or geographical location do not become excessive in relation to the Bank's capital base and remain within internal and regulatory limits is an important aspect in managing credit risk.

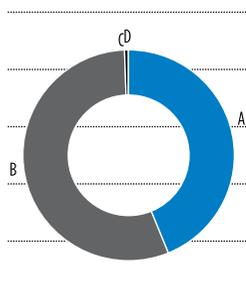
The Bank set up tenor-wise exposure limits (FOREX, Placement, Counter-Guarantee and Nostro) for local and foreign counterparties on the basis of their financial performance, future outlook and available market information. These counterparty exposures are monitored/evaluated regularly to optimise the returns while avoiding excessive risk concentrations. The Bank has also established overall cross-border exposure limits along with sub-limits by maturity and type of business (i.e., Exports, Placement, Forex, Counter-Guarantee and Nostro).

**The Concentration of Cross-Border Exposures\***  
(Sri Lanka and Bangladesh Operations)  
S & P Ratings-Wise as at 31.12.2009



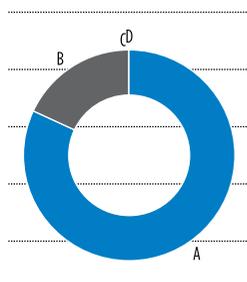
\* Excluding investment in Bangladesh Operations & direct lending in Maldives

**The Concentration of Foreign Counterparty Exposure**  
(Sri Lanka and Bangladesh Operations)  
Credit Ratings-Wise\*\* as at 31.12.2009

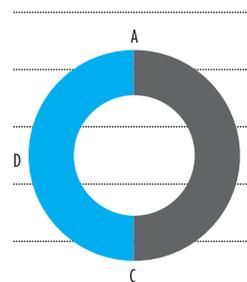


\*\* S & P rating or other equivalent International credit ratings is given where S & P Ratings are unavailable

**The Concentration of Local Counterparty Exposures**  
(Sri Lanka Operations)  
Fitch Ratings-Wise as at 31.12.2009



**The Concentration of Local Counterparty Exposure**  
(Bangladesh Operations)  
CAMEL Ratings-Wise as at 31.12.2009



## Approach to Integrated Risk Management

Country limits are determined by taking into account economic/political situation and the latest sovereign ratings of the respective countries. Currently nearly 90% of the cross-border exposure is for countries carrying **AAA & AA** Sovereign ratings by **Standard & Poor's (S&P)** (as against prudentially set minimum threshold level of 75% for such countries). Transactions with countries deemed to be high risk are considered on a case by case basis, strictly based on the creditworthiness of the customers involved in such trade transactions.

### Credit Risk Review

The Bank established the Credit Risk Review function under the purview of the Head of Credit Risk focusing mainly on:

- Evaluating the Bank's credit risk impartially ensuring uniformity, high credit standards and validating risk ratings of loans and advances.
- Ensuring that all risk assets of the Bank are properly managed, namely the credit portfolio of the whole business unit, group exposure and individual exposures.
- Evaluating credit processes and all other fields directly or indirectly affecting credit risk (eg. proper staffing and training).
- Ensuring the compliance with the credit policies, procedures and guidelines as laid down by the Management.

Credit Risk Review function is expected to complement the Lending Officers' efforts to improve the overall quality in the Bank's Lending portfolio in the future.

### MARKET RISK

Market Risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions such as market movements. The traditional banking business related products such as loans, investments, deposits, term borrowings etc. are inherently subject to market risks and the Bank manages this non-trading portion of the business through the Assets & Liabilities Management (ALM) process.

The Bank continued to consider Market Risk as one of the major risks that the Bank faces. Due cognisance was given accordingly at the monthly EIRMC meetings and at the more frequent (at least twice a month) ALCO Meetings. In addition to the above mentioned two main committees the ALCO Sub-Committee consisting of representatives drawn from different business units and departments to co-ordinate the management of Funds Transfer Pricing (FTP) makes recommendations to the ALCO on initiatives to improve funding, market risk management and risk-based 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 the 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.

Middle Office of the Bank is entrusted with the task of monitoring treasury activities with a view to ensure adherence to the regulatory and internal policy related guidelines.

Market Risk Policies including ALM Policy, Liquidity Policy, Foreign Exchange Policy and the Investment Policy are being reviewed and updated versions are to be adopted in the near future.

## Approach to Integrated Risk Management

### Interest Rate Risk

Interest Rate Risk (IRR) is the effect of changes in interest rates on the economic value of the Bank's loans and deposits, as well as other interest rate sensitive instruments, and is reflected in the levels of future income and expense produced by these positions versus levels that would be generated by current levels of interest rates. Interest rate risk represents the most significant market risk exposure to the Bank's non-trading financial instruments which is reflected in the Banking book.

The Bank understands the importance of managing IRR from the earnings perspective so that interest rate movements will not adversely impact the Net Interest Income of the Bank. Measured as potential volatility to the Net Interest Income, the Bank adopts sensitivity simulations to forecast probable impact from the changes in interest rates to facilitate proactive decision making. ALM process includes application of parallel rate shocks of varying magnitudes (e.g., 50 bps, 100 bps etc.) to the Balance Sheet as well as stress testing of identified single asset or liability class to understand the tensile strength of the selected product. The assumptions are incorporated on the Balance Sheet dynamics such as growth of individual asset and liability products, the changes in the mix and maturity characteristics to simulate and generate a more realistic model.

The economic value perspective related analysis, which is of longer time horizon compared to the earnings perspective and provides information pertaining to sustainability and economic value of the Bank, is to be adopted at the Bank in the year 2010.

The Bank reviews gap analysis of the rate sensitive assets and rate sensitive liabilities as a snapshot of the Balance Sheet with certain assumptions based on the inherent qualities of the underlying assets and liabilities with regard to re-pricing and maturity. This report which provides mismatches based on different time buckets is used widely in the ALM process for decision making with the consideration on market perceptions and predictions on the future interest rates. The need of new products to mitigate the risks associated with short term/long term mismatches or the need to resort to derivative as a hedging mechanism in addition to the pricing related decisions, are considered at the ALCO.

#### Re-Pricing Gap Summary as at December 31, 2009 (Sri Lanka Operations with Behavioural Assumptions)

Rs. Bn.	Overnight	1-3 Months	4-6 Months	7-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 Years	Total
Rate Sensitive Assets (RSA)	4.24	139.59	40.93	40.85	14.97	8.88	5.54	3.45	18.26	276.71
Rate Sensitive Liabilities (RSL)	86.84	81.61	23.77	35.10	3.66	2.42	2.15	1.81	4.22	241.58
Gap	(82.60)	57.98	17.16	5.75	11.31	6.46	3.39	1.64	14.04	
Cumulative Gap	(82.60)	(24.62)	(7.46)	(1.71)	9.60	16.06	19.45	21.09	35.13	
RSA/RSL Ratio (Times)	0.05	1.71	1.72	1.16	4.09	3.67	2.58	1.91	4.33	

(Table 1)

Consideration of less volatile savings deposits (Rs. 80.9 Bn.) in the rate sensitive liabilities gives rise to the negative gap in the overnight bucket and at the same time overdrafts which can be re-priced at any time were staggered in 1-3 months and 7-12 months buckets for the sake of prudence.

Trading book related risks are mitigated mostly through limits enforced on the positions carried by the dealers. Cut loss limits and aging limits are in place to control the interest rate risk associated with the trading portfolio. As the trading portfolio is subject to market practices, the Bank's Income Statement is subject to vagaries of market movements prompting more controls on the trading book.

## Approach to Integrated Risk Management

The Bank continues to use yield curve based matched term Funds Transfer Pricing (FTP) mechanism with a view to managing IRR at a central location and providing necessary directions to the business units.

The Bank is exposed to a moderate level of risks due to Interest Rate fluctuations in the market.

### Liquidity Risk

Liquidity Risk is the risk that the Bank cannot fulfil its payment commitments on a given due date as a result of 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.

Liquidity being an aspect of paramount importance in a financial institution, several measures are in place to monitor and control the risks associated with liquidity inadequacies. In addition to compliance with the Statutory Liquid Assets Ratio (SLAR) stipulated by the Central Bank of Sri Lanka (CBSL), the Bank is monitoring Advances to Deposits Ratio as a key indicator of liquidity risk and the Bank's ability to meet the loan demand through reliable core deposits is considered as a great strength.

The Bank recorded a sound 103.63% core funding ratio (Table 2) as at December 31, 2009. This measures the degree to which the Bank is funding its Loans & Advances portfolio with the more stable funding sources such as long term deposits and Tier I Capital etc.

#### Core Funding as at December 31, 2009

	Deposits & Debentures having Residual Mat >1 Yr	90% of Deposits & Debentures having Residual Mat <1 Yr	90% of Non-Maturing Deposits	Tier I Capital as of December 31, 2009	Total
Funding (Rs. Mn.)	34,048.36	50,162.43	75,362.10	25,815.39	185,388.28
Total Loans & Advances (Rs. Mn.)					178,919.08
Core Funding Ratio (%)					103.62

(Table 2)

\* Assumption: 90% of the non-maturing deposits and 90% of the deposits that mature within the year will be re-invested.

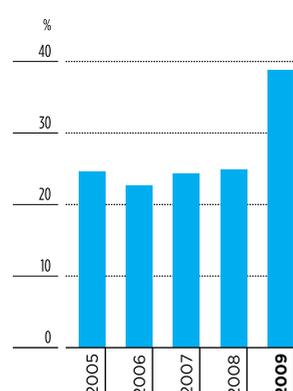
Non-reliance on a few large depositors for funding requirement is also considered as sound liquidity management measure and the Bank's deposit concentration (Table 3) provides ample testimony on this aspect.

#### Concentration of Rupee Deposits

Deposit Type	Months	As at December 31, 2009	
		Amount Rs. Mn.	% of LKR Deposit Base
Current Accounts (> Rs. 5 Mn.)		5,712	3.42
Savings (> Rs. 5 Mn.)		3,738	2.24
Time Deposits - three largest categories (> Rs. 10 Mn.)	1	311	0.19
	3	1,405	0.84
	12	2,085	1.25
<b>Total</b>		<b>13,251</b>	<b>7.94</b>
<b>Total LKR Deposit Base</b>		<b>167,076</b>	

(Table 3)

#### Liquid Assets Ratio



## Approach to Integrated Risk Management

Liquidity mismatches based on the assumptions prescribed in the CBSL draft guidelines on Integrated Risk Management Systems in Banks issued on September 28, 2009 are given below (Table 4). The Bank is confident of meeting the negative period gaps shown in the overnight, 7-12 months, 4-5 years and more than 5 years buckets. Most of the short term liquidity demands can be easily met due to the availability of readily liquid unencumbered Treasury Bills and Bonds portfolio of the Bank without any hindrance to the Statutory Liquid Assets Ratio.

Liquidity Gap Summary as at December 31, 2009 (Sri Lankan Operations with Behavioural Assumptions)

(Rs. Bn.)	Overnight	1-3 Months	4-6 Months	7-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More Than 5 Years	Total
Assets (a)	5.87	104.56	37.57	33.00	32.01	22.81	9.08	12.89	34.75	292.54
Liabilities + Equity (b)	16.18	77.02	26.27	40.14	5.19	22.72	2.24	22.12	80.66	292.54
Period Gap (c = a-b)	(10.31)	27.54	11.30	(7.14)	26.82	0.09	6.84	(9.23)	(45.91)	
Cumulative Gap (d)	(10.31)	17.23	28.53	21.39	48.21	48.30	55.14	45.91	0.00	
Cumulative Liabilities (e)	16.18	93.20	119.47	159.61	164.80	187.52	189.76	211.88	292.54	
Cum. Gap (d) / Cum Liab. (e) (%)	(63.72)	18.49	23.88	13.40	29.25	25.76	29.06	21.67		

(Table 4)

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 withdrawals of deposit, drawdown of committed lending facilities and reviews liquidity contingency plans to manage serious disruptions to the liquidity structure.

The Bank is exposed to a low level of risk due to liquidity demands.

### Foreign Exchange (FX) Risk

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. Foreign exchange risk may also arise as a result of exposures of banks to maturity mismatches of foreign currency positions.

As the Bank's base currency is Sri Lankan Rupee (LKR), it is exposed to FX Risk from investments in foreign operations, foreign currency denominated loans, foreign currency denominated securities, future cash flows in foreign currencies arising from foreign exchange transactions, and various foreign exchange derivative instruments whose values fluctuate with changes in currency exchange rates or foreign interest rates.

The Bank has established Risk Tolerance Limits for its treasury within the Directives and Draft 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 Placement Limits and Transaction Limits
- Counterparty Spot, Forward and Placement Limits
- Trading Stop-Loss Limits

The Bank is exposed to a low level of risk due to FX positions.

### Equity Risk

The Bank was exposed to minimum equity pricing risk during 2009 as the investments made in shares were minimal.

## Approach to Integrated Risk Management

### Market Risk Rating and the Risk Assessment Tools

High Risk	Moderate Risk	Low Risk
	<b>Liquidity Risk</b> <ul style="list-style-type: none"> <li>Loans to Deposits Ratio</li> <li>Concentrations</li> <li>Maturity mismatches</li> <li>Core Funding Ratio</li> <li>Liquid Assets Ratio</li> </ul>	<b>FX Risk</b> <ul style="list-style-type: none"> <li>Sensitivity Analysis</li> <li>Stress Testing</li> </ul>
	<b>IRR</b> <ul style="list-style-type: none"> <li>Re-pricing mismatches</li> <li>Sensitivity analysis</li> <li>Stress Testing</li> </ul>	<b>Equity Risk</b> <ul style="list-style-type: none"> <li>Sensitivity Analysis</li> </ul>

### OPERATIONAL RISK

Operational Risk is an expression of the danger of unexpected direct or indirect losses resulting from inadequate or failed internal processes, people and systems and external events. Further, Operational Risk can be broadly defined as risks which cannot be classified as Credit or Market Risk.

Operational Risk Management framework of the Bank is focused on:

- Understanding, reporting and ensuring mitigatory measures relating to the Operational Risk associated with the activities of the Bank.
- Capturing, analysing, reporting and ensuring appropriate controls are in place to avoid operational lapses in the course of the Bank's business.
- Identifying and minimising the frequency and impact on a cost-benefit basis of Operational Risk events.

Based on the above, the Bank applies a consistent approach to the identification of key risks, evaluates the impact of such risks and ensures that appropriate Risk Management measures are established to mitigate the risks across all Operating Units of the Bank. All these risks are assigned to the relevant risk owners through Corporate Management and are reviewed and updated at regular intervals, with their assistance. Further, relevant controls are tested and if necessary, appropriate actions are proposed by the Inspection Department on a half-yearly basis to ensure that all risk controls are in place.

### Loss Data

Loss events and loss values are reported to Executive Integrated Risk Management Committee under the following criteria on a monthly basis:

- Cash Shortages/Losses
- Losses due to Misposting of Entries
- Losses due to ATM errors
- ATM Cash Shortages
- Card Losses
- Special Types of Losses
- Customer Complaints with possible Monetary Losses
- Other Complaints
- Legal Claims

## Approach to Integrated Risk Management

Individual losses above a certain threshold are reported to the Board Integrated Risk Management Committee along with the existing controls in place and if necessary, additional systems and procedures to be adopted to avoid repetition of the same types of losses are proposed.

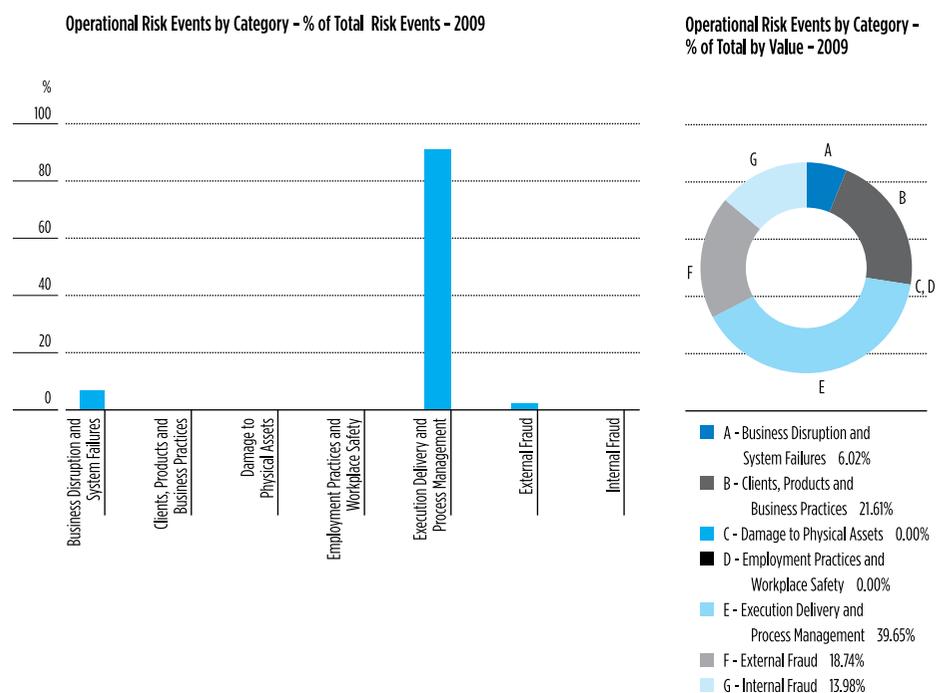
Losses reported during the year are further analysed according to the following Basel II Guidelines on classification of Operational Risk:

- Internal Fraud
- External Fraud
- Employment Practices and Workplace Safety
- Clients, Products and Business Practices
- Damage to Physical Assets
- Business Disruption and System Failures
- Execution, Delivery and Process Management

### Loss Data Reported

A substantial portion of the Operational Loss events of the Commercial Bank was involved with low financial impact and an insignificant portion was associated with high cost. More than 99% of the reported operational risk events carried a value less than Rs. 100,000/-.

Execution, Delivery and Process Management which consists of lower value cash shortages at the 555 Branch/ATM outlets (Sri Lanka and Bangladesh) accounted for the highest value of losses while Clients, Products and Business Practices which accounted for the second highest category of losses includes one large customer related loss event. Losses shown under External Frauds mainly consist of Credit Card related activities.



## Approach to Integrated Risk Management

However, the total gross value (before deducting the Insurance Claims received) of Operational Losses incurred by the Bank during the year 2009, in comparison to the net income of the Bank was only 0.09 %. Hence, the Bank's actual Operational Risk is very low compared to the capital allocated as per Basic Indicator Approach under Basel II. Average Operational Loss Events for the year 2009 as a percentage of the average number of transactions carried out during the year is also very low at 0.003%.

### Other Measures Taken to Mitigate Operational Risks

The Inspection Department of the Bank carried out more than 250 compliance based inspections during the year which included 170 local on-site visits and 80 reports on off-site inspections covering various units. In addition, about 25 on-site inspections on various units had been carried out on Bangladesh Operations during the 04 visits made in 2009.

Information System Audits have been carried out regularly covering all Operating Units of the Bank. The Bank obtained ISO 27001 certification for its e-Banking Unit, Card Centre and IT Department during the year.

Business Continuity Plan of the Bank has been successfully tested and revised during the year. Presently it is under the purview of the Chief Operating Officer.

Anti-Money Laundering Unit is involved with identifying suspected transactions on a daily basis as per the Central Bank Regulations. The Unit constantly provides guidance to Branches on proper compliance in accordance with Anti-Money Laundering Guidelines.

### Computation of Operational Risk Requirement under Standardised Approach

We are in the process of migrating to Standardised Approach (SA) for the computation of Operational Risk from the Basic Indicator Approach (BIA).

Standardised Approach (SA) method of computation of Operational Risk Capital of banks is arrived at by dividing the Bank's income-generating activities into eight business lines and applying a specific risk weightage on average gross income of each business line during the past three years.

Capital required for Operational Risk of the Bank for the year 2009 as per Standardised Approach is computed as follows:

Business Line	Weighted Rate %	Capital Requirement Rs. Mn.
Corporate Finance	18.00	Nil
Trading & Sales	18.00	818.0
Retail Banking	12.00	814.9
Commercial Banking	15.00	1,096.1
Payment & Settlement	18.00	79.8
Agency Services	15.00	Nil
Asset Management	12.00	Nil
Retail Brokerage	12.00	Nil
<b>Total</b>		<b>2,808.8</b>

However, Operational Risk Requirement as per BIA for the year 2009 (based on the last three years' average income of the Bank) would be Rs. 2,359.3 Mn.

## ***Approach to Integrated Risk Management***

### **BANGLADESH OPERATIONS**

Bangladesh operations related risk management is carried out by the Risk Management Department of Bangladesh and the identified reports are monitored at the Head Office.

#### **Whistle Blower's Charter**

During 2009, Commercial Bank adopted a "Whistle Blower's Charter" which takes account of the International Chamber of Commerce Guidelines on Whistle Blowing, with the following key objectives:

- To encourage and provide a confidential avenue for employees to raise genuine concerns regarding malpractices and unethical behaviour, including potential violations of the law, questionable business practices or grave misconduct by employees of the Bank at the earliest possible stage.
- To provide assurance of protection of the whistle-blowers from fear of reprisal, discrimination, victimisation or disciplinary action.
- To give instructions on how concerns or allegations are to be promptly reported, investigated and resolved, so that employees can be confident that their reports will be dealt with by a very Senior Executive or Board Member of undisputable repute with sufficient autonomy to investigate the matter and provide the whistle blowers with appropriate feedback.
- To enable direct access by the whistle blower to a designated Board Director where a member of Corporate Management or Board Director is involved.

#### **Strategic Vision and Plans for the Future**

To align risk strategy with business strategy to optimise value delivery to stakeholders, by adopting following strategies.

1. Establish and ensure the effectiveness of a robust Enterprise-wide Integrated Risk Management System incorporating all relevant factors that create material sources of risk and an enabling stress testing framework covering all local and overseas operations of the Bank.
2. Introduce tested models for measuring and managing Credit, Market and Operational risks in an integrated manner ensuring that these are used effectively to develop a comprehensive ICAAP (Internal Capital Adequacy Assessment Process).
3. Introduce an efficient Lending Origination and Management System (LOMS) for all Branch based retail and SME lending, ensuring that it is used effectively to enable the Bank to monitor the alignment of risk exposure versus risk appetite.
4. Introducing and ensuring that the effective use of an internal risk rating model for Corporate lending and other portfolios with sufficiently defined risk characteristics that can be validated wherever substantial IRB capital efficiencies can be obtained.
5. Establish (in conjunction with Finance Division) Risk Based Capital Planning and Management enabling the Bank to optimise capital leverage across risk categories and by business lines, ensuring that the benefits are well understood and used effectively throughout the Bank.

## ***Approach to Integrated Risk Management***

### **CAPITAL ADEQUACY TOWARDS STABILITY AND STRENGTH**

Although capital generally accounts for a relatively small percentage of the financial resources of banking institutions, it plays a crucial role in the long term financing and solvency position and therefore in public credibility. Financial institutions experienced the transformation from the traditional view on capital as a mode of transferring ownership and funding a business to a measure of stability and strength with the introduction of Basel Capital accords. The inherent nature of the risk-taking associated with the banking business, the need to limit the ability to expand the business 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 was given prominence in the recent past. The Capital Adequacy Ratio (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 is comprised of advances and deposits.

The Bank computes CAR based on the relationship between risk-weighted assets of credit, market and operational aspects of the banking business as per the Basel II guidelines issued by the Central Bank of Sri Lanka. As per the regulatory requirements, the Credit Risk and the Market Risk are measured using Standardised Approach and the Operational Risk is measured based on Basic Indicator Approach. The regulators will allow the banks to move towards Internal Rating Based Approaches after evaluating the robustness of the systems and procedures adopted by the banks that can support such advanced approaches.

Tier I Capital consists of Stated Capital, Statutory Reserves and General Reserve considered as a core measure of the financial strength of the Bank (Rs. 25.79 Bn.) whereas the supplementary capital of the Bank of Rs. 4.36 Bn. mainly consists of approved subordinated term debts and general provisions that indicate very healthy mix of capital components.

The detailed Capital Adequacy Computation of the Group as at December 31, 2009 is given on pages 122 to 124 of this Annual Report.

## Approach to Integrated Risk Management

### CAPITAL ADEQUACY COMPUTATION - GROUP

#### Computation of Risk-Weighted Assets

	On Balance Sheet Assets and Credit Equivalent of off Balance Sheet Assets		Risk-Weight Factor %	Risk-Weighted Balance	
	2009	2008		2009	2008
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Assets</b>					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	97,440,207	61,291,473	0	-	-
Claims on Foreign sovereigns and their Central Banks	7,805,369	4,500,396	0-150	7,805,369	4,500,396
Claims on Public Sector Entities (PSEs)	134,868	636,768	20-150	134,868	636,768
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	20-150	-	-
Claims on Banks	20,107,539	20,018,834	20-150	6,015,906	9,040,776
Claims on Financial Institutions	23,686	115,302	20-150	13,120	58,916
Claims on Corporates	131,534,193	147,681,996	20-150	127,233,378	142,002,595
Retail Claims	10,472,076	10,970,054	75-100	10,472,076	10,970,054
Claims Secured by Residential Property	15,925,655	16,367,107	50-100	15,925,655	16,367,107
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-performing Assets ( NPAs)	9,268,346	6,259,245	50-150	12,682,682	8,772,029
Cash Items	5,595,001	5,167,546	0-20	7,780	9,401
Property, Plant & Equipment	4,725,637	4,460,229	100	4,725,637	4,460,229
Other Assets	6,801,379	5,580,442	100	6,801,379	5,580,442
<b>Total</b>	<b>309,833,957</b>	<b>283,049,393</b>		<b>191,817,851</b>	<b>202,398,714</b>

#### Off Balance Sheet Exposure

	Balance		Credit Conversion Factor %	Credit Equivalent	
	2009	2008		2009	2008
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Instruments</b>					
Direct Credit Substitutes	9,077,625	13,314,798	100	9,077,625	13,314,798
Transaction-Related Contingencies	5,764,699	3,271,227	50	2,882,350	1,635,614
Short-Term Self-Liquidating Trade-Related Contingencies	19,043,141	16,292,839	20	3,808,629	3,258,569
Sale and Repurchase Agreements and Assets Sold with recourse where the credit risk remains with the Bank	-	-	100	-	-
Obligations under an On-going Underwriting Agreement	-	-	50	-	-
Other Commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	24,959,003	26,482,602	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	85,776,729	54,568,952	0-5	1,715,535	1,091,379
Interest Rate Contracts	2,633,830	5,701,370	0-3	67,277	144,197
<b>Total</b>	<b>147,255,027</b>	<b>119,631,788</b>		<b>17,551,416</b>	<b>19,444,557</b>

## Approach to Integrated Risk Management

### Capital Charge for Market Risk

Item	2009 Rs. '000	2008 Rs. '000
Capital Charge for Interest Rate Risk	78,523	22,019
Capital Charge for Equity	13,547	10,471
Capital Charge for Foreign Exchange & Gold	7,331	53,412
Total Capital Charge for Market Risk	99,401	85,902
Total Risk Weighted Assets Market Risk	994,014	859,020

### Capital Charge for Operational Risk

#### Gross Income

Year 1	11,723,240	8,705,704
Year 2	16,226,822	11,723,240
Year 3	19,236,720	16,226,822
<b>Average Gross Income</b>	<b>15,728,927</b>	<b>12,218,589</b>
Total Capital Charge for Operational Risk - (15%)	2,359,339	1,832,788
Total Risk Weighted Assets Operational Risk	23,593,391	18,327,883

### Computation of Capital

#### TIER I : Core Capital

Paid-up Ordinary Shares/Common Stock/Assigned Capital/Stated Capital	10,607,792	9,548,123
Statutory Reserves	2,062,346	1,847,916
Published Retained Profits/(Accumulated Losses)	26,427	140,477
General and Other Reserves	13,463,820	12,131,623
Minority Interests (consistent with the above capital constituents)	26,068	26,948
LESS :		
Other Intangible Assets	(387,515)	(296,723)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	(4,214)	(6,625)
50% Investments in the Capital of Other Banks and Financial Institutions	(5,402)	(8,902)
<b>Total Eligible Core Capital ( TIER I Capital )</b>	<b>25,789,323</b>	<b>23,382,837</b>

#### TIER II : Supplementary Capital

Revaluation Reserves (as approved by Central Bank of Sri Lanka)	651,037	651,037
General Provisions	1,560,553	1,545,952
Approved Subordinated Term Debt	2,154,028	3,517,102
LESS :		
50% Investments in the Capital of Other Banks and Financial Institutions	(5,402)	(8,902)
<b>Total Eligible Supplementary Capital ( TIER II Capital )</b>	<b>4,360,216</b>	<b>5,705,189</b>
<b>Total Capital Base</b>	<b>30,149,539</b>	<b>29,088,026</b>

## Approach to Integrated Risk Management

### Computation of Ratios

	2009 Rs. '000	2008 Rs. '000
Total Risk Weighted Assets (RWA)		
Total Risk Weighted Assets for Credit Risk	191,817,851	202,398,714
Total Risk Weighted Assets Market Risk	994,014	859,023
Total Risk Weighted Assets Operational Risk	23,593,391	18,327,883
Sub Total	216,405,255	221,585,620
Minimum Capital Charge		
Minimum Capital Charge for Credit Risk	19,181,785	20,239,871
Minimum Capital Charge for Market Risk	99,401	85,902
Minimum Capital Charge for Operational Risk	2,359,339	1,832,788
Sub Total	21,640,526	22,158,562
Total Capital available to meet the Capital Charge for Credit Risk		
Total Eligible Core Capital ( TIER I Capital )	25,789,323	23,382,837
Total Eligible Supplementary Capital ( TIER II Capital )	4,360,216	5,705,189
Total Capital Base	30,149,539	29,088,026
Core Capital Ratio (Minimum Requirement 5%)		
Total Eligible Core Capital ( TIER I Capital )	25,789,323	23,382,837
Total Risk Weighted Assets	216,405,255	221,585,620
	11.92%	10.55%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital Base	30,149,539	29,088,026
Total Risk Weighted Assets	216,405,255	221,585,620
	13.93%	13.13%

# Stewardship

## Corporate Governance

*“To remain competitive in a changing world, corporations must innovate and adapt their corporate governance practices so that they can meet new demands and grasp new opportunities”*

*(Quote from OECD principles 2006)*

At Commercial Bank the Corporate Governance framework is designed enabling it to deliver sustainable value, enhancing a culture of business integrity and investor confidence. In pursuit of the highest standards of Corporate Governance, the Board of Directors of the Bank applies a governance approach structured to identify the key practical issues covering areas such as the rights and equitable treatment of shareholders and other financial stakeholders, the role of non-financial stakeholders, disclosure and transparency, and the responsibilities of the Board of Directors. This framework has also been structured based on the guidance provided in the good Corporate Governance practices recommended by the regulatory bodies such as the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and The Institute of Chartered Accountants of Sri Lanka.

The Board of Commercial Bank also believes that strong Corporate Governance is a priority for the Bank as it presents opportunities to manage risks, add value to its stakeholders and in essence serves several other purposes including the following:

- To enhance shareholder value whilst being ethical, transparent, professional and accountable to the society and the environment.
- To establish and preserve management accountability to its stakeholders by appropriately distributing rights and responsibilities among the Board members, managers, and shareholders.
- To provide a structure through which the Board and the management sets objectives and monitors performance.
- To strengthen and safeguard our culture of business integrity and responsible business practices.
- To encourage the efficient use of resources, and to require accountability for stewardship of those resources.

In this connection, 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 which are given in the Section on 'Board Sub-Committees' on pages 154 to 162 of this Annual Report

## **Corporate Governance**

As depicted in the diagram on page 127 the Board of Directors sets the strategic direction and guides the corporate values. This structure sets-out and enforces clear lines of responsibility and accountability throughout the Bank, thus the Corporate Governance at the Bank, stems from 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 stakeholders 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.

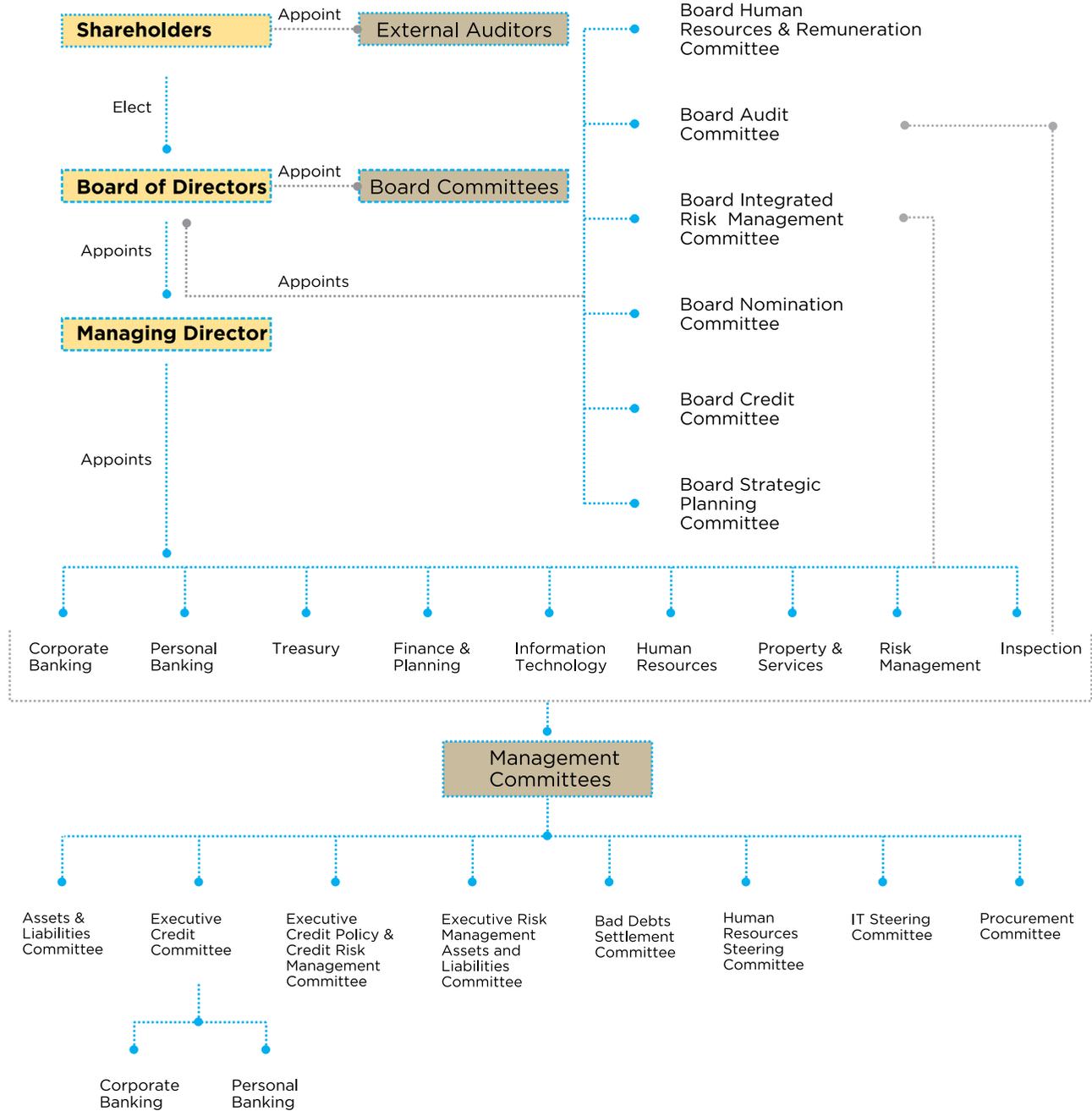
### **STATEMENT OF COMPLIANCE**

The disclosures below demonstrate the Bank's adherence to disclosure requirements of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka, and subsequent amendments thereto and the Section 7.10 of the Continuing Listing Requirements issued by the Colombo Stock Exchange. The following disclosures also indicate the level of conformance to the Code of Best Practice on Corporate Governance, issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka in 2008.

Further to the above, Board of Directors to the best of their knowledge and belief is also satisfied that all statutory payments due to the Government, other regulatory institutions and related to the employees, have been made on time.

## Corporate Governance

### Corporate Governance Structure



## Corporate Governance

### BANK'S ADHERENCE WITH THE CORPORATE GOVERNANCE RULES AS REQUIRED BY SECTION 7.10 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

Corporate Governance Rule	Bank's Response
<b>Directors</b>	
<b>Non-Executive Directors</b>	
(a) The Board of Directors of a listed company shall include at least - (i) Two Non-Executive Directors; or (ii) Such number of Non-Executive Directors equivalent to one-third of the total number of Directors whichever is higher.	<b>Complied with.</b>
(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.	<b>Complied with.</b>
(c) Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Not applicable.
<b>Independent Directors</b>	
(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'.	<b>Complied with.</b> As per the Board's determination on independence of each Director, based on Directors' Declarations, as provided by Section 7.10.3 (a) of the 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.	<b>Complied with.</b>
<b>Disclosures Relating to Directors</b>	
(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'.	<b>Complied with.</b> Please refer Note 1 on page 130 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 7.10.4, 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.	<b>Complied with.</b> Based on the tests detailed in Notes 1 and 2 on pages 130 and 131 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 résumé of each Director on its Board, which includes information on the nature of his/her expertise in relevant functional areas.	<b>Complied with.</b> Please refer pages 168 to 170 of this Annual Report.
(d) Upon appointment of a new Director to its Board, the Company shall forthwith provide to the exchange a brief résumé of such Director for dissemination to the public. Such résumé shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	<b>Complied with.</b>

## Corporate Governance

Corporate Governance Rule	Bank's Response
<b>Remuneration Committee</b>	
A listed Company shall have a Remuneration Committee in conformity with the following requirements:	
<b>(a) Composition</b>	
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	<b>Complied with.</b>
(ii) Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	
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.	Commercial Development Company PLC, one of the subsidiaries of the Bank is a listed company and has its own Remuneration Committee.
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 shall have a separate Remuneration Committee.	
One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.	<b>Complied with.</b>
<b>(b) Functions</b>	
The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and 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.	<b>Complied with.</b>
<b>(c) Disclosures</b>	
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.	<b>Complied with.</b> Please refer the Section on 'Board Sub-Committees' on pages 154 to 162 of this Annual Report for the names of the Committee Members and Note 7 to the Financial Statements on page 233 for the details on remuneration paid.
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 Employees' Provident Fund and Employees' Trust Fund).	
<b>Audit Committee</b>	
A listed company shall have an Audit Committee in conformity with the following requirements:	
<b>(a) Composition</b>	
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	<b>Complied with.</b> Please refer the 'Board Audit Committee Report' on pages 154 to 157 of this Annual Report for the details.
(ii) Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	
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.	Commercial Development Company PLC, one of the subsidiaries of the Bank is a listed company and has its own Audit Committee.
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.	
One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.	<b>Complied with.</b>
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.	<b>Complied with.</b>
The Chairman or one member of the Committee should be a Member of a recognised professional accounting body.	<b>Complied with.</b>

## Corporate Governance

Corporate Governance Rule	Bank's Response
<b>(b) Functions</b>	
Shall include -	
(i) Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements of a listed company, in accordance with the Sri Lanka Accounting Standards.	<b>Complied with.</b>
(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.	<b>Complied with.</b>
(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.	<b>Complied with.</b>
(iv) Assessment of the independence and performance of the Company's External Auditors.	<b>Complied with.</b>
(v) To make recommendations to the Board pertaining to appointment, reappointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors.	<b>Complied with.</b> Please refer the Section on 'External Audit' in the 'Board Audit Committee Report' given on page 156 of this Annual Report.
<b>(c) Disclosures in the Annual Report</b>	
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.	
The Committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.	<b>Complied with.</b> Please refer the 'Board Audit Committee Report' on pages 154 to 157 of this Annual Report.
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.	

### NOTE 1

On perusal of the declarations we note the following:

(a) Mr. R.M.S. Fernando and Ms. Janaki Kuruppu are Independent Directors.

(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 on the Board for a period exceeding 9 years.
Mr. B.R.L. Fernando	(a) Served on the Board for a period exceeding 9 years. (b) Having a material business relationship with CIC Group.
Dr. H.S. Wanasinghe	Served on the Board for a period exceeding 9 years.
Mr. D.S. Weerakkody	(a) Being a Director of the DFCC Bank. (b) Having a material business relationship with DFCC Bank.
Mr. P.M. Martelli	Having a material business relationship with IFC.
Mrs. S.N. Wickremasinghe	Having a material business relationship with DFCC Bank.

According to Rule 7.10.3 (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 7.10.3 (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. D.S. Weerakkody

Mr. P.M. Martelli

Mrs. S.N. Wickramasinghe

## Corporate Governance

### 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 or 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 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 does not participate in the related Board decisions.

### NOTE 3 - EVALUATION OF BOARD'S PERFORMANCE

Board's performance is evaluated annually, by each and every Director anonymously against the following criteria:

- (i) (a) Discharge of statutory regulatory duties.  
(b) Discharge of other responsibilities of the Board.
- (ii) (a) Corporate governance.  
(b) Risk management monitoring.
- (iii) Seeking and contributing views and opinions on strategic decision making.
- (iv) Leveraging the skills, expertise of individual Board Members in furtherance of business.
- (v) Understanding the compensation philosophy - 'To retain and motivate staff in a manner appropriate for the business'.
- (vi) Understanding the succession plans to ensure comprehensive staff succession - 'To ensure talent availability and address expectations of high potential and high quality staff'.
- (vii) Overall view of management of the business by the Board of Directors.

## 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	Bank's Response
<b>A. General</b>		
Chairman and CEO	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.	The posts of the Chairman and the Chief Executive Officer are held by two individuals.
Board Balance	<ul style="list-style-type: none"> <li>● Should identify the Independent Non-Executive Directors.</li> <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>Complied with.</b></p> <p>Please refer Note 2 on page 131 of this Annual Report for the tests carried out to determine the independence of Directors.</p>
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 résumé 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>	<b>Complied with.</b> The Colombo Stock Exchange is kept informed about new appointments and also the required information is published in a few selected newspapers.

## Corporate Governance

Subject	Corporate Governance Principle	Bank's Response
Nomination Committee	The Chairman and Members of the Nomination Committee should be identified.	<b>Complied with.</b> Please refer page 161 of this Annual Report for the 'Nomination Committee Report'.
Appraisal of Board Performance	Should disclose how performance evaluations have been conducted.	<b>Complied with.</b> Please refer Note 3 on page 131 of this Annual Report for details of the criteria considered for performance evaluation of the Board.
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>	<b>Complied with.</b> Please refer pages 168 to 170, 163 to 165 and 153 for 'Board of Directors' Profiles', 'Directors' Interests in Contracts with the Company' and 'Board Committees', respectively of this Annual Report.
Disclosure of Remuneration	A Statement of Remuneration Policy and details of remuneration of the Board as a whole.	<b>Complied with.</b> Please refer page 158 of this Annual Report for the 'Human Resources and Remuneration Committee Report' and Note 7 to the Financial Statements on page 233 of this Annual Report.
Major Transactions	All Major Transactions entered into by the Company should be disclosed.	<b>Complied with.</b> Disclosures made in this Annual Report, where appropriate.
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>	<b>Complied with.</b> Please refer pages 154 to 157 of this Annual Report for the 'Board Audit Committee Report'.
Code of Business Conduct and Ethics	<ul style="list-style-type: none"> <li>• Should disclose whether the Company has a Code of Business Conduct and 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>	<b>Complied with.</b>
Going Concern	Should report that the Company is a going concern, with supporting assumptions and qualifications as necessary.	<b>Complied with.</b> Please refer page 203 of this Annual Report for the 'Statement of Directors' Responsibility'.

## Corporate Governance

Subject	Corporate Governance Principle	Bank's Response
<b>B. Remuneration</b>		
<b>Committee Report</b>		
Members of Remuneration Committee	The names of members of Remuneration Committee should be disclosed in the Remuneration Committee Report.	<b>Complied with.</b> Please refer page 158 of this Annual Report for the 'Human Resources and Remuneration Committee Report'.
<b>C. Directors' Report</b>		
	Should contain the following declarations made by the Directors: <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>	<b>Complied with.</b> Please refer pages 193 to 202 of this Annual Report for the 'Annual Report of Board of Directors'.
<b>D. Financial Statements</b>		
	The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements.	<b>Complied with.</b> Please refer page 203 of this Annual Report for the Report on 'Statement of Directors' Responsibility'.
	Auditors should also have a statement about their reporting responsibility.	<b>Complied with.</b> Please refer page 205 of this Annual Report for the 'Auditors' Report'.
<b>E. Management Report</b>		
	Should include a 'Management Discussion and Analysis Report' discussing at least the following issues: <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>	<b>Complied with.</b> Please refer pages 9 to 46 of this Annual Report for the Section on 'Management Report' and Section on 'Sustainability Supplement' on pages 47 to 105 of this Annual Report.
<b>F. Corporate Governance Report</b>		
	Should disclose the manner and extent to which the Company has complied with the principles and provisions of the Code.	<b>Complied with.</b>
<b>G. Audit Committee Report</b>		
	Should set out the work carried out by the Committee.	<b>Complied with.</b> Please refer pages 154 to 157 of this Annual Report for the 'Board Audit Committee Report'.

## Corporate Governance

### BANK'S ADHERENCE WITH THE PROVISION OF THE BANKING ACT DIRECTION NO. 11 OF 2007 OF THE CENTRAL BANK OF SRI LANKA ON CORPORATE GOVERNANCE FOR LICENSED COMMERCIAL BANKS IN SRI LANKA

The following rules of Corporate Governance shall be complied by all licensed commercial banks in Sri Lanka and such compliance shall be as provided for in Direction 3 (9) (i) hereof.

#### The Responsibilities of the Board

Guideline	Bank's Response
<b>Functions of the Board</b>	
(i) The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
<ul style="list-style-type: none"> <li>● Strategic objectives and corporate values and ensure it is communicated throughout the Bank.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Overall business strategy including the overall risk policy and risk management procedures and mechanisms with measurable goals.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● A policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Review the adequacy and the integrity of the Bank's internal control systems and management information systems.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Identify and designate Key Management Personnel, as defined in the International Accounting Standards.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Define the areas of authority and key responsibilities for the Board Directors and the Key Management Personnel.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Periodically assess the effectiveness of the Board Directors' own governance practices, including:                             <ul style="list-style-type: none"> <li>(i) the selection, nomination and election of Directors and Key Management Personnel.</li> <li>(ii) the management of conflicts of interests.</li> <li>(iii) the determination of weaknesses and implementation of changes where necessary.</li> </ul> </li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Ensure that the Bank has an appropriate succession plan for Key Management Personnel.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators.</li> </ul>	<b>Complied with.</b>
<ul style="list-style-type: none"> <li>● Exercise due diligence in the hiring and oversight of External Auditors.</li> </ul>	<b>Complied with.</b>
(ii) The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5).	<p><b>Complied with.</b></p> <p>Positions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision-making in one person.</p> <p>The Chairman is responsible for leading the Board and its effectiveness. The CEO's role is primarily managing the day-to-day operations of the Bank.</p> <p>The Chairman is also the ultimate point of contact for shareholders, particularly on Corporate Governance issues.</p>

## Corporate Governance

Guideline	Bank's Response
(iii) The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	<b>Complied with.</b> Regular Board meetings are held monthly while Special Board meetings are convened whenever necessary. In addition, there are several Board Sub-Committees, of which details are given on page 153 of this Annual Report.
(iv) The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	<b>Complied with.</b>
(v) The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	<b>Complied with.</b> Notice of at least 7 days is given to all Directors prior to regular Board meetings. Adequate notice is given to all Directors prior to emergency/special Board meetings.
(vi) The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	<b>Complied with.</b> Please refer page 153 for the attendance list of the Board Members.
(vii) The Board shall appoint a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	<b>Complied with.</b> An Attorney-at-Law/Chartered Secretary with adequate experience functions as the Secretary of the Board. She ensures that proper Board procedures are followed and that applicable rules and regulations are adhered to.
(viii) All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	<b>Complied with.</b> All legal matters for which clarification is needed by the Board are referred to the Company Secretary, who in turn provides such information after obtaining necessary professional advice, whenever required.
(ix) The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	<b>Complied with.</b> Draft minutes are prepared by the Company Secretary for approval of Chairman and other members of the Board. Minute Book is maintained by the CEO.

## Corporate Governance

Guideline	Bank's Response
<p>(x) Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following:</p> <p>(a) a summary of data and information used by the Board in its deliberations;</p> <p>(b) the matters considered by the Board;</p> <p>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</p> <p>(d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;</p> <p>(e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted;</p> <p>(f) the decisions and Board resolutions.</p>	<p><b>Complied with.</b></p>
<p>(xi) There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.</p>	<p><b>Complied with.</b> The Board obtains independent professional advice from external sources at the Bank's expense, whenever the Board deems it necessary. In addition, Board Sub-Committees advise the Board on various matters under their purview.</p>
<p>(xii) Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where Independent Non-Executive Directors [refer to Direction 3 (2) (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.</p>	<p><b>Complied with.</b> 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.</p>
<p>(xiii) The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.</p>	<p><b>Complied with.</b></p>
<p>(xiv) The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.</p>	<p>Board has noted the requirement.</p>
<p>(xv) The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the Capital Adequacy Ratio and other prudential grounds.</p>	<p><b>Complied with.</b> Please refer page 2 for the Capital Adequacy Ratios.</p>
<p>(xvi) The Board shall publish in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.</p>	<p><b>Complied with.</b></p>
<p>(xvii) The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.</p>	<p><b>Complied with.</b></p>

## Corporate Governance

Guideline	Bank's Response
<b>The Board's Composition</b>	
(i) The number of Directors on the Board shall not be less than 7 and not more than 13.	<b>Complied with.</b>
(ii) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, subject to the exemptions.	<b>Complied with.</b> Please refer Note 2 on page 131 of this Annual Report.
(iii) An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.	The only Executive Director on the Board is the Chief Executive Officer.
(iv) The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from January 01, 2010 onwards. A Non-Executive Director shall not be considered independent if he/she: (a) has direct and indirect shareholdings of more than 1% of the Bank; (b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank. (c) has been employed by the Bank during the two year period immediately preceding the appointment as Director; (d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependant child; (e) represents a specific stakeholder of the Bank; (f) is an employee or a Director or a material shareholder in a Company or business organisation: (i) which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank; or (ii) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or (iii) in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank.	The Board has noted the contents and regulations of this section for implementation from January 01, 2010.
(v) In the event an alternate Director is appointed to represent an Independent Director, the person so appointed shall also meet the criteria that applies to the Independent Director.	No alternate Directors for Independent Directors.
(vi) Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	<b>Complied with.</b> Please find the profiles of the Directors on pages 168 to 170 of this Annual Report.
(vii) A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one-half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from January 01, 2010 onwards.	The Board has noted the contents and regulations of this section for implementation from January 01, 2010.
(viii) The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and independent Non-Executive Directors in the Annual Corporate Governance report.	<b>Complied with.</b> Please find details of the Directors on pages 193 to 202 of this Annual Report.

## Corporate Governance

Guideline	Bank's Response
(ix) There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	<b>Complied with.</b> New appointments and re-elections of Directors to the Board are considered and recommended by the Nomination Committee and based on such recommendations, final decisions are made by the Board, in a formal and transparent manner.
(x) All Directors appointed to fill a casual vacancy shall be subjected to election by shareholders at the first general meeting after their appointments.	<b>Complied with.</b> 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.
(xi) If a Director resigns or is removed from office, the Board shall - (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	<b>Complied with.</b>
(xii) A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first-mentioned Bank.	<b>Complied with.</b> No Director or an employee of another Bank has been appointed as a Director, unless the Bank is an associate of that Bank.

### Criteria to Assess the Fitness and Propriety of Directors

In addition to provisions of Section 42 of the Banking Act No. 30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a Director or to continue as a Director.

The age of a person who serves as Director shall not exceed 70 years, subject to the exemptions.	<b>Complied with.</b> The provisions of Section 42 of the Banking Act No. 30 of 1988 and the criteria set out in the Directions on Corporate Governance 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.
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## Corporate Governance

### Guideline

### Bank's Response

#### Management Functions Delegated by the Board

(i) The Directors shall carefully study and clearly understand the delegation arrangements in place.

**Complied with.** 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.

(ii) The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.

**Complied with.** The delegation of powers of the Board is 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.

(iii) The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.

**Complied with.** The delegated powers are reviewed periodically.

#### The Chairman and Chief Executive Officer

(i) The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.

**Complied with.** Positions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision-making in one person.

(ii) The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.

**Complied with.** Chairman is an Independent Non-Executive Director while the CEO serves as the Executive Director.

(iii) The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.

**Complied with.** 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.

## Corporate Governance

Guideline	Bank's Response
(iv) The Chairman shall - (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	<b>Complied with.</b> 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.
(v) The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the Agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary of the Bank's operations and business.	<b>Complied with.</b> 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.
(vi) The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	<b>Complied with.</b> 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.
(vii) The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	<b>Complied with.</b> The Chairman takes all possible action to ensure that the Board acts in the best interests of the Bank.
(viii) The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	<b>Complied with.</b> All the Directors bring independent judgment to bear on issues of strategy, conduct of Bank operations and performance.
(ix) The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	<b>Complied with.</b>
(x) The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	<b>Complied with.</b> 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.
(xi) The Chief Executive Officer shall function as the apex Executive-In-Charge of the day-to-day management	<b>Complied with.</b>

## Corporate Governance

### Guideline

### Bank's Response

#### Board Appointed Committees

(i) Each bank shall have at least four Board Committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each committee, on their duties and roles at the Annual General Meeting.

**Complied with.** 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

(ii) The following rules shall apply in relation to the Audit Committee:

(a) The Chairman of the Committee shall be an independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.

**Complied with.** Please refer the Section on the 'Composition of the Committee' in the 'Board Audit Committee Report' given on pages 154 to 157 of this Annual Report.

(b) All members of the Committee shall be Non-Executive Directors.

**Complied with.**

(c) The Committee shall make recommendations on matters in connection with -

**Complied with.** Please refer 'Board Audit Committee Report' given on pages 154 to 157 of this Annual Report.

(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;

(ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time;

(iii) the application of the relevant accounting standards;

(iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.

(d) The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.

(e) The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the Committee shall consider -

**Complied with.** Please refer the Section on 'External Audit' in the 'Board Audit Committee Report' given on page 156 of this Annual Report.

(i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;

(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit, resulting from the provision of such services by the External Auditor; and

(iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.

## Corporate Governance

Guideline	Bank's Response
(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the Bank's compliance with the relevant directions in relation to Corporate Governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.	<b>Complied with.</b> The Committee conducts quarterly meetings with the participation of External Auditors wherein all matters discussed in this requirement are addressed.
(g) The Committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant Accounting Standards and other legal requirements.	<b>Complied with.</b> Please refer the Section on 'Financial Reporting' in the 'Board Audit Committee Report' given on page 155 of this Annual Report.
(h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	<b>Complied with.</b> Please refer the Section on 'External Audit' in the 'Board Audit Committee Report' given on page 156 of this Annual Report.
(i) The Committee shall review the External Auditor's management letter and the management's response thereto.	<b>Complied with.</b> Please refer the Section on 'External Audit' in the 'Board Audit Committee Report' on page 156 of this Annual Report.
(j) The Committee shall take the following steps with regard to the internal audit function of the Bank:	
(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	<b>Complied with.</b> Please refer the Section on 'Internal Audit and Inspection' in the 'Board Audit Committee Report' given on page 156 of this Annual Report.
(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	
(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	<b>Complied with.</b>
(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	<b>Complied with.</b>
(v) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	<b>Complied with.</b>
(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	<b>Complied with.</b>
(k) The Committee shall consider the major findings of internal investigations and management's responses thereto;	<b>Complied with.</b>
(l) The chief finance officer, the chief internal auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least twice a year, the Committee shall meet with the External Auditors without the Executive Directors being present.	<b>Complied with.</b> Please refer the Section on the 'Composition of the Committee' in the 'Board Audit Committee Report' given on page 154 of this Annual Report.
(m) The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	<b>Complied with.</b> Please refer the Section on 'Terms of Reference' in the 'Board Audit Committee Report' on page 154 of this Annual Report.

## Corporate Governance

Guideline	Bank's Response
(n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	<b>Complied with.</b> Please refer the Section on 'Meetings' in the 'Board Audit Committee Report' given on page 154 of this Annual Report.
(o) The Board shall disclose in an informative way, (i) details of the activities of the Audit Committee;(ii) the number of Audit Committee meetings held in the year; (iii) details of attendance of each individual Director at such meetings.	<b>Complied with.</b> Please refer the 'Board Audit Committee Report' and information on 'number of meetings held/attended' given on page 153 of this Annual Report.
(p) The Secretary of the Committee (who may be the Company Secretary or the head of the Internal Audit function) shall record and keep detailed minutes of the Committee Meetings.	<b>Complied with.</b>
(q) The Committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	<b>Complied with.</b> Please refer the Section on 'Good Governance' in the 'Board Audit Committee Report' given on page 156 of this Annual Report.
(iii) The following rules shall apply in relation to the Human Resources and Remuneration Committee:	
(a) The Committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	<b>Complied with.</b> Please refer the Section on 'Methodology' of the 'Board Human Resources and Remuneration Committee Report' given on page 160 of this Annual Report.
(b) The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	
(c) The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	
(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	<b>Complied with.</b> Please refer the Section on 'Composition of the Committee' of the 'Board Human Resources and Remuneration Committee Report' given on page 158 of this Annual Report.
(iv) The following rules shall apply in relation to the Nomination Committee:	
(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	<b>Complied with.</b> Please refer the Sections on 'Composition of the Nomination Committee' and 'Charter of the Nomination Committee' of the 'Board Nomination Committee Report' given on page 161 of this Annual Report.
(b) The Committee shall 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.	
(c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management positions.	
(d) The Committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.	
(e) The Committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	
(f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	

## Corporate Governance

### Guideline

### Bank's Response

(v) The following rules shall apply in relation to the Integrated Risk Management Committee:

(a) The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.

**Complied with.** Please refer the Section on 'Composition of the Committee' of the 'Board Integrated Risk Management Committee Report' given on page 162 of this Annual Report. Key Management Personnel supervising broad risk categories are invited to attend the Committee Meetings.

(b) The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.

(c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.

(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.

(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.

(f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of Bank Supervision.

(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.

**Complied with.** Please refer the Section on 'Methodology' of the 'Board Integrated Risk Management Committee Report' given on page 162 of this Annual Report.

(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.

**Complied with.** The Bank's Risk Management Division and the Finance Division submit two separate Board Papers on 'Risk Management Measures' and 'Compliance with Mandatory Banking and other Statutory Requirements' bi-annually and quarterly respectively, to the Board Audit Committee via the Compliance Officer of the Bank.

### Related Party Transactions

(i) The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction:

(a) Any of the Bank's subsidiary companies;

(b) Any of the Bank's associate companies;

(c) Any of the Directors of the Bank;

(d) Any of the Bank's Key Management Personnel;

(e) A close relation of any of the Bank's Directors or Key Management Personnel;

(f) A shareholder owning a material interest in the Bank;

(g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.

**Complied with.** Transactions carried out with Related Parties in the normal course of business are disclosed in Note 40 on 'Related Party Disclosures' on page 275 of this Annual Report.

## Corporate Governance

Guideline	Bank's Response
<p>(ii) The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <p>(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,</p> <p>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</p> <p>(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank,</p> <p>(d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>	Information in this regard are disclosed in Note 40 on 'Related Party Disclosures' on page 275 of this Annual Report.
<p>(iii) The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business.</p>	<b>Complied with.</b>
<p>(iv) A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<b>Complied with.</b>
<p>(v) (a) Where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.</p>	<b>Complied with.</b>
<p>(b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.</p>	The Bank has not encountered any situations of this nature.
<p>(c) Any Director who fails to comply with the above sub-directions shall be deemed to have vacated the office of Director and the Bank shall disclose such fact to the public.</p>	Not applicable for the year.
<p>(d) This sub-direction, however, shall not apply to a Director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such Bank.</p>	<b>Complied with.</b>
<p>(vi) A Bank shall not grant any accommodation or 'more favourable treatment' relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.</p>	<b>Complied with.</b>
<p>(vii) No accommodation granted by a Bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon shall be remitted without the prior approval of the Monetary Board and any remittance without such approval shall be void and of no effect.</p>	Not applicable for the year.

## Corporate Governance

Guideline	Bank's Response
<b>Disclosures</b>	
(i) The Board shall ensure that:	
(a) 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	<b>Complied with.</b>
(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	<b>Complied with.</b>
(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report:	
(a) 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.	<b>Complied with.</b> Please refer the 'Statement of Directors Responsibility' on page 203 of this Annual Report.
(b) 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.	<b>Complied with.</b> Please refer the 'Board Audit Committee Report' on pages 154 to 157 of this Annual Report.
(c) The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above, in respect of any statements prepared or published after December 31, 2008.	This requirement will be complied in future.
(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	<b>Complied with.</b> Please refer pages 233 and 275 of this Annual Report for details of Directors' transactions with the Bank and total fees/remuneration paid by the Bank.
(e) Total net accommodation as defined in 3 (7) (iii) 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.	<b>Complied with.</b> Please refer Note 40 on 'Related Party Disclosures' on page 275 of this Annual Report.
(f) 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.	<b>Complied with.</b> Please refer Note 40 on 'Related Party Disclosures' on page 275 of this Annual Report.
(g) The External Auditor's certification of the compliance with these Directions in the Annual Corporate Governance Reports published after January 01, 2010.	This requirement will be complied in future.
(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	<b>Complied with.</b> Please refer the 'Statement of Directors' Responsibility' on page 203 of this Annual Report.
(i) 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 be disclosed to the public, together with the measures taken by the Bank to address such concerns.	Not applicable for the year.

## Corporate Governance

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board acknowledges its statutory responsibility to conduct the administration and management of the Bank. Effective internal control mechanism and management information systems are essential in fulfilling this responsibility and discharging its duties to all stakeholders. Having implemented an effective system of internal control, the Board continuously reviews the effectiveness on an ongoing basis.

The activities of the Board and of the Corporate Management team are supported and monitored by the statutory and voluntary Committees that were structured to assist in specialised activities and governance issues. The Statutory Committees are comprised of the following:

Name of the Committee	Compliance Requirement			Committee Report
	A	B	C	
Board Audit Committee	X	X	X	Please refer the 'Board Audit Committee Report' on pages 154 to 157 of this Annual Report.
Board Human Resources and Remuneration Committee	X	X	X	Please refer the 'Board Human Resources and Remuneration Committee Report' on pages 158 to 160 of this Annual Report.
Board Nomination Committee	X		X	Please refer the 'Board Nomination Committee Report' on page 161 of this Annual Report.
Board Integrated Risk Management Committee	X			Please refer the 'Board Integrated Risk Management Committee Report' on page 162 of this Annual Report.

- A. Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka.
- B. Rules on Corporate Governance under Section 7.10 of the Listing Rules of the Colombo Stock Exchange
- C. Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission. (This Code provides more extensive best practice provisions that corporates are encouraged and but not mandated to adopt in discharging their Corporate Governance activities.)

### OUR CORPORATE BEHAVIOUR (THE WAY WE DO BUSINESS)

In the broadest sense, Corporate Governance is concerned with maintaining the balance between economic and social goals and between individual and communal goals. Hence, the Bank being a responsible corporate citizen understands its commitment towards its stakeholders and society at large. Our strategies flourish a sustainable business beyond making a profit or being the best, and spell out that it will engage in ethical business practices and thereby seek to create value for a variety of stakeholders, including shareholders, employees, customers, service providers, communities, and the natural environment.

## Corporate Governance

### OUR CODE OF ETHICS

Nurturing an ethical culture is of utmost importance for any organisation. The cornerstone of our ethics programme is our set of values. The key mechanism for articulating those values is our Practical Guide on Ethics which details the accepted standards of behaviour from the Board down to junior staff members of the Bank. Our staff who are equipped with high ethical standards always work with a high level of integrity regardless of the kinds of issues that emerge. Such formal ethical programme of the Bank includes the following three main components namely:

- Corporate Code of Ethics
- System of Controls
- Managing Staff Integrity

Ethical decision making procedures, spelt out in this Guide, arm the employees with the information needed to act in accordance with the core values of the Bank. Further, the Board strongly believes that our ethical culture is set by example from the Board Members, the Corporate Management, Executives and Senior Staff Members, since such examples set by seniors exert the most powerful influence on other employees. Governing principles of our Code of Ethics Programme include:

- Consistency
- Full management support
- Strict compliance
- Transparency
- Constant review and
- Effective communication

Having understood the importance of communication matters relating to the employees, the Bank has taken steps to publish its Code of Ethics in the Intranet site of the Bank.

### OUR RESPONSIBILITY TO ENVIRONMENT

Social Responsibility is regarded as an integral part of our strategy execution and business decision making process and is prominently placed in the Bank's corporate priorities and core values. For the first time, it was a great pleasure to present in this Annual Report, the Sustainability Supplement based on the Global Reporting Initiative (GRI) Guidelines. The Bank has implemented a 'Social and Environmental Management System' which is more fully described in the Sustainability Supplement on pages 47 to 105 of this Annual Report.

### OUR RELATIONSHIP WITH SHAREHOLDERS

During the year under review, the Bank strengthened its enduring relationship with the Shareholders through provision of accurate and timely information. Such communications include publishing its quarterly results and periodical announcements released to the Colombo Stock Exchange and continuous dialogues with institutional investors. Further, participation in a number of investor forums facilitated the Bank to promote investments from large private investors, locally and internationally.

This Annual Report too is designed to serve as an effective means of communication and information of our business which will be amplified further with additional clarifications to be provided at the Annual General Meeting.

## Corporate Governance

### IT GOVERNANCE

Information Technology Governance which forms an integral part of the Bank's Corporate Governance, deals primarily with optimising the linkage between Strategic Direction and Information Systems Management of the Bank. In this regard, implementation of the organisational structure with well defined roles for the responsibility of information, business processes, applications, infrastructure, etc, generates value for our stakeholders while mitigating the risks associated with incorrect deployment and use of Information Technology.

The Bank arguably has implemented the best IT Governance across the industry having achieved CMMi Level 3 certification for software development, and successfully completing an ISO/IEC 27001:2005 Information Security Audit, the first Sri Lankan bank to do so in each case.

Impacts of the strategic Information Technology Governance to the diverse functional areas of the Bank are driven by certain core objectivities which are set out below:

Objective	Governance mechanism
Operational Efficiency	<ul style="list-style-type: none"> <li>Investing in Licensed Software developed in compliance with Intellectual Property Laws with a view to educate and mandate compliance of such laws throughout the Bank.</li> <li>Implementation of a Disaster Recovery Plan to document the procedures and activities, and to identify key resources required for IT, with a view to improve the backup systems, data links and alternate locations.</li> <li>Business Continuity Plan for IT together with all other key functions of the Bank to ensure uninterrupted business to customers.</li> </ul>
Prudent Capital Expenditure	<ul style="list-style-type: none"> <li>All major IT related procurement to be reviewed by Solutions Evaluation Committee prior to seeking approval from the Bank's Procurement Committee.</li> <li>Final approval of IT capital expenditure is sought based on value and recommendations of Chief Information Officer, the Chief Operating Officer, the Managing Director and the Board of Directors of the Bank.</li> </ul>
Customer Convenience	<ul style="list-style-type: none"> <li>A constant drive for improvement and a commitment to high quality uninterrupted service levels to ensure systems availability translating to customer convenience at each of our delivery channels.</li> <li>Ensuring process efficiencies and disciplines through certification to increase the contribution to customer convenience.</li> </ul>

### PERFORMANCE GOVERNANCE

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.

Performance Governance of the Bank stemmed from the Strategic Direction and Corporate Objectives are more fully described in the Section on 'Four Strategies that will drive the Bank' in the Management Report on pages 22 and 23 of this Annual Report.

## Corporate Governance

### BANK'S ADHERENCE WITH THE PROVISIONS OF THE RULE NO. 7.6 AS REQUIRED BY THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE ON DISCLOSURE IN ANNUAL REPORTS OF LISTED ENTITIES

Disclosure Requirement	Bank's Response																		
Names of persons who were Directors of the entity during the financial year.	<b>Complied with.</b> Please refer the section on 'Annual Report of the Board of Directors' on pages 193 to 202 of this Annual Report																		
Principal activities of the entity and its subsidiaries during the year and any changes therein.	<b>Complied with.</b> Please refer the section on 'Annual Report of the Board of Directors' on pages 193 to 202 of this Annual Report																		
The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	<b>Complied with.</b> Please refer the section on 'Investor Relations Supplement' on pages 176 to 190 of this Annual Report																		
The public holding percentage.	<b>Complied with.</b> Please refer the section on 'Investor Relations Supplement' on pages 176 to 185 of this Annual Report																		
A statement of Chief Executive Officer's and each Director's holding in shares of the entity at the beginning and end of each financial year.	<b>Complied with.</b> Please refer the section on 'Annual Report of the Board of Directors' on pages 193 to 202 of this Annual Report																		
Information pertaining to material foreseeable risk factors of the entity.	<b>Complied with.</b> Please refer the section on 'Risk Management' on pages 106 to 124 of this Annual Report																		
Details of material issues pertaining to employees and industrial relations of the entity.	There were no material issues pertaining to employees and industrial relations of the Bank or any of its subsidiaries during the year under review.																		
Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties.	The Bank does not have any Investment Properties. Please refer the section on 'Supplementary Information' on pages 284 to 285 of this Annual Report.																		
Number of shares representing the Entity's stated capital.	<b>Complied with.</b> Please refer Note 32 to the Financial Statements on page 261 of this Annual Report.																		
A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the following categories:	<b>Complied with.</b> Please refer the section on 'Investor Relations Supplement' on pages 176 to 185 of this Annual Report																		
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">No. of Holders</th> <th style="text-align: left;">Holdings</th> <th style="text-align: left;">Total Holdings %</th> </tr> </thead> <tbody> <tr> <td></td> <td>1 - 1000 shares</td> <td></td> </tr> <tr> <td></td> <td>1,001 - 10,000 shares</td> <td></td> </tr> <tr> <td></td> <td>10,001 - 100,000 shares</td> <td></td> </tr> <tr> <td></td> <td>100,001 - 1,000,000 shares</td> <td></td> </tr> <tr> <td></td> <td>Over 1,000,000 shares</td> <td></td> </tr> </tbody> </table>	No. of Holders	Holdings	Total Holdings %		1 - 1000 shares			1,001 - 10,000 shares			10,001 - 100,000 shares			100,001 - 1,000,000 shares			Over 1,000,000 shares		
No. of Holders	Holdings	Total Holdings %																	
	1 - 1000 shares																		
	1,001 - 10,000 shares																		
	10,001 - 100,000 shares																		
	100,001 - 1,000,000 shares																		
	Over 1,000,000 shares																		
The following ratios and market price information:	<b>Complied with.</b> Please refer the section on 'Investor Relations Supplement' on pages 176 to 185 of this Annual Report																		
<b>Equity</b> <ol style="list-style-type: none"> <li>1. Dividend per share</li> <li>2. Dividend pay out</li> <li>3. Net asset value per share</li> <li>4. Market value per share <ul style="list-style-type: none"> <li>• highest and lowest values recorded during the financial year</li> <li>• value as at the end of financial year</li> </ul> </li> </ol>																			

## Corporate Governance

### Disclosure Requirement

#### DEBT (only if listed)

1. Interest rate of comparable Government security
2. Debt/equity ratio
3. Interest cover
4. Quick asset ratio
5. The market prices and yield during the year (ex interest)
  - Highest Price
  - Lowest price
  - Last traded price
6. Any changes in credit rating (for the entity or any other instrument issued by the entity), if applicable.

Significant changes in the entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value;

If during the year the entity has raised funds either through a public issue, rights Issue, and private placement;

- a. a statement as to the manner in which the proceeds of such issue has been utilised.
- b. if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and,
- c. any material change in the use of funds raised through an issue of Securities.

The following information should be disclosed in respect of each Employee Share Ownership or Stock Option Scheme.

- Total number of shares allotted during the financial year
- Price at which shares were allotted
- Highest, lowest and closing price of the share recorded during the financial year
- Details of funding granted to employees (if any)

Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.

### Bank's Response

**Complied with.** Please refer the section on 'Investor Relations Supplement' on pages 176 to 185 of this Annual Report

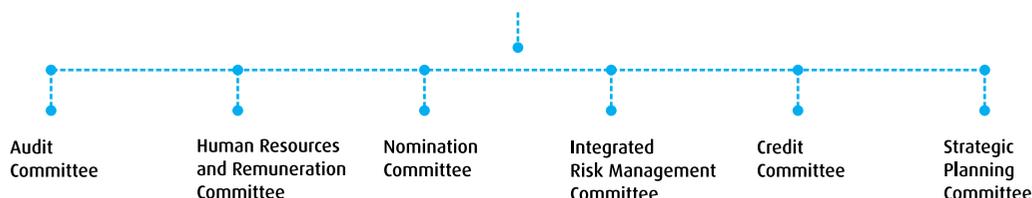
There were no changes in the market value of land of Bank's or any of its subsidiaries during the year.

There were no public issues, rights issues or private placements during the year.

**Complied with.** Please refer Note 32 to the Financial Statements on page 261 of this Annual Report. Information on share prices is given in the Section on 'Investor Relations Supplement' on pages 176 to 185 of this Annual Report. The Bank does not grant any credit facilities to employees for purchase of shares under the ESOPs.

**Complied with.** Please refer the Section on 'Annual Report of the Board of Directors' on pages 193 to 202 of this Annual Report

### Board Sub-Committees



### Number of Meetings Held and Attendance

Committee	Main Board		Audit Committee		Human Resource & Remuneration Committee		Nomination Committee		Integrated Risk Management Committee		Credit Committee (*)		Strategic Planning Committee (**)	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr. M.J.C. Amarasuriya	15	15			5	5	1	1	3	3				
Mr. B.R.L. Fernando	15	14	4	4			1	1	4	4				
Mr. A.L. Gooneratne	15	15	***4	4	5	5	1	1	4	4				
Dr. H.S. Wanasinghe	15	15	4	4	5	5								
Mr. D.S. Weerakkody	15	15	4	3	5	5								
Mr. P.M. Martelli or Mr. P. Kjellerhaug (Alternate Director)	15	10												
Mr. R.M.S. Fernando	15	13	4	3					4	4				
Mrs. S.N. Wickramasinghe (Appointed on 01.02.2009)	13	13	3	3					3	3				
Ms. Janaki Kuruppu (Appointed on 23.12.2009)	1	1												
Mr. A.N. Fonseka (Resigned w.e.f. 31.01.2009)	2	2												
Mr. Lalin J.A. Fernando (Resigned w.e.f. 10.08.2009)	10	7			2	2	1	1	2	0				

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

\*\* The Committee did not meet during the year under review, but all subjects that would normally come under this Committee were handled at Board level.

\*\*\* Mr. A.L. Gooneratne attends the Audit Committee meetings by invitation.

Committee/Composition As at December 31, 2009	Main Board	Audit Committee	Human Resource & Remuneration Committee	Nomination Committee	Integrated Risk Management Committee	Credit Committee	Strategic Planning Committee
Mr. M.J.C. Amarasuriya	C		C	C	C	C	C
Mr. B.R.L. Fernando	M	C		M	M	M	M
Mr. A.L. Gooneratne	M	Ω	M	M	M	M	M
Dr. H.S. Wanasinghe	M	M	M				
Mr. D.S. Weerakkody	M	M	M				M
Mr. P.M. Martelli or Mr. P. Kjellerhaug (Alternate Director)	M						
Mr. R.M.S. Fernando	M	M			M		
Mrs. S.N. Wickramasinghe (Appointed on 01.02.2009)	M	M			M		
Ms. Janaki Kuruppu (Appointed on 23.12.2009)	M						
Mr. A.N. Fonseka (Resigned w.e.f. 31.01.2009)	M						
Mr. Lalin J.A. Fernando (Resigned w.e.f. 10.08.2009)	M		M	M	M		

C Chairman

M Member

Ω By invitation

Reports of the Audit, Human Resource & Remuneration, Nomination and Integrated Risk Management are given on pages 154 to 162 of this Annual Report.

## Board Audit Committee Report

### THE COMPOSITION OF THE COMMITTEE

The Board appointed Audit Committee comprises the following Non-Executive Directors of the Bank:

Mr. B.R.L. Fernando (*Chairman*)  
Dr. H.S. Wanasinghe  
Mr. D.S. Weerakkody  
Mr. R.M.S. Fernando  
Mrs. S.N. Wickramasinghe

Mr. A.T.P. Edirisinghe, a senior practicing Chartered Accountant with long experience in Audit, Accounting Standards and Financial Reporting serves in the capacity of a Consultant to the Committee. The Chairman of the Committee, an independent Non-Executive Director too is a senior Chartered Accountant. 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 which is periodically reviewed and revised with the concurrence of the Board of Directors clearly defines the terms of reference of the Audit Committee. The Committee is responsible to and reports to the Board of Directors. The role and functions of the Committee are further regulated by the rules governing the Audit Committee as specified by the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', 'Rules on Corporate Governance under 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.

### MEETINGS

During the financial year ended December 31, 2009, four meetings were held. The proceedings of the Audit Committee Meetings are reported regularly to the Board of Directors. The attendance of the Committee Members at the meetings is stated in the table on page 153 of this Annual Report. The Managing Director, the Chief Financial Officer and the Deputy General Manager - Inspection attended the meetings by invitation. Members of the Senior Management of the Bank were invited to participate at the Meetings as and when the necessity arose.

### ROLE OF THE AUDIT COMMITTEE

The Audit Committee assists the Board of Directors in fulfilling effectively its responsibilities relating to financial and other connected affairs of the Bank. The Committee has been empowered to:

- Examine in any manner issues 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/Inspection Reports and follow up all recommendations
- Review the efficiency and the effectiveness of the Internal Control Systems and Procedures in place and the adequacy of such controls

## Board Audit Committee Report

- Review the quality of Accounting Policies, their adherence to Statutory and Regulatory Compliance and applicable Accounting Standards
- Review the Bank's Annual Report and the Accounts and the Interim Financial Statements prepared for publication, 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 that the Bank's policies are firmly committed to the highest standards of Good Corporate Governance practices and its operations conform to the highest ethical standards, accepted industry practices and in the best interests of the stakeholders

The Bank has complied with Rule 3 (6) (ii) of the Banking Act Direction No. 11 of 2007 on Corporate Governance on the Composition of the Audit Committee and its terms of reference.

### FINANCIAL REPORTING

The Committee assists the Board of Directors to discharge their responsibility for the preparation of Financial Statements that reflect a true and fair view on financial performance and financial position based on the Bank's accounting records and in terms of the requirements of the Sri Lanka Accounting Standards by:

- Reviewing the Systems and Procedures to ensure that all transactions are completely and accurately recorded in the books of account
- Reviewing the effectiveness of the financial reporting system in place to ensure reliability of the information provided to the stakeholders
- Reviewing the Accounting Policies and to determine the most appropriate accounting policies after consideration of all choices available
- Strict adherence and compliance with the Sri Lanka Accounting Standards and recommended best accounting practices
- Reviewing the Annual Report and Accounts and the Interim Financial Statements prepared for publication, prior to submission to the Board

Having assessed the internal financial controls, systems and procedures, 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 and accurately reported.

### REGULATORY COMPLIANCE

Compliance with Mandatory Banking and other Statutory Requirements and the procedures in place to monitor compliance requirements have been under close scrutiny. The Committee monitors due compliance with all requirements through the Quarterly Reports submitted to the Committee by the Corporate Management.

### RISKS AND CONTROLS

The Committee reviewed the effectiveness of the internal control procedures in place to identify and manage all significant risks. The Committee has adopted a risk-rating matrix for identifying and assessing the operational risks observed during inspections. Required assurances are obtained from the business units on the remedial action in respect of the identified risks and to maintain the effectiveness of the internal control procedures in place.

## **Board Audit Committee Report**

### **INTERNAL AUDIT AND INSPECTION**

With the concurrence of the Board of Directors, the Bank continued to engage the services of five firms of Chartered Accountants approved by the Central Bank of Sri Lanka to supplement the Bank's Inspection Department in carrying out branch inspections. The Programme of Inspection has been formulated and the Committee regularly reviews and monitors the internal audit and the inspection functions. Over 320 audit and inspection reports on Branches and Head Office Departments were examined and the operational deficiencies and lapses observed and the recommendations followed up. Some of the Branches were visited by the Members of the Committee to get a better understanding of the Branch operations.

### **EXTERNAL AUDIT**

The Committee assists the Board of Directors to implement the process of engaging external auditors and agreeing to their remuneration with the approval of the Shareholders, implementation of Central Bank guidelines issued to Auditors from time to time and the application of the relevant accounting standards.

The Committee also reviewed the non-audit services provided by the Auditors to ensure that such functions do not fall within the restricted services and provision of such services does not impair the External Auditors' independence and objectivity. The Committee met with the External Auditors prior to commencement and at the conclusion of the Annual Audit to discuss audit scope, approach and methodology adopted, findings and the significant issues arising out of the audit. Non-Executive Directors had separate meetings with Auditors without any executive being present, to ensure that they had the independence to express their opinion on any matter.

The Auditors' Management Letter together with the Management's responses thereto and the audited Financial Statements were reviewed with the Auditors.

### **INTERNAL CONTROLS**

The Committee regularly examined the major decisions taken by the 'Assets and Liabilities Committee', 'Credit Policy Committee', 'Integrated Risk Management Committee', all exceptional items charged to the Income Statement, long outstanding items in the Bank's Chart of Accounts, Credit Quality and adherence to classification of non-performing loans and advances and provisioning requirements specified by the Central Bank of Sri Lanka.

Credit monitoring and follow up procedures too were reviewed. The internal control procedures in place for selected processes were carefully studied and their effectiveness evaluated.

### **GOOD GOVERNANCE**

Highest standards in Good Corporate Governance and strict adherence to the Bank's Code of Ethics are ensured. Through the Code of Ethics and a Whistle Blower's Charter all staff have been educated and encouraged to resort to whistle blowing, when they suspect wrong doings or other improprieties. The Committee also ensures that all appropriate procedures are in place to conduct independent investigations into all such reported or identified incidents. Maintenance of strict confidentiality of the identity of whistle blowers is in place.

## Board Audit Committee Report

### THE CHARTER OF THE AUDIT COMMITTEE

The Audit Committee Charter was last revised in December 2008 with the concurrence of the Board.

### EVALUATION OF THE COMMITTEE

An evaluation on the effectiveness of the Committee was carried out by the other Members of the Board of Directors and the Committee has been found to be effective.

### RE-APPOINTMENT OF THE AUDITOR

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants, be re-appointed for the financial year ending December 31, 2010 subject to the approval of shareholders at the next Annual General Meeting.



**B.R.L. Fernando**

*Chairman - Audit Committee*

Colombo

February 18, 2010

## Board Human Resources and Remuneration Committee Report

### COMPOSITION OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Board appointed Human Resources and Remuneration Committee comprises of five members, consisting of four Non-Executive Directors and an Executive Director, who is the Managing Director of the Bank.

Mr. M.J.C. Amarasuriya (*Chairman*)  
Mr. A.L. Gooneratne (*Managing Director*)  
Dr. H.S. Wanasinghe  
Mr. D.S. Weerakkody  
Ms. J. Kuruppu

Brief profiles of each member are given on pages 168 to 170 of this Annual Report. Mr. Lalin J.A. Fernando, one of the Non-Executive Directors of the Company resigned from the Board of Directors of the Company with effect from August 10, 2009. Ms. Janaki Kuruppu was appointed on January 28, 2010. 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 took part in all deliberations except in relation to those matters where the outcome had an impact on him.

### CHARTER OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Committee is vested with power to evaluate, assess, decide and recommend to the Board of Directors on any matter that may affect the Human Resources Management of the Bank and shall specifically include:

- Determining the compensation of the Chairman, Deputy Chairman, Managing Director and other members of the Board of Directors of the Bank, while ensuring that no Director is involved in setting his or her own remuneration
- Determining the compensation and benefits of the Key Management Personnel and establishing performance parameters in setting their individual goals and targets
- Lay down guidelines, policies and parameters for the compensation structures for all executive staff of the Bank and oversee the implementation thereof
- Review information related to executive pay from time to time to ensure same is on par with the market/industry rates or as per the strategy of the Bank
- Evaluate the performance of the Managing Director and Key Management Personnel against the pre-agreed targets and goals
- Make recommendations to the Board of Directors from time to time of the additional/new expertise required by the Bank
- Assess and recommend to the Board of Directors of the promotions of the Key Management Personnel, address succession planning and issues connected to the Organisational Structure
- Evaluate, assess, make recommendations and give directions pertaining to the Board of Trustees and the management of the private provident fund of the Bank
- Make recommendations/decisions/directions pertaining to the statutory payments made by the Bank on behalf of its employees (EPF, ETF, Terminal Benefits, etc.), ensuring the effective fulfilment of all commitments arising as a result of the employer-employee relationship
- Recommend/decide and give directions on disciplinary matters resulting in a significant financial loss to the Bank caused by Key Management Personnel of the Bank
- Formulating formal and transparent procedures for developing policy on remuneration for Executives and Directors
- Approving annual increments, bonuses, changes in perquisites and incentives

## **Board Human Resources and Remuneration Committee Report**

### **HUMAN RESOURCES AND REMUNERATION COMMITTEE GUIDING PRINCIPLES**

The Committee adopts the following principles in order to achieve the above objectives:

- Setting guidelines and policies to formulate compensation packages which attract, motivate and are capable of retaining the highly qualified and experienced employees in the Bank. 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
- Deciding the criteria that should be considered in relation to appointment and/or promotion to key management positions in the Bank, including the post of Managing Director and succession to key positions
- Setting guidelines and policies ensuring that the Bank upholds and adheres to the provisions of the Laws of the land particularly those provisions of the Banking Act No. 30 of 1988 including the directions issued by the Monetary Board/Director of Bank Supervision in accordance with the provisions of such Act
- Setting guidelines to ensure that the Bank upholds its social commitments such as Corporate Social Responsibility related matters
- Setting guidelines and policies to comply with the ten principles of the Global Compact
- Providing guidance and policy directions for relevant matters connected to other areas of Human Resources Management of the Bank
- Ensuring that the performance-related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main stakeholders and long term shareholder returns
- Setting remuneration packages to ensure that a significant portion of the remuneration is linked to performance
- Setting up a framework of regular performance appraisal to enable the staff to obtain feedback from their superiors in furtherance of achieving their objectives and targets

### **HUMAN RESOURCES AND REMUNERATION COMMITTEE MEETINGS**

The Committee held five meetings during the year under review. The attendance of Committee Members at meetings is stated in the table on page 153 of this Annual Report. The Chairman of the Committee convenes a special meeting in the event a requirement arises, provided all members are given sufficient notice of such special meeting. The quorum for a meeting is three (3) members.

Members of the Corporate Management were invited to participate at the sittings of the Committee meetings as and when required by the Chairman considering the topics for deliberation at such meeting.

The proceedings of the Committee meetings were regularly reported to the Board of Directors.

## ***Board Human Resources and Remuneration Committee Report***

### **METHODOLOGY USED BY THE HUMAN RESOURCES AND REMUNERATION COMMITTEE**

The Committee recognises rewards as one of the key drivers influencing employee behaviour, thereby impacting on business results. In this regard, 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 this regard, the Committee has the authority to seek external independent professional advice on matters falling within its purview.



**M.J.C. Amarasuriya**

*Chairman - Human Resources and Remuneration Committee*

Colombo

February 18, 2010

## Board Nomination Committee Report

### COMPOSITION OF THE NOMINATION COMMITTEE

The Nomination Committee comprises of three Members, and is headed by the Chairman, who is a Non-Executive Director, Deputy Chairman, Mr. B. R. L. Fernando, Mr. Lalin J.A. Fernando and the Managing Director, Mr. A. L. Gooneratne, who attends meetings by invitation. Mr. Lalin J.A. Fernando, resigned from the Board of Directors of the Company and the Committee with effect from August 10, 2009. Ms. Janaki Kuruppu was appointed on January 28, 2010. The Committee Members are appointed by the Board of Directors of the Bank. 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 implement 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 them 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 met once during the year under review. The attendance of Committee Members at meetings is stated in the table on page 153 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 needs.



**M.J.C. Amarasuriya**

*Chairman - Nomination Committee*

Colombo  
February 18, 2010

## Board Integrated Risk Management Committee Report

### COMPOSITION OF BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The present Board Integrated Risk Management Committee consists of five members and is headed by the Chairman, Mr. M.J.C. Amarasuriya, who is a Non-Executive Director. The other Committee members include the Managing Director, Mr. A.L. Gooneratne, Mr. B.R.L. Fernando, Mr. R. M.S. Fernando and Mrs. S.N. Wickramasinghe, all of whom are Non-Executive Directors except the Managing Director. Mr. Lalin J.A. Fernando, one of the Non-Executive Directors of the Bank resigned from the Committee with his resignation from the Board of Directors of the Bank with effect from August 10, 2009. The Chief Financial Officer, Mr. K.D.N. Buddhipala, Chief Risk Officer, Mr. S. Renganathan and Chief Operating Officer, Mr. Ravi Dias attend meetings by invitation while Mr. Buddhipala 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 as required by the Banking Act Direction No. 11 of 2007 by the Monetary Board on Corporate Governance for Licensed Commercial Banks and follows the rules laid down in paragraph 3 (6) (v) of aforesaid Direction. The specific responsibilities and functions of the Committee within the Bank's overall Risk Governance framework are described on pages 106 to 124 of the Risk Management section of this Annual Report.

### 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 153 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 continued to work closely with the Board in fulfilling its statutory, fiduciary and regulatory responsibilities for Risk Management. In this regard the Committee assesses all risks including credit, market, liquidity, operational and strategic risks on a regular basis via appropriate risk indicators and MIS reports. In addition, the Committee reviews the adequacy and effectiveness of all management level committees such as Credit Policy, Assets & Liabilities, Executive Integrated Risk Management, etc., and takes appropriate action to mitigate the effects of all types of risks. The BIRMC had been convened on a quarterly basis to assess all aspects of risk management. Further, the Committee also submits Risk Assessment Reports to the Board of Directors as required by the aforesaid Direction.



**M.J.C. Amarasuriya**

*Chairman - Board Integrated Risk Management Committee*

Colombo  
February 18, 2010

## Directors' Interest 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 40 to the Financial Statements on pages 275 to 281 of this Annual Report. 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	Current Limit As at 31.12.2009 Rs. '000	Balance Outstanding As at 31.12. 2009 Rs. '000	Balance Outstanding As at 31.12.2008* Rs. '000
<b>(a) Mr. M.J.C. Amarasuriya</b>					
Pelwatte Sugar Industries PLC	Chairman	Loans & Advances	25,000	6,001	115,137
		Deposits		916	1,115
Serendib Flour Mills (Pvt) Ltd.	Chairman	Loans & Advances	3,088,330	188,330	249,684
		Off-Balance Sheet Accommodations	6,270,000	-	724,805
		Deposits		-	175,833
<b>(b) Mr. B.R.L. Fernando</b>					
Chemical Industries (Colombo) PLC	Chairman	Loans & Advances	100,000	-	67,990
		Off-Balance Sheet Accommodations	100,000	1,024	2,161
		Deposits		15,967	7,836
Chemanex PLC	Chairman	Loans & Advances	40,000	13,073	37,593
		Off-Balance Sheet Accommodations	43,000	14,065	9,289
		Deposits		139	1,909
CIC Agri Business (Pvt) Ltd.	Chairman	Loans & Advances	888,000	716,650	785,931
		Off-Balance Sheet Accommodations	15,000	13,473	10,785
		Deposits		61,673	-
CIC Feeds (Pvt) Ltd.	Chairman	Loans & Advances	514,966	452,250	756,440
		Off-Balance Sheet Accommodations	305,000	93,799	4,677
		Deposits		375	543
CIC Seeds (Pvt) Ltd.	Chairman	Loans & Advances	19,600	8,454	9,600
		Off-Balance Sheet Accommodations	14,100	4,060	-
		Deposits		2,306	8,863
CIC Agri Biotech (Pvt) Ltd.	Chairman	Loans & Advances	15,000	3,797	2,240
		Off-Balance Sheet Accommodations	15,000	1,282	313
		Deposits		50	1,176
CIC Vetcare (Pvt) Ltd.	Chairman	Loans & Advances	80,000	77,506	80,119
		Off-Balance Sheet Accommodations	45,000	44,976	9,491
		Deposits		89	729

**Directors' Interest in Contracts with the Company**

Company	Relationship	Accommodation Granted/ Deposits	Current Limit As at 31.12.2009 Rs. '000	Balance Outstanding As at 31.12. 2009 Rs. '000	Balance Outstanding As at 31.12.2008* Rs. '000
<i>As at December 31,</i>					
CIC Poultry Farms Ltd.	Chairman	Loans & Advances	24,832	14,039	20,561
		Off-Balance Sheet Accommodations	20,000	15,368	-
		Deposits		1,698	-
CISCO Speciality Packaging (Pvt) Ltd.	Chairman	Loans & Advances	220,000	162,461	41,157
		Off-Balance Sheet Accommodations	25,000	22,004	-
Akzo Nobel Paints Lanka (Pvt) Ltd.	Chairman	Deposits		13,294	14,564
CIC Agri Produce Export (Pvt) Ltd.	Chairman	Deposits		2,186	532
CIC Agri Produce Marketing (Pvt) Ltd.	Chairman	Deposits		418	727
CIC Tea Advisory Services (Pvt) Ltd.	Chairman	Deposits		811	182
Crop Management Services (Pvt) Ltd.	Chairman	Deposits		3,315	-
CIC Cropguard (Pvt) Ltd.	Chairman	Deposits		3,224	498
Kelani Valley Canneries Ltd.	Director	Loans & Advances	22,000	21,235	21,669
		Off-Balance Sheet Accommodations	5,000	-	1,000
		Deposits		4,234	3,562
Rainwear (Pvt) Ltd.	Director	Loans & Advances (US\$)	281	281	209
		Off-Balance Sheet Accommodations (US\$)	14	16	-
Link Natural Products (Pvt) Ltd.	Director	Deposits		5,275	703
<b>(c) Mr. D.S. Weerakkody</b>					
Chartered Institute of Management Accountants	Council Member	Deposits		80	7,957
<b>(d) Mr. R.M.S. Fernando</b>					
Orient Financial Services Corp. Ltd.	Chairman	Loans & Advances	1,281,903	247,200	413,793
		Deposits		339	156
United Motors Lanka PLC	Chairman	Loans & Advances	256,265	3,315	132,749
		Off-Balance Sheet Accommodations	45,000	22,930	61,132
		Deposits		4,166	19
Seguwantivu Wind Power (Pvt) Ltd.	Chairman	Off-Balance Sheet Accommodations	758,809	758,809	-
		Deposits		766,327	-

## Directors' Interest in Contracts with the Company

Company	Relationship	Accommodation Granted/ Deposits	Current Limit As at 31.12.2009 Rs. '000	Balance Outstanding As at 31.12. 2009 Rs. '000	Balance Outstanding As at 31.12.2008* Rs. '000
Vidatamunai Wind Power (Pvt) Ltd.	Chairman	Deposits		267,603	-
Unimo Enterprises (Pvt) Ltd.	Chairman	Loans & Advances	125,000	107,317	68,142
		Off-Balance Sheet Accommodations	150,000	51,158	94,865
		Deposits		7	47
Orient Motor Company Ltd.	Chairman	Loans & Advances	15,000	3,082	7,559
UML Property Developments Ltd.	Chairman	Deposits		3	442
Alucop Cables Ltd.	Director	Loans & Advances	731,330	304,508	568,840
		Off-Balance Sheet Accommodations	400,000	242,772	219,518
		Deposits		-	964
Piramal Glass Ceylon PLC	Director	Loans & Advances	325,000	287,512	149,309
		Off-Balance Sheet Accommodations	110,000	1,850	54,691
		Deposits		4,466	139
Kelani Tyres PLC	Director	Loans & Advances	10,000	8,885	4,683
Sierra Cables PLC	Director	Deposits		4,715	3,323

\* Comparative figures for 2008 are disclosed only if there were facilities outstanding as at 31.12.2009.

## Board of Directors



*Left to Right*

Ms. J. Kuruppu, R.M.S. Fernando, D.S. Weerakkody, Dr. H.S. Wanasinghe, M.J.C. Amarasuriya (*Chairman*),

B.R.L. Fernando (*Deputy Chairman*), A.L. Gooneratne (*Managing Director*), Mrs. S.N. Wickramasinghe, PM. Martelli, 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 01, 1995.

He is the Chairman of Pelwatte Sugar Industries PLC, Serendib Flour Mills (Pvt) Ltd., Equity Investments Lanka Ltd. and Unawatuna Beach Resorts Ltd. 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, and Regional Industries Services Committee of the North-Western Province. He was the Former Deputy Chairman of Hayleys PLC. He holds 447,097 Voting Shares and 151,881 Non-Voting Shares.

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

He was first appointed to the Board on January 01, 1995 and appointed Deputy Chairman on April 06, 2006. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka. He possesses extensive experience in Finance and Commerce. He is the Chairman of Chemical Industries (Colombo) PLC, Akzo Nobel Paints Lanka (Pvt) Ltd., Chemanex PLC, CIC Agri Businesses (Pvt) Ltd., CIC Seeds (Pvt) Ltd., CIC Agri Biotech (Pvt) Ltd., CIC Feeds (Pvt) Ltd., CIC Vetcare (Pvt) Ltd., CIC Poultry Farms Ltd., CISCO Speciality Packaging (Pvt) Ltd., CIC Environmental Management Liquid (Pvt) Ltd., CIC Bio Security Breeder Farms Ltd., Crop Management Services (Pvt) Ltd., CIC CropGuard (Pvt) Ltd., Commercial Development Company PLC, Kelani Valley Canneries Ltd. and CIC Mahaweli Livestock Dairies (Pvt) Ltd. CIC Agri Produce Marketing (Pvt) Ltd., CIC Agri Produce Export (Pvt) Ltd., CIC Tea Advisory Services (Pvt) Ltd. and Wayamba Agro Fertilizer Company Ltd. He is a Director of Rainwear (Pvt) Ltd., First Guardian Equities (Pvt) Ltd., Link Natural Products (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. He holds 8,414 Non-Voting Shares.

### **A.L. GOONERATNE - Managing Director**

He was first appointed to the Board as the Managing Director on January 06, 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 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. and the Sri Lanka Banks' Association (Guarantee) Ltd. He is also a Director of the Financial Ombudsman Sri Lanka (Guarantee) Ltd. and Financial Services Bureau. He represents the Bank's interests on the Boards of all of its Associate and Subsidiary Companies. He holds 806,216 Voting Shares and 38,028 Non-Voting Shares.

### **DR. H.S. WANASINGHE**

He was first appointed to the Board on January 05, 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.

## Board of Directors - Profiles

### D.S. WEERAKKODY

He was first appointed to the Board on July 29, 2005. He holds a Master's Degree in Business Administration (MBA) and is a Graduate in Business Administration from the University of Leicester, England. He is also an Associate of the Chartered Institute of Management Accountants, UK and a Fellow of the Certified Management Accountants, Sri Lanka. He is an Honorary Member of the Institute of Personnel Management, Sri Lanka and a Professional Member of the Singapore Human Resource Institute. He is the 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 Vice-President 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, France and USA. He holds 1,000 Voting Shares.

### R.M.S. FERNANDO

He was first appointed to the Board on December 19, 2008. 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 a Companion of The Chartered Institute of Management, UK. Mr. Fernando is also an Attorney-at-Law. He is Chairman of United Motors Lanka PLC, Orient Financial Services Ltd., Latex Green Ltd., Wealth Trust Corporation (Pvt) Ltd., and Vidatamunai Wind Power (Pvt) Ltd. Mr. Fernando is also a Director of Kelani Tyres PLC, Sierra Cables PLC, Piramal Glass Ceylon PLC, ICICI International (Pvt) Ltd. (Mauritius), Prasac Microfinance - Cambodia. He has been the Chief Executive Officer and a Director of The National Development Bank of Sri Lanka, and later the Secretary to the Ministry of Enterprise Development, Industrial Policy, Investment Promotion and 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 is a Director of the South Asia Department at the International Finance Corporation, the private sector arm of the World Bank Group. He was the Senior Regional Manager for Mexico and Central America in Latin America and the Caribbean Department and Head of Treasury and Finance of the Merloni Group in Italy.

### MRS. S.N. WICKRAMASINGHE

She joined the Board on February 01, 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 the 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 is the Vice-President of the Chartered Management Institute, UK.

## ***Board of Directors - Profiles***

### **MS. J. KURUPPU**

She was first appointed to the Board on December 23, 2009. She has a Master of Art Degree in Statistics from the University of Missouri, Columbia, Missouri, USA and a Bachelor of Science Degree in Mathematics (Minor in Computer Science) offered jointly from the University of Colombo, Sri Lanka and University of Missouri, USA. She was awarded with the 'All American Scholar Award' and 'United States Achievement Academy Award' in 1993. She is the Chairperson of Mother Sri Lanka Trust, a not for profit organisation to build positive thinking about Sri Lanka and to get citizens to contribute to nation building. She is a Director of Strategy and Perceptions Management of the Office of the President of Sri Lanka and Co-operative Wholesale Establishment. She is an Advisor to the Food Security and Cost of Living Management, Cabinet Sub-Committee, chaired by His Excellency the President. She is also a Member of the Economic Council of the Government. She has 20 years of professional experience in Marketing, Business Consultancy, Strategic Planning, Market Research, Social and Economic Research.

### **MRS. R.R. DUNUWILLE - *Company Secretary***

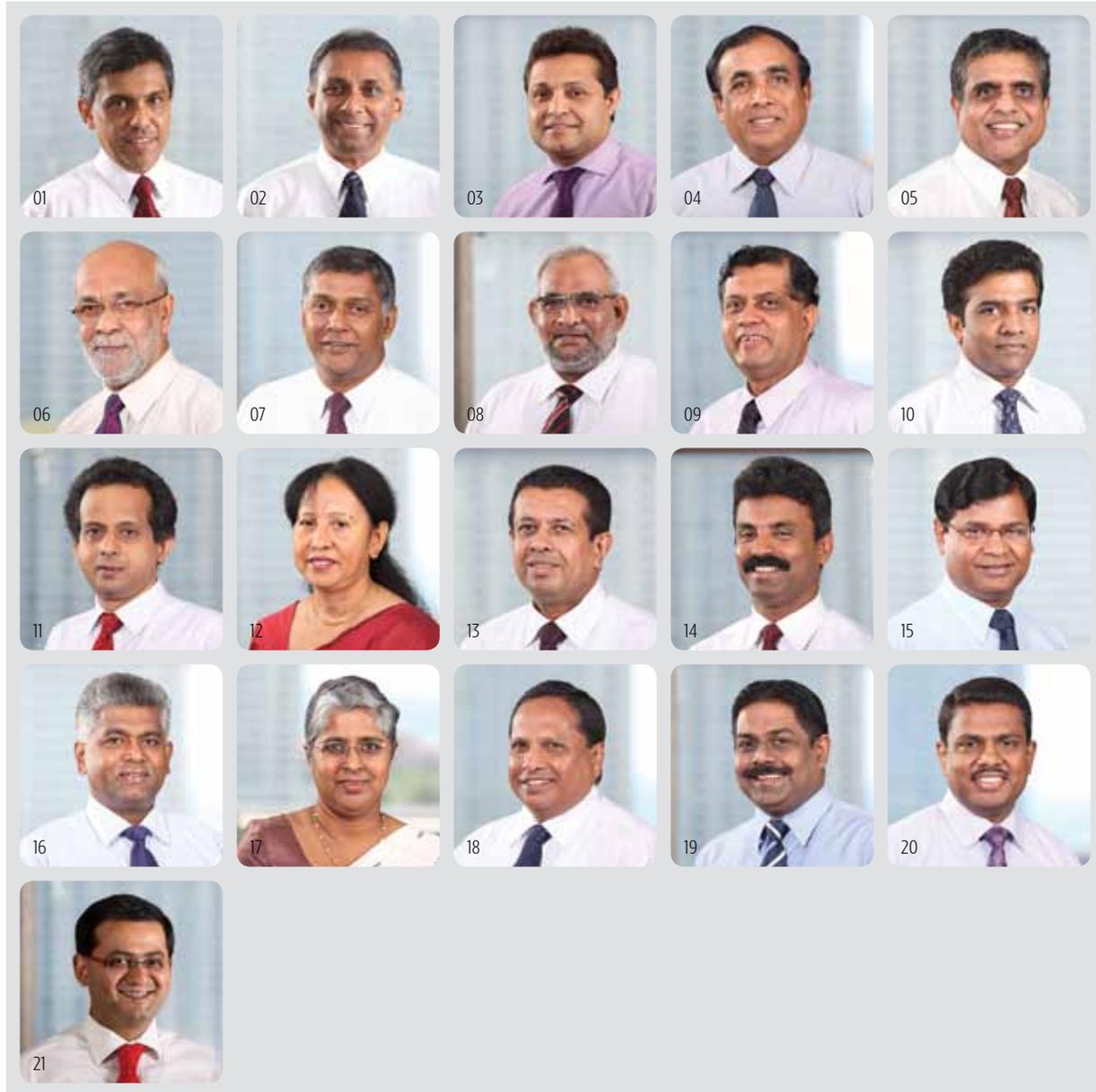
She is an Attorney-at-Law and a Chartered Secretary (UK).

### **Acknowledgements**

The Chairman and the Board of Directors would like to acknowledge the strong contribution made by Mr. P. Kjellerhaug and Mr. L.J.A. Fernando 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 Ms. J. Kuruppu to the Board.

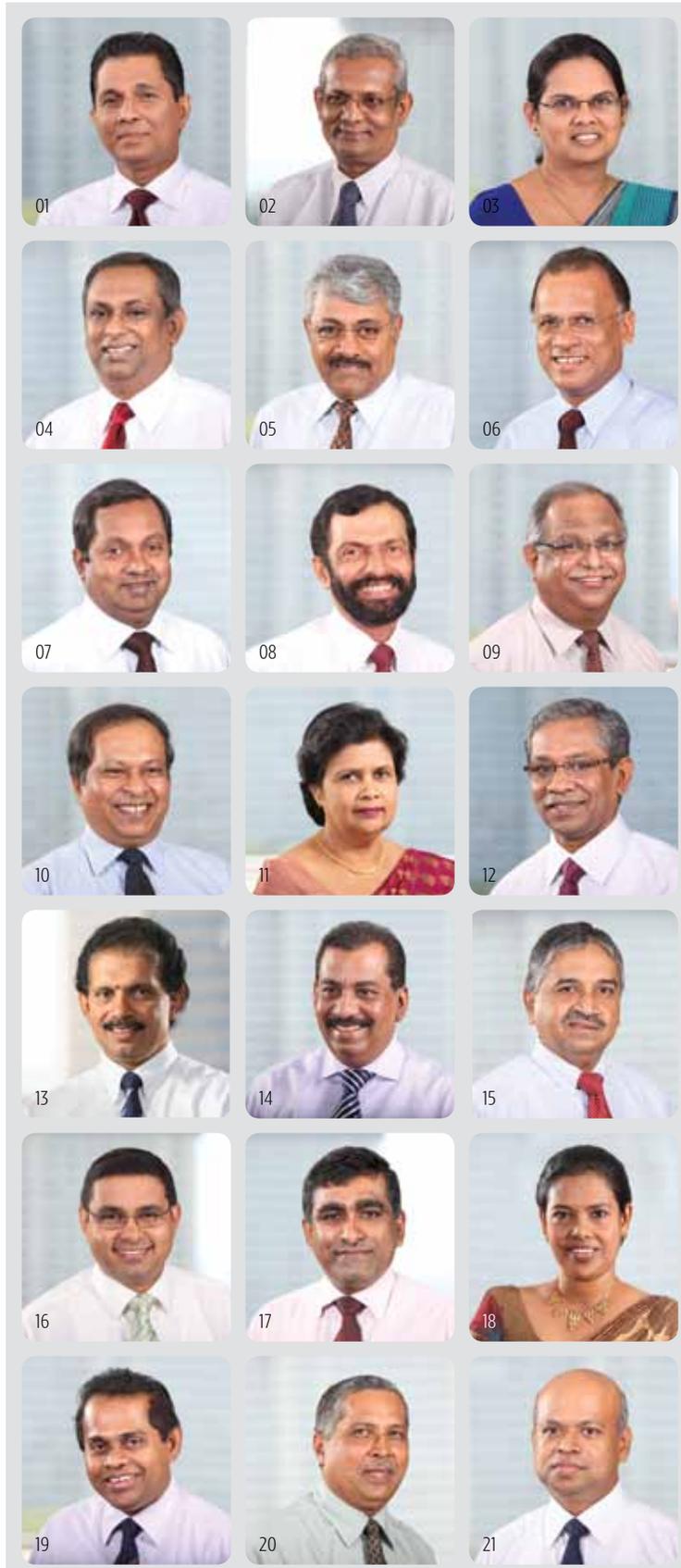
## Corporate Management Team



- |   |   |   |
|---|---|---|
| 01. A.L. Gooneratne - (Managing Director/<br>Chief Executive Officer)                               | 08. Jegan Durairatnam - (Deputy General Manager -<br>International)                   | 16. S.M. Richard Rodrigo - (Assistant General Manager -<br>Planning and Implementation) |
| 02. W.M.R.S. Dias - (Chief Operating Officer)   | 09. D.S. Weeratunga - (Head of Global Treasury)                                       | 17. Mrs. Carmelita De Silva - (Assistant General Manager -<br>Corporate Banking II)     |
| 03. G.L.C. Amarasiri - (Chief HR Officer/<br>Deputy General Manager -<br>Human Resource Management) | 10. K.D. Nandika Buddhipala - (Chief Financial Officer)                               | 18. D.N. Felician Perera - (Assistant General Manager -<br>Recoveries)                  |
| 04. B.H.M.G. Dharmasiri - (Deputy General Manager -<br>Corporate Banking)                           | 11. A. Rohan Muttiah - (Chief Information Officer)                                    | 19. S. Renganathan - (Chief Risk Officer)   |
| 05. S.D. Bandaranayake - (Deputy General Manager -<br>Operations)                                   | 12. Mrs. Marion Abeywardena -<br>(Assistant General Manager - Corporate Banking I)    | 20. K.A. Prins Perera - (Head of Global Markets)  |
| 06. T.F. Delip Fernando - (Deputy General Manager -<br>Inspection)                                  | 13. Vimal Fernando - (Assistant General Manager -<br>Personal Banking I)              | 21. Anshuman Verma - (Marketing Consultant)   |
| 07. K.D. Nimal Luxshman - (Deputy General Manager -<br>Personal Banking)                            | 14. Ajith Wijayasundara - (Assistant General Manager -<br>Information Technology)     |   |
|   | 15. S. Chandana Gunasekera - (Assistant General Manager -<br>SME/Personal Banking II) |   |

## Senior Management Team

01. Palitha Perera (*Head of Operations*)
02. C.M. Abeyssekera (*Head of Corporate Banking III*)
03. Mrs. Sandra Walgama (*Senior Regional Manager - Colombo South*)
04. Naveen Sooriyarachchi (*Head of Corporate Finance*)
05. Nugent Kapuwatte (*Head of Leasing and Personal Loans*)
06. Duminda Kurukulasuriya (*Head of Imports*)
07. Hilary Fernando (*Head of Treasury Processing*)
08. Noel Wickramasinghe (*Head of Properties and Services*)
09. B.W.R. Srikantha (*Senior Regional Manager - Colombo North*)
10. Niran De Costa (*Senior Regional Manager - Colombo Inner*)
11. Mrs. Sarojini Dunuwille (*Head of Legal*)
12. Anura Ratnayake (*Head of Foreign Operations*)
13. Lakshman Perera (*Head of Card Centre*)
14. V.S. Rajasooriyar (*Senior Regional Manager - North Eastern*)
15. Roshan Perera (*Senior Regional Manager - Greater Colombo*)
16. Sanath Manatunga (*Head of Credit Risk*)
17. Prasanna Indrajith (*Head of Finance*)
18. Mrs. R.R. Dunuwille (*Company Secretary*)
19. Vajira Thotagammana (*Chief Manager - IT Operations*)
20. Ivan Fernando (*Regional Manager - Colombo Metro*)
21. Leel Rodrigo (*Regional Manager - South Eastern*)
22. Ajith Naranpanawe (*Regional Manager - North Western*)
23. Sivam Yoganandasivam (*Chief Manager - IT R&D*)
24. Colvin Karunaratne (*Chief Manager - Exports*)
25. Upali S. Bandara (*Regional Manager - Central*)
26. Amitha Munasinghe (*Chief Manager - Information Systems Audit and Business Continuity Planning*)
27. S. Shanmugarajah (*Chief Manager - ICBS Operations*)
28. Chanura Wijetilleke (*Chief Manager - Regional Credit Centre - Colombo Inner*)
29. P. U. De Silva (*Chief Manager - City Office*)
30. Saman Kalansuriya (*Chief Manager - Leasing & Factoring*)
31. Sanath Wijesuiya (*Chief Dealer - Fixed Income Securities*)
32. Asela Wijesiriwardena (*Chief Dealer - Assets & Liability Management*)
33. Siva Sivakumar (*Chief Manager - Wellawatte Branch*)
34. M.Z. Careem (*Chief Manager - Inspection*)
35. Ranjan Ediriweera (*Chief Manager - Corporate Banking II*)
36. Stanley Fernando (*Chief Manager - AML Compliance*)
37. Esala Silva (*Chief Manager - Central Cash & Clearing*)
38. Chirath Manukulasuriya (*Regional Manager - Southern*)
39. B.A.H.S. Preena (*Chief Manager - Corporate Banking*)
40. Bindu Perera (*Chief Manager - Premises and Engineering*)
41. S. Prabagar (*Country Manager - Bangladesh*)



## Senior Management Team



## Management Committee - Bangladesh



- |  |  |  |
|--|--|--|
| 01. S. Prabagar - (Country Manager)  | 05. Golam Mortuza - (Deputy General Manager - International Trade)                 | 08. Binoy Gopal Roy - (Assistant General Manager - Finance and Accounts)     |
| 02. D. Das Gupta - (Senior General Manager)  | 06. A.K. Nandy - (Deputy General Manager - Head of Chittagong Branch)              | 09. Atahar Uddin Ahmed - (Assistant General Manager - Credit Administration) |
| 03. Dilan Rajapakse - (Chief Operating Officer)                                      | 07. Mahmood Rashid - (Assistant General Manager - Internal Control and Compliance) |  |
| 04. S. Kutubuddin Ahmed - (General Manager - Risk, Compliance and Corporate Affairs) |  |  |

## Events 2009

### January

- **Paymaster makes ETF Payments Even Easier**



CBC's Paymaster facility, the first total payment solution offered by a bank in Sri Lanka, was extended to handle ETF payments.

The notable benefits an institution can earn through this system are the employer's ability to verify the accuracy of the payment details instantly and ensure high confidentiality.

### February

- **CBC Bangladesh Annual Staff Conference**



The theme of the 2009 staff conference was 'Serve the Savers'.

### March

- **'Shop 'n' Win' Presents Rs. 1.6 Mn. in Prizes**



CBC presented prizes worth Rs. 1.6 Mn. to winners of its 'Shop 'n' Win' promotion carried out in December 2008 for the Bank's debit and credit card holders.

### April

- **'Best Bank' for Record 11th Successive Year**



CBC was adjudged Sri Lanka's 'Best Bank' for the 11th year by one of the world's most respected financial publications, Global Finance (USA).

- **CBC Receives 'Gold' at National Decent Work Awards**



CBC received the 'National Decent Work Award 2009 - Gold Award', in acknowledgement of the Bank's outstanding contribution towards the advancement of the national goal of a decent work environment for all.

- **144th Branch was opened at Matara**



CBC enhanced its presence in the Southern part of the island by opening its 3rd customer service point in Matara.

- **CBC First in Sector to Become CMMi Compliant**

The IT Research & Development Department of the Bank was certified as achieving CMMi Level 3 maturity in relation to software processes practiced at the department.

- **CBC Bangladesh 7th Branch was opened at Mirpur**



CBC opened its 7th Branch at Mirpur at Parbata Plaza, 203 Senpara Parbata, Begum Rokeya Sharani, Dhaka-1216.

### May

- **CBC Donates Essential Items to IDPs**



The Bank in a humanitarian move raised funds from its staff to assist the Internally Displaced Persons (IDPs) in refugee camps.

- **CBC Bangladesh receives 'Best Business Award 2008'**



On the basis of impressive performance during 2008, CBC Bangladesh Operations achieved 'The Best Business Award 2008' among all the foreign banks operating in Bangladesh.

### June

- **FinanceAsia ranks CBC as Sri Lanka's Best Bank**



CBC was adjudged Sri Lanka's 'Best Bank' by Hong Kong based 'FinanceAsia', one of the most eminent financial publications in the Region.

- **CBC helps Prison Inmates Develop Vocational Training Skills**



The CSR Trust of the Bank donated five computers with all accessories to the Galle prison which accommodates 800 inmates and is the main prison of the Southern Province.

- **CBC Bangladesh Recognised as the 'Best Commercial Bank' by the Financial Mirror**



CBC was recognised as the Best Commercial Bank by the Weekly Financial Mirror during the 'Financial Mirror-Samsung Mobile Business Award '09' ceremony in Bangladesh - China Friendship Conference Centre.

## July

- **CBC pays Rs. 2.9 Mn. to Year 5 Scholarship Winners**



Commercial Bank has to date rewarded 338 students holding 'Arunalu Minors' Savings Accounts, with cash prizes for achieving the 1st, 2nd and 3rd best results in their schools at the Year 5 Scholarship Examination of 2008.

## August

- **'Best Local Trade Bank' in Sri Lanka, Trade Finance Magazine**



Commercial Bank was named the Best Local Trade Bank in Sri Lanka by the UK-based Trade Finance' magazine.

- **Commercial Bank, the Most Respected Entity in Sri Lanka - LMD**



Commercial Bank became No. 1 in the 'Most Respected' entities in Sri Lanka, conducted by the leading business magazine LMD in 2009.

- **CBC's Poverty Alleviation Programme**

41 loans were granted by the Bank to purchase dairy cows under the Agro Livestock Development Loan Scheme in collaboration with Kahawatta Plantations PLC.

- **CBC's CSR Trust Presents 25 more Undergraduate Scholarships**



CBC presented 25 more scholarships to needy undergraduates under its programme to promote the creation of wealth by supporting the higher education of future generations.

- **Commercial Bank First to offer 365-day Banking in Jaffna**

CBC launched 365-day Banking at its main branch in Jaffna, becoming the first bank to offer this service in the Peninsula.

## September

- **365-day Banking in Kiribathgoda**



CBC introduced 365-day Banking in Kiribathgoda with the opening of its 172nd banking outlet at Laugfs Super Market, Kiribathgoda.

## October

- **CBC appointed a Settlement Bank of CSE's Central Depository System**



Services of CBC can be used by stock brokers for settlement of securities traded in the CSE.

- **ComBank Completes more CSR Projects in Mahiyangana**



The CSR Trust of the Bank completed several projects in the Mahiyanganaya area, in a further demonstration of its commitment to rural communities.

- **Received 'Best Corporate Performance Award'**



CBC has received 'ICMAB Best Corporate Performance Award-2008' organised by The Institute of Cost and Management Accountants of Bangladesh (ICMAB).

## November

- **Commercial Bank's ATM Network Reaches Milestone**

The Bank's ATM network, the largest on-line 24-hour cash dispensing system in the country, reached another milestone recently with the commissioning of its 350th ATM machine.

## December

- **Commercial Bank Treasury Team Organize Seminar for Corporate Customers**



More than 50 corporate customers were provided an opportunity to participate in a seminar organised by the Bank to promote understanding of 'Financial Derivatives'.

The Bank's top treasury customers participated in this full-day seminar held at the Earl's Regency in Kandy.

## Investor Relations Supplement

The Bank's AA+ credit rating was reaffirmed by Fitch Ratings Lanka Ltd. in 2009.

In Bangladesh too the Bank's AA+ rating was reaffirmed by Credit Rating Information Services Ltd.

The Bank's ordinary voting shares fluctuated from a low of Rs. 66.00 to a high of Rs. 192.00. It ended the year at Rs. 189.50.

### 'BEST BANK' FOR 11 YEARS RUNNING

For eleven years 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, cost income ratio, competitive pricing and innovative products. Among the other indicators that were considered 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.

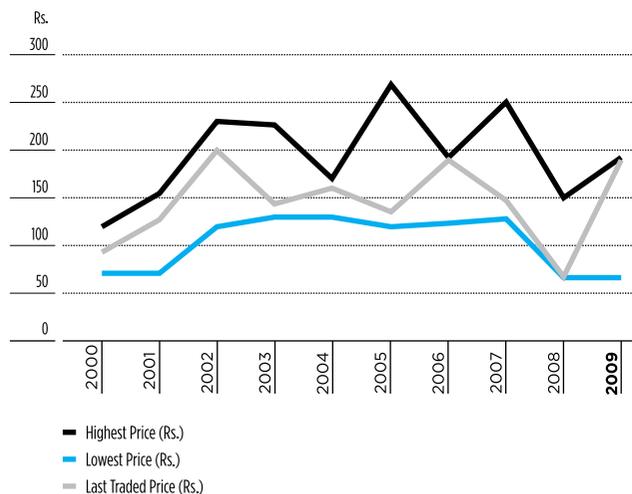
### 'BEST LOCAL TRADE BANK'

Commercial Bank was recognised by the UK based magazine 'Trade Finance' as the 'Best Local Trade Bank' in Sri Lanka. This is the first time that the award was presented in Sri Lanka by this magazine. 'Trade Finance' is published by 'Euromoney' out of its London office and is well known internationally for its review of international and regional trade markets.

### IN THE 'TOP 1,000' BANKS

In 2008 the Bank 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.

Share Price Movement - Ordinary Voting Shares



## QUARTERLY PERFORMANCE - 2009 COMPARED TO 2008

### Summary of the Income Statements

	2009					2008				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	31-March	30-June	30-Sep.	31-Dec.	31-Dec.	31-March	30-June	30-Sep.	31-Dec.	31-Dec.
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
<b>Group</b>										
Net Interest Income	2,941.7	2,845.8	3,046.8	3,587.2	12,421.5	2,991.9	3,077.8	3,282.5	3,543.3	12,895.5
Non-Interest Income	1,698.9	1,921.5	1,405.1	2,674.7	7,700.2	1,390.4	1,749.3	1,775.2	1,831.7	6,746.6
Less: Operating Expenses	3,005.9	2,964.0	2,818.5	4,207.7	12,996.1	2,591.7	2,965.0	3,170.1	3,508.2	12,235.0
Profit from Operations	1,634.7	1,803.3	1,633.4	2,054.2	7,125.6	1,790.6	1,862.1	1,887.6	1,866.8	7,407.1
Add: Share of Profit of Associate Companies	0.8	1.5	0.9	1.0	4.2	3.5	0.7	5.2	(0.3)	9.1
Profit before Taxation	1,635.5	1,804.8	1,634.3	2,055.2	7,129.8	1,794.1	1,862.8	1,892.8	1,866.5	7,416.2
Less: Income Tax Expense	743.3	682.1	662.8	848.6	2,936.8	768.9	769.8	954.5	802.6	3,295.8
Profit after Taxation	892.2	1,122.7	971.5	1,206.6	4,193.0	1,025.2	1,093.0	938.3	1,063.9	4,120.4
Quarterly Profit as a % of the Profit after Tax	21.3	26.8	23.2	28.7	100.0	24.9	26.5	22.8	25.8	100.0
Cumulative Profits as a % of the Profit after Tax	21.3	48.1	71.3	100.0		24.9	51.4	74.2	100.0	
<b>Bank</b>										
Net Interest Income	2,933.4	2,839.9	3,047.2	3,589.8	12,410.3	2,981.5	3,067.2	3,272.7	3,531.1	12,852.5
Non-Interest Income	1,688.1	1,921.4	1,400.9	2,805.7	7,816.1	1,385.1	1,929.4	1,775.4	1,837.1	6,927.0
Less: Operating Expenses	3,021.1	2,977.2	2,837.0	4,199.3	13,034.6	2,603.1	2,976.9	3,181.1	3,498.2	12,259.3
Profit before Taxation	1,600.4	1,784.1	1,611.1	2,196.2	7,191.8	1,763.5	2,019.7	1,867.0	1,870.0	7,520.2
Less: Income Tax Expense	734.2	673.0	654.3	825.4	2,886.9	763.2	761.0	946.1	781.5	3,251.8
Profit after Taxation	866.2	1,111.1	956.8	1,370.8	4,304.9	1,000.3	1,258.7	920.9	1,088.5	4,268.4
Quarterly Profit as a % of the Profit after Tax	20.1	25.8	22.2	31.9	100.0	23.4	29.5	21.6	25.5	100.0
Cumulative Profits as a % of the Profit after Tax	20.1	45.9	68.1	100.0		23.4	52.9	74.5	100.0	

### Summary of the Balance Sheets

	2009				2008			
	As at							
	31-March	30-June	30-Sep.	31-Dec.	31-March	30-June	30-Sep.	31-Dec.
	Rs. Mn.							
<b>Group</b>								
Net Loans & Advances	173,591.0	165,998.8	166,329.0	171,727.1	177,815.2	177,135.6	177,830.7	180,197.1
Investments	57,678.2	79,633.0	89,605.7	103,052.6	55,954.1	52,667.6	56,801.6	56,595.2
Other Assets	56,609.5	55,154.7	55,222.4	47,765.7	45,161.2	46,379.5	47,613.7	44,774.7
	287,878.7	300,786.5	311,157.1	322,545.4	278,930.5	276,182.7	282,246.0	281,567.0
Deposits	204,280.9	215,713.5	223,189.7	234,730.7	186,099.1	191,498.2	195,796.8	199,865.2
Other Liabilities	56,437.6	57,789.4	59,679.5	59,067.9	67,408.7	59,778.4	60,993.9	55,448.8
Shareholders' Funds	27,160.2	27,283.6	28,287.9	28,746.8	25,422.7	24,906.1	25,455.3	26,253.0
	287,878.7	300,786.5	311,157.1	322,545.4	278,930.5	276,182.7	282,246.0	281,567.0
<b>Bank</b>								
Net Loans & Advances	173,756.6	166,194.3	166,573.7	171,969.8	177,927.5	177,242.1	177,966.2	180,401.2
Investments	57,840.3	79,785.3	89,750.4	103,303.7	55,984.6	52,861.7	56,981.5	56,767.1
Other Assets	55,902.2	54,422.7	54,441.6	47,041.2	44,533.6	45,747.7	46,968.7	44,045.4
	287,499.1	300,402.3	310,765.7	322,314.7	278,445.7	275,851.5	281,916.4	281,213.7
Deposits	204,296.7	215,732.6	223,213.2	234,744.7	186,104.3	191,512.0	195,818.2	199,881.0
Other Liabilities	56,429.9	57,784.7	59,678.0	59,071.0	67,389.3	59,737.4	60,964.2	55,441.5
Shareholders' Funds	26,772.5	26,885.0	27,874.5	28,499.0	24,952.1	24,602.1	25,134.0	25,891.2
	287,499.1	300,402.3	310,765.7	322,314.7	278,445.7	275,851.5	281,916.4	281,213.7

## 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 2006/11	December 2006/11
Ordinary Non-Voting Shares	December 2006/13	December 2006/13
	December 2006/16	December 2006/16

The unaudited Interim Financial Statements for the first three quarters of 2009 were submitted to the CSE within due dates from the respective quarter ends.

The unaudited Interim Financial Statements for the fourth quarter of 2009 will be submitted to the CSE on or before February 28, 2010, as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the CSE.

The Audited Income Statement for the year ended December 31, 2009 and the Audited Balance Sheet as at December 31, 2009 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.

## TWENTY LARGEST SHAREHOLDERS (AS PER RULE NO. 7.6 (III) OF THE COLOMBO STOCK EXCHANGE)

As at December 31,

	2009		2008 (*)	
	No. of Shares	%	No. of Shares	%
<b>Ordinary Voting Shares</b>				
DFCC Bank A/C 1	67,090,868	28.69	67,090,868	28.76
HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation GNA - C61V	33,800,000	14.46	33,800,000	14.49
Sri Lanka Insurance Corporation Ltd. - Life Fund	12,014,808	5.14	12,014,808	5.15
Sri Lanka Insurance Corporation Ltd. - General Fund	10,331,082	4.42	10,331,082	4.43
Distilleries Company of Sri Lanka PLC	5,182,614	2.22	5,182,614	2.22
Mr. A.M.A. Almeshaal	5,108,500	2.18	7,283,633	3.12
Employees' Provident Fund	4,680,300	2.00	-	-
Mr. Y.S.H.I.K. Silva	4,007,742	1.71	2,740,316	1.17
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global - Asian Smaller Companies Fund	3,658,500	1.56	2,870,500	1.23
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global Asia Pacific Equity Fund	3,554,187	1.52	3,554,187	1.52
HSBC Intl. Nominees Ltd. - HSBC Bank PLC - First State Asian Equity Plus Fund	2,717,500	1.16	2,717,500	1.16
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. - SSBT - The EMM Umbrella Funds - D26Q	2,556,500	1.09	-	-
Mellon Bank N.A. - Florida Retirement System	2,214,000	0.95	572,000	0.25
Bank of Ceylon No. 1 Account	2,208,945	0.94	322,845	0.14
HSBC Intl. Nominees Ltd. - SSBTL - Aberdeen Asia Smaller Companies Investment Trust - XCB9	1,993,333	0.85	1,993,333	0.85
BNY - J.P. Morgan Clearing Corporation	1,764,100	0.75	1,262,000	0.54
Employee Trust Fund Board	1,574,121	0.67	1,283,221	0.55
National Savings Bank	1,566,528	0.67	4,624,928	1.98
Freudenberg Shipping Agencies Limited	1,488,000	0.64	1,390,400	0.60
Sub Total	170,190,668	72.79	161,713,275	69.31
Other Shareholders	63,630,603	27.21	71,567,951	30.69
<b>Total</b>	<b>233,821,271</b>	<b>100.00</b>	<b>233,281,226</b>	<b>100.00</b>

\* Comparative shareholdings as at December 31, 2008 of the twenty largest shareholders as at December 31, 2009.

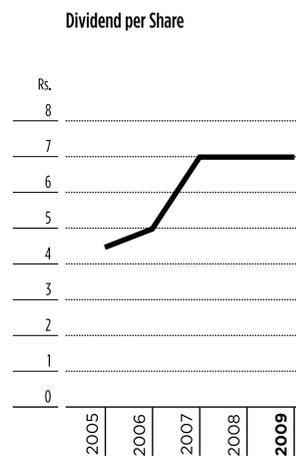
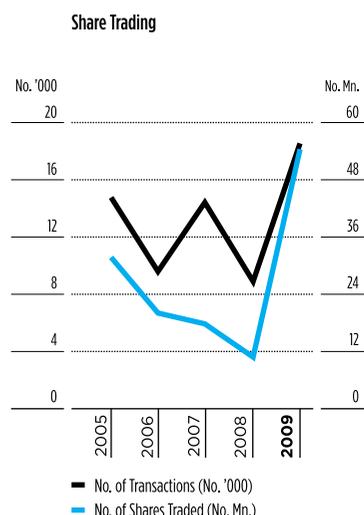
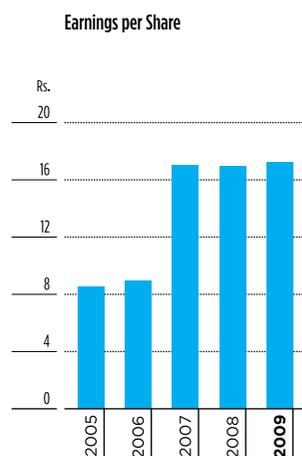
As at December 31,

	2009		2008 (*)	
	No. of Shares	%	No. of Shares	%
<b>Ordinary Non-Voting Shares</b>				
Sri Lanka Insurance Corporation Ltd. - General Fund	1,711,961	10.62	1,711,961	10.62
BNY - J.P. Morgan Clearing Corporation	979,600	6.08	762,000	4.73
Mrs. L.E.M. Yaseen	427,700	2.65	-	-
Deutsche Bank AG as Trustee for NAMAL Aquity Value Fund	425,000	2.64	-	-
The Gilpin Fund Ltd.	410,966	2.55	253,466	1.57
HINL - JPMCB - Butterfield Trust (Bermuda) Ltd.	400,000	2.48	-	-
M.J.F. Exports Ltd.	278,677	1.73	278,677	1.73
Mr. J.D. Bandaranayake	274,742	1.70	249,742	1.55
Beta Holdings Ltd.	265,000	1.64	500,000	3.10
Dr. A.K.A. Jayawardene	181,354	1.12	173,354	1.08
Mr. M.F. Hashim	177,692	1.10	177,692	1.10
Employees' Trust Fund Board	166,770	1.03	132,270	0.82
Mr. J.G. De Mel	159,166	0.99	149,566	0.93
Mr. M.J.C. Amarasuriya	151,881	0.94	151,881	0.94
Bartleet Financial Services Ltd.	150,000	0.93	5,000	0.03
Gold Investment Ltd.	127,598	0.79	137,598	0.85
Mr. G.R. Mallawaarachy & Mrs. B.G.P. Mallawaarachy (Joint)	127,100	0.79	127,100	0.79
Alpex Marine (Pvt) Ltd.	121,333	0.75	121,333	0.75
Mr. K.S.M. De Silva	101,390	0.63	100,090	0.62
Mr. W.R.H. Perera	100,172	0.62	100,172	0.62
<b>Sub Total</b>	<b>6,738,102</b>	<b>41.80</b>	<b>5,131,902</b>	<b>31.83</b>
<b>Other Shareholders</b>	<b>9,382,695</b>	<b>58.20</b>	<b>10,988,895</b>	<b>68.17</b>
<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, 2008 of the twenty largest shareholders as at December 31, 2009.

## INFORMATION ON SHARE TRADING

	Ordinary Shares - Voting		Ordinary Shares - Non-Voting	
	2009	2008	2009	2008
Number of Transactions	13,267	5,491	5,301	3,424
Number of Shares Traded	46,401,626	7,840,900	7,950,100	3,017,400
Value of Shares Traded (Rs.)	6,601,558,404	955,614,725	805,458,675	233,098,350



**INFORMATION ON RATIOS  
(AS PER RULE NO. 7.6 (XI) OF THE COLOMBO STOCK EXCHANGE)**

	2009	2008
Dividend per Share (Rs.)	7.00	7.00
Dividend Payout Ratio (%)	40.64	41.85
Net Assets Value per Share (Rs.)	114.02	103.81

**MARKET CAPITALISATION AND MARKET PRICES****(a) Market Capitalisation**

As at December 31,	Shareholders' Funds	Com Bank Market Capitalisation	Total Market Capitalisation of the CSE	As % of CSE Market Capitalisation	Market Capitalisation Ranking
	Rs. Mn.	Rs. Mn.	Rs. Mn.		
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>2009</b>	<b>28,499</b>	<b>44,309</b>	<b>1,092,138</b>	<b>4.06</b>	<b>5</b>

**(b) Market Prices (As per Rule No. 7.6 (xi) of the Colombo Stock Exchange)**

	Ordinary Shares			
	Voting		Non-Voting	
	2009 Rs.	2008 Rs.	2009 Rs.	2008 Rs.
Highest	192.00	149.75	131.25	89.50
Lowest	66.00	66.25	48.25	48.00
Year end	189.50	67.00	124.75	49.00

**INFORMATION ON DIVIDENDS ON ORDINARY SHARES  
(FOR BOTH VOTING AND NON-VOTING SHARES)**

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

	2009 Rs.	2008 Rs.
First Interim Dividend Paid	1.50	1.50
Second Interim Dividend Paid	1.50	1.50
Final Dividend Proposed/Paid	4.00	4.00
	<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, 2009 for approval by the shareholders at the 41st Annual General Meeting (AGM).

**SHAREHOLDER BASE**

The total number of shareholders as at December 31, 2009 was 9,855 compared to the 10,031 as at December 31, 2008.

## DISTRIBUTION AND COMPOSITION OF SHAREHOLDERS (AS PER RULE NO. 7.6 (X) OF THE COLOMBO STOCK EXCHANGE)

As at December 31,

		2009				2008			
		No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
<b>Ordinary Voting Shares</b>									
Up to	1,000	3,523	51.07	1,029,519	0.44	3,390	49.00	1,021,465	0.44
1,001	10,000	2,565	37.18	9,220,771	3.95	2,718	39.28	9,736,376	4.16
10,001	100,000	690	10.00	19,040,329	8.14	697	10.07	18,095,471	7.76
100,001	1,000,000	95	1.38	28,203,044	12.06	92	1.33	23,992,830	10.28
Over	1,000,000	25	0.37	176,327,608	75.41	22	0.33	180,435,084	77.35
		<b>6,898</b>	<b>100.00</b>	<b>233,821,271</b>	<b>100.00</b>	<b>6,919</b>	<b>100.00</b>	<b>233,281,226</b>	<b>100.00</b>
<b>Ordinary Non-Voting Shares</b>									
Up to	1,000	1,857	62.80	535,039	3.32	1,916	61.57	571,647	3.55
1,001	10,000	872	29.49	2,848,022	17.67	964	30.98	3,093,716	19.19
10,001	100,000	208	7.03	5,999,634	37.22	211	6.78	5,868,745	36.40
100,001	1,000,000	19	0.64	5,026,141	31.18	20	0.64	4,874,728	30.24
Over	1,000,000	1	0.03	1,711,961	10.62	1	0.03	1,711,961	10.62
		<b>2,957</b>	<b>100.00</b>	<b>16,120,797</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

Resident	6,658	96.52	158,082,505	67.61	6,709	96.96	152,670,950	65.45
Non-Resident	240	3.48	75,738,766	32.39	210	3.04	80,610,276	34.55
<b>Total</b>	<b>6,898</b>	<b>100.00</b>	<b>233,821,271</b>	<b>100.00</b>	<b>6,919</b>	<b>100.00</b>	<b>233,281,226</b>	<b>100.00</b>

Individuals	6,440	93.36	41,717,214	17.84	6,509	94.07	44,985,021	19.28
Institutions	458	6.64	192,104,057	82.16	410	5.93	188,296,205	80.72
<b>Total</b>	<b>6,898</b>	<b>100.00</b>	<b>233,821,271</b>	<b>100.00</b>	<b>6,919</b>	<b>100.00</b>	<b>233,281,226</b>	<b>100.00</b>

As per Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2009 was 56.31% (46.55% as at December 31, 2008).

### Ordinary Non-Voting Shares

Resident	2,887	97.63	13,648,210	84.66	3,044	97.81	14,218,820	88.20
Non-Resident	70	2.37	2,472,587	15.34	68	2.19	1,901,977	11.80
<b>Total</b>	<b>2,957</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>	<b>3,112</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>

Individuals	2,790	94.35	9,609,490	59.61	2,947	94.70	9,576,731	59.41
Institutions	167	5.65	6,511,307	40.39	165	5.30	6,544,066	40.59
<b>Total</b>	<b>2,957</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>	<b>3,112</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>

As per Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2009 was 88.15% (88.08% as at December 31, 2008).

**DIRECTORS' SHAREHOLDING INCLUDING THE CEO'S SHAREHOLDING  
(AS PER RULE NO. 7.6 (V) OF THE COLOMBO STOCK EXCHANGE)**

As at December 31,	Voting		Non-Voting	
	2009	2008	2009	2008
<b>Name</b>				
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 - CEO/MD	806,216	806,216	38,028	38,028
Dr. H.S. Wanasinghe	-	-	-	-
Mr. D.S. Weerakkody	1,000	1,000	-	-
Mr. P.M. Martelli	-	-	-	-
Mr. R.M.S. Fernando	-	-	-	-
Mrs. S.N. Wickramasinghe	-	N/A	-	N/A
Ms. J. Kuruppu	-	N/A	-	N/A
Mr. A.N. Fonseka	N/A	-	N/A	1,077
Mr. P. Kjellerhaug	N/A	-	N/A	-
Mr. Lalin J.A. Fernando	N/A	-	N/A	-

**SHARE PRICE TREND OVER LAST TEN YEARS****Ordinary Voting Shares**

Year	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Highest Price (Rs.)	192.00	149.75	250.00	192.50	269.00	170.00	226.00	230.00	155.00	120.00
Lowest Price (Rs.)	66.00	66.25	128.00	123.00	120.00	130.00	130.00	120.00	70.50	70.50
Last Traded Price (Rs.)	189.50	67.00	147.00	190.00	135.50	159.75	144.00	200.00	127.00	93.00

**Ordinary Non-Voting Shares**

Highest Price (Rs.)	131.25	89.50	114.50	90.00	160.00	126.00	165.00	160.00	130.00	84.75
Lowest Price (Rs.)	48.25	48.00	60.00	54.00	51.00	80.00	100.00	80.00	55.00	57.00
Last Traded Price (Rs.)	124.75	49.00	74.50	89.00	57.50	90.00	100.00	145.00	90.00	68.00

**INFORMATION ON SCRIP AND RIGHTS ISSUES**

Year/Month	Details
1998 June	Scrip issue of three ordinary shares for every ten ordinary shares held
2001 May	Scrip issue of one ordinary share for every five ordinary shares held
2003 May	Scrip issue of one ordinary share for every three ordinary shares held
2003 October	Rights issue of one ordinary share for every four ordinary shares held
2005 June	Scrip issue of one ordinary share for every one ordinary share held
2007 April	Rights issue of three ordinary shares for every ten ordinary shares held
2007 June	Scrip issue of one ordinary share for every three ordinary shares held

**CREDIT RATINGS**

The Bank's credit rating, AA+(lka) was reaffirmed by Fitch Ratings Lanka Ltd. in 2009.

The Bank's Bangladesh Operation's credit rating was upgraded to AA+ by Credit Rating Information Services Ltd. in 2009.

## INFORMATION ON MOVEMENT IN SHARE CAPITAL

Year	Issue	Basis	No. of Shares Issued/ (Redeemed)	No. of Shares			
				Ordinary - Voting	Ordinary - Non-Voting	Cumulative Redeemable Preference	
1987	As at December 31, 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	Voting		29,769	65,029,769	4,650,230	190,655,500
2005	ESOP	Voting		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	Voting		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	Voting		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
2008	Redemption of Cumulative Redeemable Preference Shares			(100,000,000)	232,931,177	16,120,797	-
	ESOP	Voting		350,049	233,281,226	16,120,797	-
<b>2009</b>	<b>ESOP</b>	<b>Voting</b>		<b>540,045</b>	<b>233,821,271</b>	<b>16,120,797</b>	<b>-</b>

**INFORMATION ON DEBENTURES OF THE BANK  
(AS PER RULE NO. 7.6 (XI) OF THE COLOMBO STOCK EXCHANGE)**

Debenture Categories	CSE Listing	Interest Payable Frequency	Balance as at 31.12.09 Rs. Mn.	Market Values		
				Highest Rs.	Lowest Rs.	Year End Rs.
<b>Fixed rate</b>						
October 2005/October 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	-	-	-
December 2006/December 2011 - 13.50% p.a.	Listed	Annually	527.800	Not traded during the year		
December 2006/December 2013 - 13.75% p.a.	Listed	Annually	0.250	Not traded during the year		
December 2006/December 2016 - 14.00% p.a.	Listed	Annually	467.260	Not traded during the year		
<b>Floating rate</b>						
October 2005/October 2010 - 3 Months TB Rate (Net) + 2% p.a.	Not listed	Quarterly	120.000	-	-	-
October 2005/October 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	-	-	-
December 2006/December 2011 - 12 Months TB Rate (Gross) + 1% p.a.	Listed	Annually	131.020	Not traded during the year		
December 2006/December 2013 - 12 Months TB Rate (Gross) + 1% p.a.	Listed	Annually	0.300	Not traded during the year		
December 2006/December 2016 - 12 Months TB Rate (Gross) + 1% p.a.	Listed	Annually	0.400	Not traded during the year		
			<b>3,436.030</b>			

*The comparative information for 2008 have been highlighted*

**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.

**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.

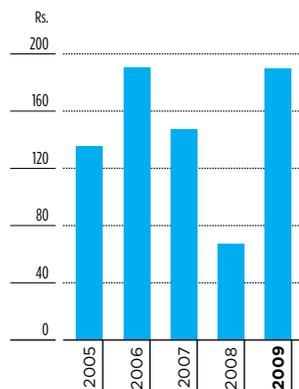
**12 Months TB Rate (Gross)** - Twelve months Treasury Bill rate before 10% Withholding Tax Rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

Other Ratios	2009	2008
Debt Equity Ratio (%)	12.50	17.82
Interest Cover Times	12.49	8.69
Liquid Assets Ratio (%) (Minimum 20%)	38.80	24.82

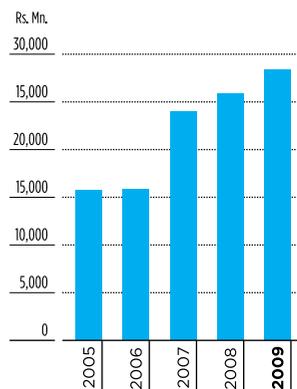
Credit Rating assigned to Bank's debentures was AA(Ika). This was reaffirmed during 2009 by Fitch Ratings Lanka Ltd.

Interest Rates		Interest Rate of Comparable Government Securities	Other Ratios as at date of Last Trade	
Coupon Rate	Effective Annual Yield		Interest Yield	Yield to Maturity
%	%	%	%	%
12.00	12.00	10.00		
12.00	12.00	21.00		
12.00	12.00	9.60		
12.00	12.00	20.50		
13.25	13.25	12.50		
13.25	13.25	Indicative 17.00		
13.50	13.50	10.00	Not traded during the year	
13.50	13.50	21.00	Not traded during the year	
13.75	13.75	11.05	Not traded during the year	
13.75	13.75	20.00	Not traded during the year	
14.00	14.00	12.50	Not traded during the year	
14.00	14.00	Indicative 17.50	Not traded during the year	
15.21	16.10	7.73		
20.55	22.19	21.00		
15.67	16.62	7.73		
21.61	23.43	21.00		
15.21	16.10	7.73		
20.55	22.19	21.00		
15.67	16.62	9.60		
21.61	23.43	21.00		
22.24	22.24	9.60	Not traded during the year	
21.61	23.43	21.00	Not traded during the year	
22.24	22.24	10.00	Not traded during the year	
21.61	23.43	20.00	Not traded during the year	
22.24	22.24	11.05	Not traded during the year	
21.61	23.43	Indicative 17.00	Not traded during the year	

Last Traded Price - Ordinary Voting Shares - 2005-09



Shareholders' Funds 2005-09- Bank



# US\$

## Income Statement

For the year ended December 31,	GROUP			BANK		
	2009 US\$. '000	2008 US\$. '000	Change %	2009 US\$. '000	2008 US\$. '000	Change %
<b>Income</b>	<b>381,246</b>	389,717	(2.17)	<b>382,351</b>	391,093	(2.24)
Interest income	313,936	329,906	(4.84)	314,028	329,683	(4.75)
Less : Interest expenses	205,357	215,583	(4.74)	205,547	215,742	(4.73)
Net interest income	108,579	114,323	(5.02)	108,481	113,941	(4.79)
Foreign exchange profit	25,894	23,345	10.92	25,894	23,345	10.92
Fees and commission income	22,114	24,069	(8.12)	22,115	24,070	(8.12)
Other income	19,302	12,397	55.70	20,314	13,995	45.15
	<b>175,889</b>	174,134	1.01	<b>176,804</b>	175,351	0.83
Less : Operating Expenses						
Personnel expenses	40,769	31,098	31.10	40,496	30,864	31.21
Premises, equipment and establishment expenses	19,652	17,696	11.05	19,405	17,630	10.07
Fees and commission expenses	2,169	1,492	45.38	2,169	1,492	45.38
Provision for staff retirement benefits	3,929	3,991	(1.55)	3,915	3,945	(0.76)
Loan losses and provisions	13,406	20,197	(33.62)	13,406	20,197	(33.62)
Other overhead expenses	33,676	33,992	(0.93)	34,548	34,555	(0.02)
	<b>113,601</b>	108,466	4.73	<b>113,939</b>	108,683	4.84
Profit from operations	<b>62,288</b>	65,668	(5.15)	<b>62,865</b>	66,668	(5.70)
Add : Share of profit of Associates (before tax)	37	81	(54.32)	-	-	-
<b>Profit before taxation</b>	<b>62,325</b>	65,749	(5.21)	<b>62,865</b>	66,668	(5.70)
Less : Income Tax Expense	25,672	29,218	(12.14)	25,235	28,828	(12.46)
<b>Profit after Taxation</b>	<b>36,653</b>	36,531	0.33	<b>37,630</b>	37,840	(0.55)
<b>Attributable to:</b>						
Equity holders of the parent	36,644	36,518	0.35	37,630	37,840	(0.55)
Minority Interest	9	13	(30.77)	-	-	-
	<b>36,653</b>	36,531	0.33	<b>37,630</b>	37,840	(0.55)
Basic Earnings per Share (US\$)	0.15	0.15	-			
Diluted Earnings per Share (US\$)	0.15	0.14	7.14			
Dividend per Ordinary Share (US\$)	-	-	-	0.06	0.06	-

Exchange Rate of 1 US\$ was Rs. 114.40 as at 31.12.2009 ( Rs. 112.80 as at 31.12.2008 )

## US DOLLAR ACCOUNTS

The Income Statement and the Balance Sheet given on pages 186 and 187 are solely for the convenience of shareholders, investors, bankers and other users. These Statements do not form part of the Financial Statements.

# US\$

## Balance Sheet

As at December 31,	GROUP			BANK		
	2009 US\$. '000	2008 US\$. '000	Change %	2009 US\$. '000	2008 US\$. '000	Change %
<b>ASSETS</b>						
Cash and short term funds	210,285	213,785	(1.64)	210,285	213,783	(1.64)
Balances with Central Banks	103,099	91,511	12.66	103,099	91,511	12.66
Government Treasury Bills, Bonds and other Securities	845,023	459,826	83.77	845,023	457,742	84.61
Securities purchased under resale agreements	45,482	30,146	50.87	45,482	30,146	50.87
Dealing securities	707	517	36.75	707	517	36.75
Investment securities	8,962	10,613	(15.56)	8,962	10,613	(15.56)
Bills of exchange	24,887	27,118	(8.23)	24,887	27,118	(8.23)
Loans and advances	1,410,195	1,487,541	(5.20)	1,410,219	1,488,107	(5.23)
Lease receivable	66,029	82,833	(20.29)	68,127	84,077	(18.97)
	2,714,669	2,403,890	12.93	2,716,791	2,403,614	13.03
Investments in associates	635	629	0.95	388	393	(1.27)
Investments in subsidiaries	-	-	-	2,442	3,845	(36.49)
Interest and fees receivable	15,586	20,754	(24.90)	15,586	20,754	(24.90)
Property, plant & equipment	40,292	38,499	4.66	34,220	32,994	3.72
Leasehold property	1,015	1,042	(2.59)	700	719	(2.64)
Other assets	43,868	28,718	52.75	43,922	28,092	56.35
Intangible assets	3,388	2,631	28.77	3,387	2,619	29.32
<b>Total Assets</b>	<b>2,819,453</b>	<b>2,496,163</b>	<b>12.95</b>	<b>2,817,436</b>	<b>2,493,030</b>	<b>13.01</b>
<b>LIABILITIES AND EQUITY</b>						
Deposits from customers	2,051,842	1,771,855	15.80	2,051,964	1,771,995	15.80
Borrowings	101,737	120,741	(15.74)	101,737	120,741	(15.74)
Securities sold under repurchase agreements	260,255	221,273	17.62	261,403	222,297	17.59
Tax liabilities	10,586	14,745	(28.21)	10,512	14,757	(28.77)
Deferred tax	6,706	5,996	11.84	5,537	4,813	15.04
Debentures	30,035	39,327	(23.63)	30,035	39,327	(23.63)
Other liabilities	107,009	89,486	19.58	107,131	89,568	19.61
<b>Total Liabilities</b>	<b>2,568,170</b>	<b>2,263,423</b>	<b>13.46</b>	<b>2,568,319</b>	<b>2,263,498</b>	<b>13.47</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT</b>						
Stated capital	92,725	93,512	(0.84)	92,725	93,512	(0.84)
Statutory reserve fund	18,917	16,815	12.50	18,917	16,808	12.55
Reserves	139,413	122,174	14.11	137,475	119,212	15.32
Shareholders' Funds	251,055	232,501	7.98	249,117	229,532	8.53
Minority interest	228	239	(4.60)	-	-	-
<b>Total Equity</b>	<b>251,283</b>	<b>232,740</b>	<b>7.97</b>	<b>249,117</b>	<b>229,532</b>	<b>8.53</b>
<b>Total liabilities and equity</b>	<b>2,819,453</b>	<b>2,496,163</b>	<b>12.95</b>	<b>2,817,436</b>	<b>2,493,030</b>	<b>13.01</b>
<b>Commitments and contingencies</b>	<b>1,276,855</b>	<b>1,026,672</b>	<b>24.37</b>	<b>1,276,855</b>	<b>1,026,672</b>	<b>24.37</b>
<b>Net Assets value per ordinary share (US\$)</b>	<b>1.00</b>	<b>0.93</b>	<b>7.53</b>	<b>1.00</b>	<b>0.92</b>	<b>8.70</b>

Exchange Rate of 1 US\$ was Rs. 114.40 as at 31.12.2009 (Rs. 112.80 as at 31.12.2008)

## Decade at a Glance

### Bank

Year Ended December 31,  
Rs. Mn.

#### OPERATING RESULTS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR (%)
Income	6,096	8,203	8,364	10,059	12,290	16,100	24,470	35,223	44,115	43,741	24.87
Interest income	4,796	6,510	6,613	7,931	9,584	13,034	19,532	30,503	37,188	35,925	
Interest expenses	(2,776)	(4,174)	(3,747)	(4,218)	(4,878)	(7,226)	(11,955)	(18,951)	(24,336)	(23,515)	
Foreign exchange profit	421	563	464	397	874	587	1,439	1,545	2,633	2,962	
Commission & other income	600	732	1,097	1,731	1,832	2,479	3,499	3,175	4,294	4,854	
Operating expenses & provisions	(1,891)	(2,306)	(2,902)	(3,887)	(4,908)	(5,232)	(8,301)	(9,567)	(12,259)	(13,035)	
Profit before income tax	1,150	1,325	1,525	1,954	2,504	3,642	4,214	6,705	7,520	7,191	24.42
Income tax on profit	(214)	(315)	(321)	(477)	(819)	(1,278)	(2,201)	(2,601)	(3,252)	(2,887)	
Net profit for the year	936	1,010	1,204	1,477	1,685	2,364	2,013	4,104	4,268	4,304	20.66

As at December 31,

#### ASSETS

Cash and short term funds	5,456	4,272	1,835	9,002	12,136	18,663	13,739	16,208	24,115	24,057	
Balances with Central Banks	2,583	3,091	3,244	5,233	6,320	9,045	12,574	11,576	10,322	11,795	
Government Treasury Bills, Bonds and other securities	1,449	649	9,436	16,530	19,900	21,218	32,065	49,863	51,633	96,671	
Commercial paper	331	1,170	1,080	546	560	408	423	-	-	-	
Securities purchased under re-sale agreements	-	1,064	832	6,184	399	808	4,593	3,804	3,400	5,203	
Dealing securities	-	-	-	-	110	182	145	207	58	81	
Investments held for sale	-	-	-	-	-	-	218	205	-	-	
Investments held to maturity	208	462	905	2,006	2,340	3,091	1,394	1,756	1,197	1,025	
Bills of Exchange	2,331	2,368	2,552	2,495	2,799	2,790	3,204	3,195	3,059	2,847	
Loans and advances	31,703	36,730	47,350	60,585	82,605	108,884	137,846	160,184	167,858	161,329	20.03
Lease receivable	1,263	1,519	1,921	3,364	5,317	7,088	9,482	10,945	9,484	7,794	
	45,324	55,983	69,155	105,945	132,486	172,177	215,683	257,943	271,126	310,802	
Investments in Associate Companies	78	78	78	78	109	107	44	44	44	44	
Investments in Subsidiary Companies	424	424	424	429	429	434	434	434	434	279	
Other assets	2,478	1,251	2,149	2,167	2,553	4,177	4,336	5,751	5,512	6,808	
Property, Plant & Equipment and Intangible Assets	1,306	1,410	1,546	1,661	2,896	3,182	3,477	3,768	4,098	4,382	
<b>Total Assets</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>	<b>322,315</b>	<b>22.64</b>

#### LIABILITIES

Deposits from customers	37,523	46,306	54,585	75,185	98,730	127,601	157,496	183,110	199,881	234,745	22.79
Dividends payable	108	163	118	190	230	230	113	113	-	-	
Borrowings	2,317	1,862	4,200	5,406	9,090	13,387	18,944	18,752	13,620	11,639	
Securities sold under re-purchase agreements	1,430	228	1,938	10,580	9,050	11,389	14,330	23,342	25,075	29,905	
Other liabilities	2,643	3,263	4,218	4,843	3,735	6,331	9,122	10,308	10,646	12,888	
Tax payable	42	79	39	148	483	818	1,446	1,698	1,665	1,203	
Debentures	500	500	500	2,244	3,244	4,553	6,680	6,680	4,436	3,436	
	44,563	52,401	65,598	98,596	124,562	164,309	208,131	244,003	255,323	293,816	

#### SHAREHOLDERS' FUNDS

Share capital/Stated Capital	348	1,324	1,324	2,603	2,603	3,327	2,428	10,515	10,548	10,608	
Statutory Reserves	1,009	1,009	1,009	1,009	1,009	1,421	1,429	1,634	1,896	2,164	
Reserves	3,690	4,412	5,421	8,072	10,299	11,020	11,986	11,788	13,447	15,727	
<b>Total Liabilities &amp; Shareholders' Funds</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>	<b>322,315</b>	<b>22.64</b>
Commitments and contingencies	17,880	19,749	24,082	38,158	43,942	47,154	56,418	116,212	115,809	146,072	

CAGR - Compounded Annual Growth Rate

## Decade at a Glance

### Bank

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR
<b>RATIOS</b>											
Return on average shareholders' funds (%)	20.09	17.13	16.61	15.20	13.16	15.93	12.73	20.63	17.13	15.83	
Income growth (%)	28.49	34.56	1.96	20.26	22.17	31.00	51.99	43.95	25.25	(0.85)	
Return on average assets (%)	2.05	1.86	1.82	1.61	1.35	1.48	1.00	1.67	1.55	1.43	
Rate of dividend (%)	45.00	45.00	50.00	50.00	60.00	45.00	50.00	-	-	-	
Dividend per share (Rs.)	-	-	-	-	-	-	-	7.00	7.00	7.00	
Ordinary share dividend cover (times)	5.91	5.20	5.20	3.70	3.48	3.34	2.54	2.29	2.42	2.46	
Gross dividends to ordinary shareholders (Rs. Mn.)	156.71	188.06	208.95	348.25	420.00	639.36	714.00	1,743.13	1,745.81	1,749.34	
Advances to deposits and refinance (%)	91.81	85.51	92.59	86.16	89.52	90.64	92.49	91.75	87.12	70.88	
Property, Plant & Equipment to shareholders' funds (%)	25.87	20.90	19.93	14.22	20.81	20.75	21.33	15.74	15.83	15.38	
Total assets to shareholders' funds (times)	9.83	8.77	9.46	9.44	9.95	11.42	14.14	11.19	10.86	11.31	
Capital funds to liabilities including contingent liabilities (%)	8.08	9.35	8.65	8.54	8.26	7.46	6.05	7.87	6.98	6.48	
Cost/Income Ratio (%)	54.75	55.27	55.46	55.87	56.78	54.28	61.10	47.87	50.46	56.86	
Liquid assets to liabilities (%)	27.22	27.72	27.88	23.95	23.17	24.51	22.64	24.24	24.83	38.80	
(As specified in the Banking Act No. 30 of 1988)											
Group Capital Adequacy (%) Tier I	14.97	15.72	14.94	13.43	10.78	9.68	7.62	10.60	10.55	11.92	
Tier I & II	16.62	16.20	15.07	15.46	13.16	12.08	11.58	13.71	13.13	13.93	

### SHARE INFORMATION

Market value of a share (Rs.)	93	127	200	144	160	135.00	190.00	147.00	67.00	189.50	
Earnings per share (Rs.)	4	4	5	5	6	9	9	17	17	17	
Price earnings ratio (times)	4	5	8	8	8	9	15	9	4	11	
Net assets value per share (Rs.)	21	25	29	69	51	98	70	97	104	114	
Earnings yield (%)	29	18	13	13	13	11	5	11	25	9	
Dividend payout ratio (%)	17	22	18	27	29	30	39	44	41	41	

### OTHER INFORMATION

Number of employees	2,067	2,259	2,399	2,648	2,863	3,168	3,415	3,745	4,041	4,071	
Number of outlets - Sri Lanka	81	100	109	116	125	134	150	163	170	172	} 10.81
Number of outlets - Bangladesh	-	-	-	4	4	5	7	9	11	15	
Number of ATMs - Sri Lanka and Bangladesh	79	109	143	166	188	223	278	301	346	368	18.57

## Group Structure

	SUBSIDIARIES				ASSOCIATES	
	Commercial Bank Primary Dealer Ltd.	X-pertise Ltd.	ONEzero Co. Ltd.	Commercial Development Co. PLC	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
Incorporated in Sri Lanka	October 18, 1999 <i>(Liquidated on 30.12.2009)</i>	October 06, 2004 <i>(Liquidated on 30.12.2009)</i>	February 17, 2003	March 14, 1980	August 08, 1990	August 17, 1987
Bank's Holding	100.00%	100.00%	100.00%	94.55%	22.92%	18.91%
Principal Business Activity	Primary Dealer for Government Securities	Training and Development of Human Resources	Provision of IT Related Services	Property Development	Venture Capital Financing	Insurance Brokering
Business Address	'Commercial House', No. 21, Bristol Street, Colombo 01.	No. 01, Union Place, Colombo 02.	'Commercial House', No. 21, Bristol Street, Colombo 01.	'Commercial House', No. 21, Bristol Street, Colombo 01.	108 A, 1st Floor, Maya Avenue, Colombo 06.	3-2/2, 2nd Floor, Galle Face Court 1, Colombo 03.
Contact Numbers			2430420	2447300	5373745, 2507605-6	2447297, 2447299

Chairman	M.J.C. Amarasuriya	M.J.C. Amarasuriya	M.J.C. Amarasuriya	B.R.L. Fernando <i>(Appointed w.e.f. 25.12.2009)</i>	M.J.C. Amarasuriya	A.L.Gooneratne
Directors	B.R.L. Fernando	A.L. Gooneratne	A.L. Gooneratne	A.L. Gooneratne	H.D.S. Amarasuriya	M.P. Jayawardena
	A.L. Gooneratne	W.M.R.S. Dias	W.M.R.S. Dias	Dr. H.S. Wanasinghe	A.L. Gooneratne	W.D.K. Jayawardena
	W.M.R.S. Dias	G.L.C.Amarasiri	S.D. Bandaranayake	A.T.P.Edirisinghe	Deshabandu S.E. Captain	
	D.S. Weeratunge		K.D.N. Buddhipala	L.D.A. Jayasinghe <i>(Appointed w.e.f. 25.12.2009)</i>	YAM. T.T.S.I.I.T. Ja'afar	
	A.N. Fonseka <i>(Resigned w.e.f. 31.01.2009)</i>		A.R.M. Muttiah	M.A.Pemasiri <i>(Resigned w.e.f. 12.11.2009)</i>	E.A.D. Perera <i>(Alternate to Mr. Ja'afar)</i>	
			W.T.M.A.I.B. Wijayasundara	Mrs. I.S.Jayasinghe <i>(Resigned w.e.f. 22.03.2009)</i>	S.T. Nagendra <i>(Resigned w.e.f. 16.11.2009)</i>	
Company Secretary	L.W.P. Indrajith	Mrs. Sarojini Dunuwille	M.P. Dharmasiri	L.W.P. Indrajith	Mrs. R.R. Dunuwille	Mrs. R.A.R.N. Ranasinghe

	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.						
Total Assets	-	250.288	-	8.310	56.060	119.228	1,126.740	1,016.965	214.705	207.992	189.983	207.420
Total Liabilities	-	0.132	-	3.101	9.226	75.348	669.247	662.210	6.640	6.668	62.167	84.647
Net Assets	-	250.156	-	5.209	46.834	43.880	457.493	354.755	208.065	201.324	127.816	122.773
Total Revenue	34.157	41.686	1.735	0.562	143.524	172.358	187.379	149.894	27.109	36.281	91.376	101.806
Profit before Tax	31.978	41.315	1.389	0.179	8.676	16.711	69.645	142.226	11.725	20.097	8.704	17.669
Profit after Tax	13.896	26.855	0.768	(0.375)	5.313	10.141	43.038	103.932	11.226	19.513	8.633	13.962
Dividend per Share (Rs.)	-	0.40	0.65	-	6.00	7.00	3.00	2.50	0.25	-	6.00	6.00

# Financial Reports

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## Financial Calendar - 2009

Final Dividend for 2008 paid on April 17, 2009  
Two Interim Dividends for 2009 paid on November 03, 2009 and December 18, 2009  
Annual Report and Accounts for 2009 signed on February 18, 2010  
Forty First Annual General Meeting to be held on March 30, 2010  
Final Dividend for 2009 proposed to be paid on April 09, 2010

## Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka - 2009

For the three months ended March 31, 2009 (unaudited) on May 26, 2009  
For the six months ended June 30, 2009 (unaudited) on July 30, 2009  
For the nine months ended September 30, 2009 (unaudited) on November 13, 2009  
For the twelve months ended December 31, 2009 (unaudited) on February 25, 2010

## Proposed Financial Calendar - 2010

Interim Dividends for 2010 to be paid in second-half 2010  
Annual Report and Accounts for 2010 to be signed in February 2011  
Forty Second Annual General Meeting to be held in March 2011  
Final Dividend for 2010 to be proposed and paid in March 2011

## Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka - 2010

For the three months ending March 31, 2010 (unaudited) on or before May 15, 2010  
For the six months ending June 30, 2010 (unaudited) on or before July 15, 2010  
For the nine months ending September 30, 2010 (unaudited) on or before November 15, 2010  
For the twelve months ending December 31, 2010 (unaudited) on or before February 28, 2011



# Annual Report of the Board of Directors

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT

The details set out herein provide the pertinent information required by the Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and the recommended best accounting practices. The Annual Report was approved by the Directors on February 18, 2010.

### 1. GENERAL

The Directors have pleasure in presenting to the members this Report together with the audited Financial Statements for the year ended December 31, 2009 of the Commercial Bank of Ceylon PLC., a public limited liability Company incorporated in Sri Lanka on June 25, 1969, under the Companies Ordinance No. 51 of 1938 and re-registered as per the Companies Act No. 07 of 2007 on January 23, 2008, with the Company Registration No. PQ 116, quoted in the Colombo Stock Exchange in March 1970 and a licensed commercial bank under the Banking Act No. 30 of 1988. The provision of this information is required by the Section 168 of the Companies Act No. 07 of 2007, which requires the following information to be disclosed:

Information Required to be Disclosed	Reference to Companies Act	Bank's Response
(i) The Nature of the Business of the Bank and its Subsidiaries, any Change during the Accounting Period	Section 168 (1) (a)	Refer Item 2.2 below
(ii) Financial Statements - Company and Group	Section 168 (1) (b)	Refer Item 2.3 below
(iii) Auditors' Report - Company and Group	Section 168 (1) (c)	Refer Item 2.4 below
(iv) Accounting Policies	Section 168 (1) (d)	Refer Item 2.5 below
(v) Entries in the Interests Register	Section 168 (1) (e)	Refer Item 2.6 below
(vi) Remuneration and Other Benefits of Directors	Section 168 (1) (f)	Refer Item 2.7 below
(vii) Donations	Section 168 (1) (g)	Refer Item 2.8 below
(viii) Information of Directorate	Section 168 (1) (h)	Refer Item 2.9 below
(ix) Amounts Payable to the Firm Holding Office as an Auditor	Section 168 (1) (i)	Refer Item 20 below
(x) Auditors' Relationship or any Interest with the Company, Audit Fee/Non-Audit Fee	Section 168 (1) (j)	Refer Item 20 below
(xi) Acknowledgement of the Contents of the Report	Section 168 (1) (k)	Refer Item 27 below

### 2. REVIEW OF BUSINESS

#### 2.1 Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given on the back cover of this Annual Report. The business activities of the Bank and the Group are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission as set out in the Bank's Code of Ethics. The Bank has issued a copy of its Code of Ethics to each and every staff member.

#### 2.2 Review on Operations of the Bank and the Group

The Chairman's Message on pages 6 to 7, the Managing Director's Review on pages 9 to 13, and the Management Report on pages 9 to 46, provide an overall assessment on the financial performance and financial position of the Bank and the Group and the state of the affairs together with important events of the year are described in detail as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

## Annual Report of the Board of Directors

### Principal Activities

Nature of the business of the Bank and the Group are presented below as required by the Section 168 (1) (a) of the Companies Act No. 07 of 2007. There were no significant changes in the nature of principal activities of the Bank and the Group during the financial year under review, except for the voluntary liquidation of two subsidiaries as described below:

	Principal Business Activities
<b>Bank</b>	The principal activities of the Bank continued to be banking and related activities such as 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 debit and credit cards, telebanking facilities, Internet banking, dealing in Government Securities and treasury-related products, bullion trading, export and domestic factoring, etc.
<b>Subsidiaries</b>	
Commercial Development Company PLC	Property development.
ONEzero Company Ltd.	Providing IT - related services.
Commercial Bank Primary Dealer Ltd. (*)	Dealing in Government Securities. This Company ceased its operations on September 30, 2005, consequent to the Bank obtaining the license to function as a Primary Dealer.
X-Pertise Ltd. (*)	Training and development of human resources. This Company too ceased its operations on September 30, 2007, consequent to the decision to transfer its operations to the Bank.
(*) Business activities of these two companies were voluntarily wound up on December 30, 2009.	
<b>Associates</b>	
Equity Investments Lanka Ltd.	Fund management.
Commercial Insurance Brokers (Pvt) Ltd.	Insurance brokering.

### 2.3 Financial Statements

The Financial Statements of the Group and the Bank which are duly certified by the Chief Financial Officer and approved by three Directors together with the Company Secretary in complying with the requirements of the Sections 151, 152 and 168 (1) (b) of the Companies Act No. 07 of 2007 are given on pages 206 to 281 of this Annual Report.

### Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Group and 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 206 to 281 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Banking Act No. 30 of 1988 and amendments thereto and Listing Rules of the Colombo Stock Exchange. The 'Statement of Directors' Responsibility' given on page 203 of this Annual Report forms an integral part of this report.

### 2.4 Auditors' Report

Bank's Auditors, Messrs Ernst and Young performed the audit on the Consolidated Financial Statements for the year ended December 31, 2009, and the Auditors' Report issued thereon is given on page 205 of this Annual Report as required by the Section 168 (1) (c) of the Companies Act No. 07 of 2007.

### 2.5 Accounting Policies and Changes During the Year

The Accounting Policies adopted in the preparation of Financial Statements of the Group and the Bank are given on pages 212 to 231 of the Annual Report as required by Section 168 (1) (d) of the Companies Act. There were no changes to these accounting policies during the year under review and are consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standard No. 3 (Revised 2005) on 'Presentation of Financial Statements'.

## Annual Report of the Board of Directors

### 2.6 Entries in the Interests Register

The Interests Register is maintained by the Group and the Bank, as required by the Section 168 (1) (e) of the Companies Act No. 07 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. The share ownership of Directors is indicated on pages 199 and 200 of this report. The Interests Register is available for inspection as required by the Companies Act.

### 2.7 Directors' Remuneration and Other Benefits

Directors' remuneration and other benefits, in respect of the Group and the Bank for the financial year ended December 31, 2009, are given in Note 7 to the Financial Statements on page 233 of this Annual Report as required by the Section 168 (1) (f) of the Companies Act No. 07 of 2007.

### 2.8 Donations

During the year, the Bank made donations amounting to Rs. 22,442,458/- (Rs. 23,220,181/- in 2008) in terms of the Resolution passed at the last Annual General Meeting. The donations made to Government approved charities from the above amounted to Rs. 628,250/- (Rs. 2,594,500/- in 2008). The information given above on donations forms an integral part of the Report of Board of Directors as required by the Section 168 (1) (g) of the Companies Act No. 07 of 2007. There were no donations granted during the year by the subsidiaries of the Bank.

### 2.9 Information on Directorate

#### List of Directors

The Board of Directors of the Bank as at December 31, 2009, consists of nine Directors with wide financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors - Profiles', on pages 168 to 170 of this Annual Report.

Names of the Directors, who were the Directors at any time during the year 2009 of the Bank as required by the Section 168 (1) (h) of the Companies Act No. 07 of 2007, are given below:

Name of the Director	Executive/ Non-Executive Status	Status of Independence
Mr. M.J.C. Amarasuriya ( <i>Chairman</i> )	Non-Executive	Independent
Mr. B.R.L. Fernando ( <i>Deputy Chairman</i> )	Non-Executive	Independent
Mr. A.L. Gooneratne ( <i>Managing Director</i> )	Executive	Non-Independent
Dr. H.S. Wanasinghe	Non-Executive	Independent
Mr. D.S. Weerakkody	Non-Executive	Independent
Mr. P.M. Martelli	Non-Executive	Independent
Mr. P. Kjellerhaug (Resigned w.e.f. April 24, 2009)	Non-Executive	
Mr. R.M.S. Fernando	Non-Executive	Independent
Mrs. S.N. Wickramasinghe (Appointed w.e.f. February 01, 2009)	Non-Executive	Independent
Ms. J. Kuruppu (Appointed w.e.f. December 23, 2009)	Non-Executive	Independent
Mr. A.N. Fonseka (Resigned w.e.f. January 31, 2009)	Non-Executive	
Mr. L.J.A. Fernando (Resigned w.e.f. August 10, 2009)	Non-Executive	

#### New Appointments and Resignations

The information on new appointments and resignations to and from the Board of Directors of the Bank given below forms an integral part of this Report of the Board of Directors in terms of the Section 168 (1) (h) of the Companies Act No. 07 of 2007.

#### New Appointments

Mrs. S.N. Wickramasinghe (w.e.f. February 01, 2009)  
Ms. J. Kuruppu (w.e.f. December 23, 2009)

#### Resignations

Mr. A.N. Fonseka (w.e.f. January 31, 2009)  
Mr. L.J.A. Fernando (w.e.f. August 10, 2009)  
Mr. P. Kjellerhaug (w.e.f. April 24, 2009)

## Annual Report of the Board of Directors

### List of Directors of Subsidiaries and Associates of the Bank

Names of the Directors of all Subsidiaries and Associates of the Bank are given in the Section on 'Group Structure' on page 190 of this Annual Report.

### Recommendations for Re-election

Messrs B.R.L. Fernando and R.M.S. Fernando, being eligible for re-election are recommended by the Board for re-election, based on:

- the contents of the affidavits and declarations signed by these Directors,
- performance and contribution made by such Directors,
- overall discharge towards Board responsibilities, and
- relevant exemptions given in Central Bank's Direction on Corporate Governance for continuation of a Director who has served 9 years/who is over 70 years of age (in spite of such fact).

The specific provisions for continuation of a Director who has served over 9 years/who is over 70 years of age, in spite of such fact, are as follows:

- 3 (2) (ii) B A Director who has completed 9 years as at January 01, 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 01, 2009.
- 
- 3 (3) (i) A A Director who has reached the age of 70 years as at January 01, 2008, or who would reach the age of 70 years prior to December 31, 2008, may continue in office for a maximum period of 3 years commencing January 01, 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.

Dr. H.S. Wanasinghe vacates office under the provisions of Section 210 of the Companies Act.

A Special Notice has been received by the Company from Union Investments Ltd., a shareholder of the Bank, informing their intention to move a resolution stating that Section 210 of

the Companies Act No. 07 of 2007 shall not apply to Dr. Wanasinghe (Resolution is stated in the Notice of Meeting).

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

- the contents of the affidavits and declarations signed by the Director,
- performance and contribution made by the Director,
- overall discharge towards Board responsibilities, and
- relevant exemptions given in Central Bank's Direction on Corporate Governance for continuation of a Director who has served 9 years/who is over 70 years of age (in spite of such fact).

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 until the next Annual General Meeting, subject to the application of Directions No. 11 of 2007 aforesaid, Companies Act No. 07 of 2007 and the Articles of Association of the Bank.

Ms. Janaki Kuruppu, who was appointed to fill a casual vacancy under Article 92 holds office only until the Annual General Meeting. Ms. Kuruppu, being eligible for re-election, is recommended for re-election based on the contents of her affidavit and declaration.

### Directors' Meetings

Details of Directors' meetings which comprise Board meetings and Board sub-committee meetings of Audit Committee, Human Resources and Remuneration Committee, Integrated Risk Management Committee and Nomination Committee are presented on page 153 of this Annual Report.

## 3. FUTURE DEVELOPMENTS

The Bank intends to expand its branch network both in Sri Lanka and in Bangladesh by employing client-focused strategy with effective management of capital, liquidity and risk. The Bank will continue to explore increasingly customer-centric model to the business which delights customers. Please refer Sections on 'Management Report' on pages 9 to 46 and 'Risk Management' on pages 106 to 124 for further information on future developments.

## Annual Report of the Board of Directors

### 4. GROSS INCOME

The gross income of the Group for 2009 was Rs. 43,614.562 Mn. (Rs. 43,960.022 Mn. in 2008) while the Bank's gross income was Rs. 43,740.933 Mn. (Rs. 44,115.249 Mn. in 2008). Analysis of the income is given in Note 2 to the Financial Statements on page 232 of this Annual Report.

Allocation of external operating income, net operating profit and asset allocation of the Group are given in Note 39 to the Financial Statements on page 273 of this Annual Report.

### 5. DIVIDENDS AND RESERVES

#### 5.1 Profit and Appropriations

The profits before tax of the Group and the Bank for the year 2009 recorded negative growths of 3.86% and 4.37% respectively (in comparison to the growths of 9.21% and 12.16% in 2008). However, profits after tax were up by 1.76% and 0.86% respectively (in comparison to a negative growth of 0.77% and a growth of 4.02% in 2008).

Details of profit relating to the Bank are given below:

	2009 Rs.	2008 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses, Financial VAT and contingencies	7,191,841,960	7,520,142,678
Provision for taxation	(2,886,852,463)	(3,251,769,210)
Net profit after taxation	4,304,989,497	4,268,373,468
Profit/(loss) brought forward from previous year	5,873,085	3,022,766
Profit available for appropriation	4,310,862,582	4,271,396,234
<b>Appropriations</b>		
Transfer to the Statutory Reserve Fund	(215,249,475)	(213,418,673)
Transfer to Special Risk Reserve of Primary Dealer Unit	(52,982,068)	(25,151,345)
Transfer to the Special Reserve of Primary Dealer Unit	(158,946,205)	(75,454,038)
Transfer to General Reserve	(2,130,000,000)	(2,165,000,000)
<b>Dividends on Preference Shares</b>		
11.25% Cumulative Redeemable Preference Shares (Redeemed on May 12, 2008)	-	(40,684,932)
<b>Dividends on Ordinary Shares</b>		
1st Interim Dividend of Rs. 1.50 per share	(374,719,050)	(374,103,034)
2nd Interim Dividend of Rs. 1.50 per share	(374,849,180)	(374,103,034)
Final Dividend of Rs. 4.00 per share	(999,768,272)	(997,608,092)
Balance carried forward	4,348,333	5,873,085

The dividend payout ratio amounts to 40.64% of the profit after tax of 2009, compared to 41.27% for 2008, which is well above the minimum dividend referred to in the Deemed Dividend Tax rule, which is 25%.

#### 5.2 Taxation

Income tax rate applicable on Bank's domestic operations and on-shore profits of the Off-Shore Banking Centre is 35% and the off-shore profits of the Off-Shore Banking Centre is subjected to income tax at the rate of 20%. The profit of the Bank's Bangladesh Operations is taxed at 42.5% effective January 01, 2009 (previously 45%). The profit of the Sri Lankan operation of the Bank is also liable for Financial Value Added Tax at the rate of 20%. The Bank also provides Deferred Tax on all known temporary differences under the liability method as permitted by the Sri Lanka Accounting Standard No. 14 on Income Taxes.

Information on Income Tax Expense and Deferred Taxes are given in Notes 11 and 29 to the Financial Statements on pages 235 and 258 respectively, of this Annual Report.

#### 5.3 Dividends on Ordinary Shares

The Directors recommend the payment of Rs. 4.00 per share as a final dividend for the year 2009 (Rs. 4.00 in 2008). Two interim dividends of Rs. 1.50 per share each were paid in November and December 2009 (two interim dividends of Rs. 1.50 per share each was paid in 2008 as well). Information on dividends is given in Note 13 to the Financial Statements on page 238 of this Annual Report.

The interim dividends were paid partly out of the profits of the Bank and hence were subjected to 10% withholding tax. Final dividend will be paid partly out of dividends received and partly out of taxable profits of the Bank. The dividends to be paid out of profits will be subject to 10% withholding tax.

The Board of Directors fulfilled that the Bank would meet the requirement of the Solvency Test in terms of Section 31 (3) of the Companies Act No. 07 of 2007 immediately after the interim dividends were paid and final dividend proposed which will be paid in April 2010. The Board provided the Statement of Solvency to Auditors and obtained Certificates of Solvency from the Auditors in respect of each dividend payment conforming to the statutory provision.

#### 5.4 Reserves

Information on reserves are given in Statement of Changes in Equity on pages 208 and 209 and in Notes 34 to the Financial Statements on page 263 of this Annual Report.

## Annual Report of the Board of Directors

### 6. PROPERTY, PLANT & EQUIPMENT, LEASEHOLD PROPERTY AND INTANGIBLE ASSETS

Capital expenditure on Property, Plant & Equipment are as follows:

Year	2009 Rs. Mn.	2008 Rs. Mn.
Property, Plant & Equipment	726.752	815.813
Leasehold Property	-	-
Intangible Assets	143.369	146.691

Details of these are given in Notes 23, 24 and 26 on pages 253, 255 and 256 in the Financial Statements. Capital expenditure approved and contracted for is given in Note 37.1 to the Financial Statements on page 269 of this Annual Report.

### 7. MARKET VALUE OF FREEHOLD PROPERTIES

All freehold land and buildings of the Bank were last revalued by professionally qualified independent valuers as at December 31, 2004, and brought into Financial Statements with the concurrence of the Central Bank of Sri Lanka. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. Details of these are given in Note 23 to the Financial Statements on page 253 of this Annual Report.

### 8. ISSUE OF SHARES AND DEBENTURES

#### 8.1 Issue of Shares and Debentures by the Bank

The details of the shares issued by the Bank are given in the table below and no debentures were issued by the Bank during the year under review.

Year	2009	2008
Class of Share	Ordinary Voting Shares	Ordinary Voting Shares
Number of shares Issued	540,045	350,049
Consideration Received (Rs. '000)	59,669	33,316
Reason for the Issue	Exercise of options by employees under the Employee Share Option Plans	

#### 8.2 Issue of Shares and Debentures by the Subsidiaries and Associates

Neither shares nor debentures were issued by the subsidiaries and associates of the Bank during the above periods.

#### 8.3 Stated Capital and Debentures

The stated capital as at December 31, 2009, was Rs. 10,607.792 Mn., consisting of 233,821,271 Ordinary Voting Shares and 16,120,797 Ordinary Non-Voting Shares (Rs. 10,548.123 Mn. as at December 31, 2008 - Restated, consisting of 233,281,226 Ordinary Voting Shares and 16,120,797 Ordinary Non-Voting Shares). The details of the Stated Capital are given in Note 32 to the Financial Statements on page 261 of this Annual Report.

The Bank had in issue 3,436,030 unsecured, subordinated, redeemable debentures of Rs. 1,000/- each to the value of Rs. 3,436.030 Mn., as at December 31, 2009 (4,436,030 debentures to the value of Rs. 4,436.030 Mn., as at December 31, 2008). The details of debentures are given in Note 30 to the Financial Statements on page 259 of this Annual Report. The purpose of these debenture issues was to raise long term funds required for bridging the maturity gaps and to strengthen supplementary capital base of the Bank.

### 9. SHARE INFORMATION

Information relating to earnings, dividend, net assets and market value per share is given in Financial Highlights on page 2 of this Annual Report. Information on share trading and the movement in number of shares represented by the Stated Capital is given in the Section on 'Investor Relations Supplement' on pages 176 to 190 of this Annual Report.

### 10. SUBSTANTIAL SHAREHOLDINGS

#### 10.1 Information on Top Twenty Shareholders

The list of top twenty shareholders for both Voting and Non-Voting shares and percentage of their holding and public holding percentage are given in the Section on 'Investor Relations Supplement' on pages 178 and 179 of this Annual Report.

#### 10.2 Distribution Schedule of Shareholdings

The information on distribution of shareholding and the respective percentages is given in the Section on 'Investor Relations Supplement' on page 181 of this Annual Report.

#### 10.3 Equitable Treatment to Shareholders

All shareholders in each category have been treated equitably in accordance with the original Terms of Issue.

## Annual Report of the Board of Directors

### 11. DIRECTORS

#### 11.1 Information on Directors

Names of the persons who were at any time during the financial year, Directors of the Group and the Bank are given in Section 2.9 of this report.

#### 11.2 Board Sub-Committees

The Board of Directors have formed four Board sub-committees as required by the Banking Act Direction No. 11 of 2007 by the Monetary Board on Corporate Governance for Licensed Commercial Banks and ensures that the activities of the Bank are at all times conducted with the highest ethical standards and in the best interest of all its stakeholders conforming to Corporate Governance Standards of various regulatory bodies such as The Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission, the Central Bank of Sri Lanka and the Colombo Stock Exchange. The composition of the sub-committees as at December 31, 2009, is as follows:

##### Board Audit Committee Members

Mr. B.R.L. Fernando (*Chairman*)  
 Dr. H.S. Wanasinghe  
 Mr. D.S. Weerakkody  
 Mr. R.M.S. Fernando  
 Mrs. S.N. Wickramasinghe  
 Mr. A.L. Gooneratne (by invitation)

The Report of the Board Audit Committee is given on pages 154 to 157 of this Annual Report.

##### Board Human Resources and Remuneration Committee Members

Mr. M.J.C. Amarasuriya (*Chairman*)  
 Dr. H.S. Wanasinghe  
 Mr. D.S. Weerakkody  
 Mr. A.L. Gooneratne  
 Ms. J. Kuruppu

The Report of the Board Human Resources and Remuneration Committee is given on pages 158 to 160 of this Annual Report.

##### Board Nomination Committee Members

Mr. M.J.C. Amarasuriya (*Chairman*)  
 Mr. B.R.L. Fernando  
 Ms. J. Kuruppu  
 Mr. A.L. Gooneratne (by invitation)

The Report of the Board Nomination Committee is given on page 161 of this Annual Report.

##### Board Integrated Risk Management Committee Members

Mr. M.J.C. Amarasuriya (*Chairman*)  
 Mr. B.R.L. Fernando  
 Mr. R.M.S. Fernando  
 Mrs. S.N. Wickramasinghe  
 Mr. A.L. Gooneratne

The Report of the Board Risk Management Committee is given on page 162 of this Annual Report.

### 12. DISCLOSURE OF DIRECTORS' DEALING IN SHARES AND DEBENTURES

#### 12.1 Directors' Interests in Ordinary Voting Shares

Individual Ordinary Voting shareholdings of Directors were as follows:

As at December 31,	2009	2008
Mr. M.J.C. Amarasuriya ( <i>Chairman</i> )	447,097	447,097
Mr. B.R.L. Fernando ( <i>Deputy Chairman</i> )	Nil	Nil
Mr. A.L. Gooneratne ( <i>Managing Director</i> )	806,216	806,216
Dr. H.S. Wanasinghe	Nil	Nil
Mr. D.S. Weerakkody	1,000	1,000
Mr. P.M. Martelli	Nil	Nil
Mr. P. Kjellerhaug	Nil	Nil
Mr. R.M.S. Fernando	Nil	Nil
Mrs. S.N. Wickramasinghe	Nil	Nil
Ms. J. Kuruppu	Nil	Nil

#### Percentage Shareholding of the Directors

Ordinary Voting Shares	0.54%	0.54%
------------------------	-------	-------

Directors' shareholdings in Ordinary Voting Shares have not changed subsequently from the date of the Balance Sheet up to January 18, 2010, being one month prior to the date of Notice of the Annual General Meeting.

## Annual Report of the Board of Directors

### 12.2 Directors' Interests in Ordinary Non-Voting Shares

Individual Ordinary Non-Voting shareholdings of Directors were as follows:

As at December 31,	2009	2008
Mr. M.J.C. Amarasuriya (Chairman)	151,881	151,881
Mr. B.R.L. Fernando (Deputy Chairman)	8,414	8,414
Mr. A.L. Gooneratne (Managing Director)	38,028	38,028
Dr. H.S. Wanasinghe	Nil	Nil
Mr. D.S. Weerakkody	Nil	Nil
Mr. P.M. Martelli	Nil	Nil
Mr. P. Kjellerhaug	Nil	Nil
Mr. R.M.S. Fernando	Nil	Nil
Mrs. S.N. Wickramasinghe	Nil	Nil
Ms. J. Kuruppu	Nil	Nil

#### Percentage Shareholding of the Directors

Ordinary Non-Voting Shares	1.23%	1.23%
----------------------------	-------	-------

Directors' shareholdings in Ordinary Non-Voting Shares have not changed subsequently from the date of the Balance Sheet up to January 18, 2010, being one month prior to the date of Notice of the Annual General Meeting.

### 12.3 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.

### 13. EMPLOYEE SHARE OPTION PLANS AND PROFIT SHARING PLANS

The Bank implemented another Employee Share Option Plan for the Corporate Management and the Executive Officers in Grade III and above, based on the Bank's achievement of certain predetermined performance criteria. For this scheme, approval of the shareholders was obtained to offer share options up to 3% of the Ordinary Voting Shares of the Bank. These share options could be exercised in a minimum of 3 or maximum of 5 tranches, commencing March 31, 2009. The details of the existing Employee Share Option Plans are given in Note 32 (b) and (c) to the Financial Statements on pages 261 and 262 of this Annual Report.

The Group and the Bank do not have any employee profit sharing plans, except the Variable Bonus Scheme.

### 14. DIRECTORS' INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 163 to 165 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.

There are no arrangements enabling the Directors of the Group and the Bank to acquire benefits by means of acquisition of shares or debentures of the Bank or its Subsidiaries.

The information on remuneration and other benefits applicable to Directors are given on Section 2.7 of this report.

Further, there are no restrictions on loans to Directors under ordinary course of business, subject to compliance with all applicable regulations.

### 15. ENVIRONMENTAL PROTECTION

The Bank/Group has not to the best of its knowledge engaged in any activity, which is detrimental to the environment. Specific measures taken to protect the environment are given in the 'Sustainability Supplement' on pages 47 to 105 of this Annual Report.

### 16. STATUTORY PAYMENTS

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

### 17. EVENTS AFTER THE BALANCE SHEET DATE

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the Financial Statements, other than those disclosed, in Note 41 to the Financial Statements on page 281 of this Annual Report.

## Annual Report of the Board of Directors

### 18. GOING CONCERN

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 of the Bank, its Subsidiaries and Associates are prepared based on the going concern concept.

### 19. APPOINTMENT OF AUDITORS

The retiring Auditors, Messrs Ernst & Young have signified their willingness to continue in office.

A resolution to re-appoint them as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

### 20. AUDITORS' REMUNERATION AND INTEREST IN CONTRACTS WITH THE COMPANY

The Auditors, Messrs Ernst & Young were paid Rs. 6.341 Mn. for the year ended December 31, 2009 (Rs. 6.228 Mn. in 2008) as audit fees by the Bank. In addition, they were paid Rs. 1.286 Mn. (Rs. 2.031 Mn. in 2008) by the Bank, for permitted non-audit related services including tax consultancy services.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Bank, or any of its Subsidiaries or Associates.

### 21. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

#### 21.1 Risk Management

An ongoing process is in place to identify, evaluate and manage the risks that are faced by the Bank. The Directors review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Bank in managing both banking and non-banking risks are detailed in the Section on 'Risk Management' on pages 106 to 124 and in the 'Board Integrated Risk Management Committee Report' that appears on page 162 of this Annual Report.

#### 21.2 System of Internal Controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of Internal Controls covering financial operations and compliance control required to carry on the business of banking in an

orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the records. The Board of Directors is satisfied with the effectiveness of the internal controls over financial reporting during the year under review and up to the date of approval of the Annual Report and the Financial Statements to ensure the soundness in financial reporting process. The Directors have outsourced a part of the internal audit function to five leading firms of Chartered Accountants who review and report on the effectiveness of the financial, operational and compliance controls. More details in this regard can be seen in the 'Board Audit Committee Report' on pages 154 to 157 of this Annual Report.

### 22. CORPORATE GOVERNANCE

Systems and procedures are in place to ensure that Corporate Governance is adequately and practically dealt with. The Board of Directors has focused on the necessary resources and processes required to ensure that the Bank is compliant with the Codes of Best Practice on Corporate Governance issued by regulatory bodies and various other institutes which are to be complied by the Bank. The rules and the extent to which the Bank has complied with the Codes of Best Practices on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 125 to 153 of this Annual Report.

### 23. HUMAN RESOURCES

The Bank continued to invest in Human Capital Development and implement effective human resource practices and policies to develop and build an efficient and effective workforce aligned around new business priorities and to ensure that its employees are developing the skills and knowledge required for the future success of the Bank. Specific measures taken in this regard are detailed in the 'Sustainability Supplement' on pages 47 to 105 and the 'Human Resources and Remuneration Committee Report' on pages 158 to 160 of this Annual Report.

### 24. COMPLIANCE WITH LAWS AND REGULATIONS

The Bank/Group has not engaged in any activities contravening the laws and regulations. All those responsible for ensuring compliance with the provisions in various laws and regulations confirm compliance in each quarter to the Board Audit Committee.

## Annual Report of the Board of Directors

### 25. OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Bank lawyers, litigations currently pending against the Bank will not have material impact on the reported financial results or future operations of the Bank. Details of litigations pending against the Bank are given on Note 37.4 to the Financial Statements on pages 270 and 271 of this Annual Report.

### 26. NOTICE OF MEETING

Notice of Meeting relating to Forty First Annual General Meeting of the Bank is enclosed herewith.

### 27. ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007 the Board of Directors hereby acknowledge the contents of this report.

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



**D.S. Weerakkody**  
Director



**P.M. Martelli**  
Director



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



**Mrs. S.N. Wickramasinghe**  
Director



**Ms. J. Kuruppu**  
Director



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

Colombo  
February 18, 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, 2010 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 taken appropriate steps to ensure that the Bank and the Group maintain proper books of account and review the financial reporting system at their regular meetings and through the Audit Committee, the Report of which Committee is given on pages 154 to 157 of this Annual Report. The Board of Directors also approves the Interim Financial Statements prior to their release following a review and recommendation by 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 206 to 281 inclusive, appropriate accounting policies have been selected and applied on a consistent basis while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

The Financial Statements for the year 2009, prepared and presented in this Annual Report are consistent with the underlying books of account and are in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 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. 07 of 2007, they have authorised distribution of the dividends paid and proposed upon 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. 07 of 2007 and have obtained in respect of dividends paid and proposed, in respect of which approval is now sought, necessary certificates of solvency from the 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 those shareholders of the Company who have consented to receive a copy or a soft copy in a CD containing the Annual Report to other shareholders, 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 subsidiary have met all the requirements under Section 7 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 205 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, 2010

## 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 following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka,
- Companies Act No. 07 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Banking Act No. 30 of 1988 and amendments thereto, 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 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 judgment 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 involve management or other employees. The Bank's Internal Audit department also conduct 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 'Board Audit Committee Report' on pages 154 to 157 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 205 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 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 the Note No. 37.4 on pages 270 and 271 of the Financial Statements in this Annual Report.



**A.L. Gooneratne**  
Managing Director



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

Colombo  
February 18, 2010

# Auditors' Report



**ERNST & YOUNG**

**Chartered Accountants**

201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : (0) 11 2463500  
Fax Gen : (0) 11 2697369  
Tax : (0) 11 5578180  
eysl@lk.ey.com

**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, 2009 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, 2009 and the Financial Statements give a true and fair view of the Bank's state of affairs as at December 31, 2009 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, 2009 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 22, 2010  
Colombo.

**Partners:** A D B Talwatte FCA FCMA M P D Cooray FCA FCMA Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA ACMA  
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) A S M Ismail FCA FCMA  
H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA B E Wijesuriya ACA ACMA

## Income Statement

	For the year ended December 31,	GROUP			BANK		
		Note	2009 Rs. '000	2008 Rs. '000	Change %	2009 Rs. '000	2008 Rs. '000
<b>Income</b>	2	<b>43,614,562</b>	43,960,022	(0.79)	<b>43,740,933</b>	44,115,249	(0.85)
Interest income	3	35,914,314	37,213,374	(3.49)	35,924,842	37,188,224	(3.40)
Less: Interest expenses	4	23,492,852	24,317,771	(3.39)	23,514,525	24,335,704	(3.37)
<b>Net interest income</b>		<b>12,421,462</b>	12,895,603	(3.68)	<b>12,410,317</b>	12,852,520	(3.44)
Foreign exchange profit		2,962,221	2,633,321	12.49	2,962,221	2,633,321	12.49
Fees and commission income	5	2,529,829	2,714,980	(6.82)	2,529,920	2,715,061	(6.82)
Other income	6	2,208,198	1,398,347	57.91	2,323,950	1,578,643	47.21
<b>Operating income</b>		<b>20,121,710</b>	19,642,251	2.44	<b>20,226,408</b>	19,779,545	2.26
<b>Less: Operating expenses</b>	7						
Personnel expenses		4,663,991	3,507,895	32.96	4,632,705	3,481,436	33.07
Premises, equipment and establishment expenses		2,248,232	1,996,149	12.63	2,219,952	1,988,614	11.63
Fees and commission expenses		248,084	168,265	47.44	248,084	168,265	47.44
Provision for staff retirement benefits	8	449,490	450,129	(0.14)	447,826	444,961	0.64
Loan losses and provisions	9	1,533,698	2,278,212	(32.68)	1,533,698	2,278,212	(32.68)
Other overhead expenses		3,852,584	3,834,438	0.47	3,952,301	3,897,915	1.40
		12,996,079	12,235,088	6.22	13,034,566	12,259,403	6.32
<b>Profit from operations</b>		<b>7,125,631</b>	7,407,163	(3.80)	<b>7,191,842</b>	7,520,142	(4.37)
Add: Share of profit of Associates	10	4,218	9,085	(53.57)	-	-	-
<b>Profit before taxation</b>		<b>7,129,849</b>	7,416,248	(3.86)	<b>7,191,842</b>	7,520,142	(4.37)
Less: Income tax expense	11	2,936,832	3,295,842	(10.89)	2,886,853	3,251,770	(11.22)
<b>Net profit for the year</b>		<b>4,193,017</b>	4,120,406	1.76	<b>4,304,989</b>	4,268,372	0.86
<b>Attributable to:</b>							
Equity holders of the parent		4,191,935	4,118,884	1.77	4,304,989	4,268,372	0.86
Minority interest		1,082	1,522	(28.91)	-	-	-
<b>Net profit for the year</b>		<b>4,193,017</b>	4,120,406	1.76	<b>4,304,989</b>	4,268,372	0.86
Basic Earnings per Share (Rs.)	12	16.80	16.36	2.69			
Diluted Earnings per Share (Rs.)	12	16.64	16.23	2.53			
Dividend per Ordinary Share (Rs.)	13				7.00	7.00	-

The Accounting Policies and other Notes to the Financial Statements from pages 212 to 281 form an integral part of these Financial Statements.

# Balance Sheet

As at December 31,	Note	GROUP			BANK			Note	Page
		2009	2008	Change	2009	2008	Change		
		Rs. '000	(Restated) Rs. '000	%	Rs. '000	(Restated) Rs. '000	%		
<b>ASSETS</b>									
Cash and short term funds	15	24,056,659	24,114,911	(0.24)	24,056,639	24,114,706	(0.24)		
Balances with Central Banks	16	11,794,557	10,322,411	14.26	11,794,557	10,322,411	14.26		
Government Treasury Bills, Bonds and other securities	17	96,670,662	51,868,344	86.38	96,670,662	51,633,251	87.23		
Securities purchased under resale agreements		5,203,120	3,400,455	53.01	5,203,120	3,400,455	53.01		
Dealing Securities	18	80,905	58,290	38.80	80,905	58,290	38.80		
Investment Securities	19	1,025,293	1,197,139	(14.35)	1,025,293	1,197,139	(14.35)		
Bills of Exchange	20.1	2,847,047	3,058,875	(6.93)	2,847,047	3,058,875	(6.93)		
Loans & advances	20.2	161,326,294	167,794,679	(3.85)	161,329,061	167,858,457	(3.89)		
Lease receivable	20.3	7,553,739	9,343,554	(19.16)	7,793,704	9,483,823	(17.82)		
		310,558,276	271,158,658	14.53	310,800,988	271,127,407	14.63		
Investments in Associates	21	72,633	70,988	2.32	44,331	44,331	-		
Investments in Subsidiaries	22	-	-	-	279,393	433,681	(35.58)		
Interest and fees receivable		1,783,095	2,341,033	(23.83)	1,783,095	2,341,033	(23.83)		
Property, Plant & Equipment	23	4,609,457	4,342,645	6.14	3,914,750	3,721,775	5.19		
Leasehold Property	24	116,132	117,584	(1.23)	80,130	81,072	(1.16)		
Other assets	25	5,018,289	3,239,409	54.91	5,024,523	3,168,995	58.55		
Intangible assets	26	387,560	296,723	30.61	387,515	295,391	31.19		
<b>Total Assets</b>		<b>322,545,442</b>	<b>281,567,040</b>	<b>14.55</b>	<b>322,314,725</b>	<b>281,213,685</b>	<b>14.62</b>		
<b>LIABILITIES</b>									
Deposits	27	234,730,680	199,865,203	17.44	234,744,706	199,880,986	17.44		
Borrowings	28	11,638,714	13,619,600	(14.54)	11,638,714	13,619,600	(14.54)		
Securities sold under repurchase agreements		29,773,150	24,959,644	19.29	29,904,527	25,075,091	19.26		
Tax liabilities		1,211,050	1,663,249	(27.19)	1,202,607	1,664,563	(27.75)		
Deferred tax	29	767,117	676,396	13.41	633,382	542,904	16.67		
Debentures	30	3,436,030	4,436,030	(22.54)	3,436,030	4,436,030	(22.54)		
Other liabilities	31	12,241,886	10,093,920	21.28	12,255,779	10,103,282	21.30		
<b>Total Liabilities</b>		<b>293,798,627</b>	<b>255,314,042</b>	<b>15.07</b>	<b>293,815,745</b>	<b>255,322,456</b>	<b>15.08</b>		
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT</b>									
Stated capital	32	10,607,792	10,548,123	0.57	10,607,792	10,548,123	0.57		
Statutory reserves	33	2,164,137	1,896,725	14.10	2,164,137	1,895,906	14.15		
Reserves	34	15,948,818	13,781,202	15.73	15,727,051	13,447,200	16.95		
<b>Shareholders' Funds</b>		<b>28,720,747</b>	<b>26,226,050</b>	<b>9.51</b>	<b>28,498,980</b>	<b>25,891,229</b>	<b>10.07</b>		
<b>Minority Interest</b>		<b>26,068</b>	<b>26,948</b>	<b>(3.27)</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Total Equity</b>		<b>28,746,815</b>	<b>26,252,998</b>	<b>9.50</b>	<b>28,498,980</b>	<b>25,891,229</b>	<b>10.07</b>		
<b>Total Liabilities and Equity</b>		<b>322,545,442</b>	<b>281,567,040</b>	<b>14.55</b>	<b>322,314,725</b>	<b>281,213,685</b>	<b>14.62</b>		
<b>Commitments and Contingencies</b>	37.3	<b>146,072,241</b>	<b>115,808,578</b>	<b>26.13</b>	<b>146,072,241</b>	<b>115,808,578</b>	<b>26.13</b>		
Net assets value per Ordinary Share (Rs.)		114.91	105.16	9.27	114.02	103.81	9.84		

The Accounting Policies and other Notes to the Financial Statements from pages 212 to 281 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, 2009, and its profit for the year ended December 31, 2009.



**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

Colombo  
February 18, 2010

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## Statement of Changes in Equity

	Stated Capital Rs. '000	Statutory Reserves	
		Statutory Reserve Fund Rs. '000	Primary Dealer Special Risk Reserve Rs. '000
<b>Group</b>			
<b>Balance as at 31.12.2007</b>	<b>10,514,807</b>	<b>1,634,497</b>	<b>23,658</b>
Final Dividend for 2007	-	-	-
Redemption of Preference Shares	(1,000,000)	-	-
Issue of Ordinary Shares Under Employee Share Option Plan (Refer Note 32)	33,316	-	-
Deferred Tax on Re-classification of Revaluation Surplus to Retained Earnings (Refer Note 29)	-	-	-
Surplus on Revaluation of Property (Refer Note 34.1)	-	-	-
Deferred Tax Effect on Revaluation Surplus on Property (Refer Note 34.1)	-	-	-
Net Unrealised Gain from Translation of Financial Statements of Bangladesh Operation (Refer Note 34.3)	-	-	-
Net Profit for 2008	-	-	-
Transfers During the Year (Refer Notes 33 and 34.2)	-	213,419	25,151
Dividends for 2008 (Refer Note 13)	-	-	-
<b>Balance as at 31.12.2008 as Reported Previously</b>	<b>9,548,123</b>	<b>1,847,916</b>	<b>48,809</b>
Reclassification of Preference Share Redemption [Refer Note 36 (i)]	1,000,000	-	-
<b>Balance as at 31.12.2008 (Restated)</b>	<b>10,548,123</b>	<b>1,847,916</b>	<b>48,809</b>
Final Dividend for 2008	-	-	-
Issue of Ordinary Shares Under Employee Share Option Plan (Refer Note 32)	59,669	-	-
Net Unrealised Loss from Translation of Financial Statements of Bangladesh Operation (Refer Note 34.3)	-	-	-
Transfer of Reserves Consequent to Liquidation	-	(819)	-
Net Profit for 2009	-	-	-
Transfers During the Year (Refer Notes 33 and 34.2)	-	215,249	52,982
Dividends for 2009 (Refer Note 13)	-	-	-
<b>Balance as at 31.12.2009</b>	<b>10,607,792</b>	<b>2,062,346</b>	<b>101,791</b>
<b>Bank</b>			
<b>Balance as at 31.12.2007</b>	<b>10,514,807</b>	<b>1,633,678</b>	<b>23,658</b>
Final Dividend for 2007	-	-	-
Redemption of Preference Shares	(1,000,000)	-	-
Issue of Ordinary Shares Under Employee Share Option Plan (Refer Note 32)	33,316	-	-
Net Unrealised Gain from Translation of Financial Statements of Bangladesh Operation (Refer Note 34.3)	-	-	-
Net Profit for 2008	-	-	-
Transfers During the Year (Refer Notes 33 and 34.2)	-	213,419	25,151
Dividends for 2008 (Refer Note 13)	-	-	-
<b>Balance as at 31.12.2008 as Reported Previously</b>	<b>9,548,123</b>	<b>1,847,097</b>	<b>48,809</b>
Reclassification of Preference Share Redemption [Refer Note 36 (i)]	1,000,000	-	-
<b>Balance as at 31.12.2008 (Restated)</b>	<b>10,548,123</b>	<b>1,847,097</b>	<b>48,809</b>
Final Dividend for 2008	-	-	-
Issue of Ordinary Shares Under Employee Share Option Plan (Refer Note 32)	59,669	-	-
Net Unrealised Loss from Translation of Financial Statements of Bangladesh Operation (Refer Note 34.3)	-	-	-
Net Profit for 2009	-	-	-
Transfers During the Year (Refer Notes 33 and 34.2)	-	215,249	52,982
Dividends for 2009 (Refer Note 13)	-	-	-
<b>Balance as at 31.12.2009</b>	<b>10,607,792</b>	<b>2,062,346</b>	<b>101,791</b>

\* Composition of the unappropriated profit carried forward is given in Note 14 to the Financial Statements.

Revaluation Reserve	Other Reserves			Unappropriated* Profit/(Loss) Carried Forward	Total	Minority Interest	Total Equity
	General Reserve	Foreign Currency Translation Reserve					
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>1,489,474</b>	<b>10,278,367</b>	<b>(427,485)</b>	<b>844,573</b>	<b>24,357,891</b>	<b>23,789</b>	<b>24,381,680</b>	
-	-	-	(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	
-	2,240,454	-	(2,479,024)	-	-	-	
-	-	-	(788,890)	(788,890)	(1,962)	(790,852)	
<b>1,533,746</b>	<b>12,518,821</b>	<b>(361,796)</b>	<b>1,090,431</b>	<b>26,226,050</b>	<b>26,948</b>	<b>26,252,998</b>	
-	(1,000,000)	-	-	-	-	-	
<b>1,533,746</b>	<b>11,518,821</b>	<b>(361,796)</b>	<b>1,090,431</b>	<b>26,226,050</b>	<b>26,948</b>	<b>26,252,998</b>	
-	-	-	(997,608)	(997,608)	-	(997,608)	
-	-	-	-	59,669	-	59,669	
-	-	(9,731)	-	(9,731)	-	(9,731)	
-	-	-	819	-	-	-	
-	-	-	4,191,935	4,191,935	1,082	4,193,017	
-	2,288,946	-	(2,557,177)	-	-	-	
-	-	-	(749,568)	(749,568)	(1,962)	(751,530)	
<b>1,533,746</b>	<b>13,807,767</b>	<b>(371,527)</b>	<b>978,832</b>	<b>28,720,747</b>	<b>26,068</b>	<b>28,746,815</b>	
<b>1,286,695</b>	<b>10,278,367</b>	<b>(427,485)</b>	<b>626,317</b>	<b>23,936,037</b>	<b>-</b>	<b>23,936,037</b>	
-	-	-	(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	
-	2,240,454	-	(2,479,024)	-	-	-	
-	-	-	(788,890)	(788,890)	-	(788,890)	
<b>1,286,695</b>	<b>12,518,821</b>	<b>(361,796)</b>	<b>1,003,480</b>	<b>25,891,229</b>	<b>-</b>	<b>25,891,229</b>	
-	(1,000,000)	-	-	-	-	-	
<b>1,286,695</b>	<b>11,518,821</b>	<b>(361,796)</b>	<b>1,003,480</b>	<b>25,891,229</b>	<b>-</b>	<b>25,891,229</b>	
-	-	-	(997,608)	(997,608)	-	(997,608)	
-	-	-	-	59,669	-	59,669	
-	-	(9,731)	-	(9,731)	-	(9,731)	
-	-	-	4,304,989	4,304,989	-	4,304,989	
-	2,288,946	-	(2,557,177)	-	-	-	
-	-	-	(749,568)	(749,568)	-	(749,568)	
<b>1,286,695</b>	<b>13,807,767</b>	<b>(371,527)</b>	<b>1,004,116</b>	<b>28,498,980</b>	<b>-</b>	<b>28,498,980</b>	

## Cash Flow Statement

For the year ended December 31,	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Cash Flows from Operating Activities</b>				
Interest received	36,136,343	36,900,267	36,150,287	36,879,286
Fees and commission receipts	2,529,829	2,714,980	2,529,920	2,715,061
Interest payments	(22,890,981)	(23,392,005)	(22,912,654)	(23,409,938)
Recoveries on loans previously provided/written-off	1,319,363	699,798	1,319,363	699,798
Foreign exchange profit and other receipts	3,083,217	2,747,408	3,052,052	2,719,361
Cash payments to employees and suppliers	(10,808,336)	(9,413,590)	(10,922,585)	(9,497,580)
<b>Operating profit before changes in operating assets and liabilities [Refer Note (a)]</b>	<b>9,369,435</b>	<b>10,256,858</b>	<b>9,216,383</b>	<b>10,105,988</b>
(Increase)/Decrease in operating assets:				
Balances with Central Banks	(1,472,146)	1,253,168	(1,472,146)	1,253,168
Funds advanced to customers	6,936,330	(8,303,182)	6,897,645	(8,355,732)
Other operating assets	(1,779,625)	414,493	(1,856,273)	461,322
Increase/(Decrease) in operating liabilities:				
Deposits	34,865,477	16,777,323	34,863,720	16,770,851
Other operating liabilities	1,546,095	(572,937)	1,550,626	(578,044)
<b>Net cash inflow from operating activities before income tax</b>	<b>49,465,566</b>	<b>19,825,723</b>	<b>49,199,955</b>	<b>19,657,553</b>
Income tax paid	(2,951,835)	(3,230,881)	(2,916,142)	(3,207,016)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>46,513,731</b>	<b>16,594,842</b>	<b>46,283,813</b>	<b>16,450,537</b>
<b>Cash Flows from Investing Activities</b>				
Dividends received	149,553	219,095	187,896	262,632
Interest received	21,313	96,646	21,313	96,646
Government Treasury Bills, Bonds and other securities	(44,276,345)	(1,749,487)	(44,511,438)	(1,712,470)
Securities purchased under resale agreements	(1,802,665)	403,665	(1,802,665)	403,665
Securities sold under repurchase agreements	4,813,506	1,721,639	4,829,436	1,732,989
(Additions)/Disposals of Dealing Securities	33,286	118,651	33,286	118,651
Net additions to Investment Securities	(93,121)	407,528	(93,121)	407,528
Net cash effect on disposal of Subsidiaries [Refer Note (b)]	-	-	269,810	-
Income from Associates	1,703	676	-	-
Proceeds from matured investments	264,967	752,342	264,967	752,342
Purchase of Property, Plant & Equipment	(898,762)	(880,702)	(727,091)	(815,813)
Purchase of Intangible Assets	(162,898)	(91,184)	(164,185)	(89,897)
Proceeds from sale of Property, Plant & Equipment	57,566	117,889	28,036	102,589
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(41,891,897)</b>	<b>1,116,758</b>	<b>(41,663,756)</b>	<b>1,258,862</b>

## Cash Flow Statement

For the year ended December 31,	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Cash Flows from Financing Activities</b>				
Dividends paid to minority shareholders	(1,962)	(1,962)	-	-
Proceeds from issue of shares	59,669	33,316	59,669	33,316
Redemption of Debentures	(1,000,000)	(2,244,410)	(1,000,000)	(2,244,410)
Redemption of Preference shares	-	(1,000,000)	-	(1,000,000)
Net increase/(decrease) in other borrowings	(1,990,617)	(5,067,195)	(1,990,617)	(5,067,122)
Dividends paid to equity holders of the parent	(1,747,176)	(1,524,685)	(1,747,176)	(1,524,685)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(4,680,086)</b>	<b>(9,804,936)</b>	<b>(4,678,124)</b>	<b>(9,802,901)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(58,252)</b>	<b>7,906,664</b>	<b>(58,067)</b>	<b>7,906,498</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>24,114,911</b>	<b>16,208,247</b>	<b>24,114,706</b>	<b>16,208,208</b>
<b>Cash and cash equivalents at end of the period (Refer Note 15)</b>	<b>24,056,659</b>	<b>24,114,911</b>	<b>24,056,639</b>	<b>24,114,706</b>

### Note (a): Reconciliation of Operating Profit

<b>Profit before taxation</b>	<b>7,129,849</b>	<b>7,416,248</b>	<b>7,191,842</b>	<b>7,520,142</b>
<b>Add/(Less):</b>				
Accrued interest on loans & advances	557,938	(221,197)	557,938	(221,197)
Accrued interest on deposits & borrowings	601,871	925,766	601,871	925,766
Investment income	(182,265)	(316,417)	(218,905)	(359,278)
Share of profit of Associates	(4,218)	(9,085)	-	-
Notional tax credit on interest on Government Treasury Bills and Bonds	(335,909)	(91,910)	(332,493)	(87,741)
Capital (gain)/loss on sale of shares	14,555	(221,289)	(100,967)	(395,443)
(Profit)/Loss on sale of Property, Plant & Equipment	(5,403)	(20,052)	1,545	(10,704)
Depreciation of Property, Plant & Equipment	580,057	478,841	504,805	419,676
Amortisation of Intangible Assets	72,061	62,993	72,061	62,993
Amortisation of Leasehold Property	1,452	1,452	942	942
Donation of Property, Plant & Equipment	475	-	475	-
Loan losses & provisions	1,533,698	2,278,212	1,533,698	2,278,212
Gain on Marked to Market Valuation on Treasury Bills & Bonds	(119,259)	(9,222)	(119,259)	(9,222)
(Gain)/loss on Marked to Market Valuation on shares	(70,456)	30,326	(70,456)	30,326
Capital gain on sale of Treasury Bills & Bonds	(406,714)	(48,484)	(406,714)	(48,484)
Dividends received from Associates	1,703	676	-	-
<b>Operating profit before changes in operating assets and liabilities</b>	<b>9,369,435</b>	<b>10,256,858</b>	<b>9,216,383</b>	<b>10,105,988</b>

### Note (b): Net identifiable assets/liabilities of liquidated subsidiaries as at the date of liquidation

	Commercial Bank Primary Dealer Ltd. Rs. '000	X-Pertise Ltd. Rs. '000	Total Rs. '000
Other receivables	-	122	122
Investment in Treasury Bills	265,834	6,106	271,940
Cash and cash equivalents	266	566	832
Income tax payable	(2,124)	(619)	(2,743)
Other payables	(143)	(198)	(341)
<b>Net identifiable assets less liabilities</b>	<b>263,833</b>	<b>5,977</b>	<b>269,810</b>

## Notes to the Financial Statements

### 1. ACCOUNTING POLICIES

#### A Corporate Information

##### A 1 Reporting Entity

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 Company was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is at 'Commercial House', No. 21, Bristol Street, Colombo 1, Sri Lanka. 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, 2009 was 4,071 (4,041 as at December 31, 2008).

##### A 2 Consolidated Financial Statements

The Consolidated Financial Statements of the Bank for the year ended December 31, 2009, comprise of the Bank (Parent Company) and its Subsidiaries (together referred to as the 'Group'), and the Group's interest in its Associates. The Financial Statements of all companies in the Group have a common financial year which ends on December 31.

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

##### A 3 Approval of Financial Statements by Board of Directors

The Financial Statements for the year ended December 31, 2009, were authorised for issue on February 18, 2010.

#### B Principal Activities and Nature of Operations

##### B 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 and treasury related products, salary remittance package, bullion trading, export and domestic factoring, pawning, etc.

##### B 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, respectively. Commercial Bank Primary Dealer Ltd., whose principal business activity was dealing in Government Securities as a Primary Dealer, ceased its operations on September 30, 2005, consequent to the Bank obtaining the licence to operate as a Primary Dealer. Further, X-pertise Ltd., whose principal business activity was development of human resources, ceased its operations on September 30, 2007, consequent to the decision to transfer its operations to the Bank. Both these Companies were voluntarily wound up on December 30, 2009.

##### B 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.

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

#### C Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and its Subsidiaries as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

The Board of Directors acknowledges this responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and in the statement following the Balance Sheet on pages 193, 203 and 207 respectively, of this Annual Report.

These Financial Statements include the following components:

- an Income Statement providing the information on the financial performance of the Bank and the Group for the year under review (Refer page 206 of this Annual Report);
- a Balance Sheet providing the information on the financial position of the Bank and the Group as at the year-end (Refer page 207 of this Annual Report);
- a Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review (Refer pages 208 and 209 of this Annual Report);

## Notes to the Financial Statements

- a Cash Flow Statement providing the information to the users, on the ability of the Bank and the Group to generate cash and cash equivalents and the needs to utilise those cash flows (Refer pages 210 and 211 of this Annual Report); and
- Notes to the Financial Statements comprising Accounting Policies used and other Notes (Refer pages 212 to 281 of this Annual Report).

### D Statement of Compliance

The Consolidated Financial Statements of the Group and the Separate Financial Statements of the Bank, which comprise of the components mentioned above have been prepared and presented 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. 07 of 2007, and the Banking Act No. 30 of 1988 and amendments thereto, provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

The Bank and the Group did not adopt any inappropriate accounting treatments which are not complying with the requirements of the Sri Lanka Accounting Standards and other laws and regulations governing the preparation and presentation of Financial Statements.

### E Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter-period comparability.

The 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'. However, when the presentation or classification of items in the Financial Statements is amended, comparative amounts are also re-classified to conform with the current year presentation. Such re-classifications are more fully described on page 268 in Note 36 to the Financial Statements.

### F Changes to the Accounting Policies

There were no changes to the Accounting Policies adopted by the Group during the year under review.

#### Effect of Accounting Standards Issued but not yet Effective:

The following Accounting Standards have been issued by The Institute of Chartered Accountants of Sri Lanka and are effective for the accounting periods on the dates specified below:

#### *Sri Lanka Accounting Standard No. 44 - 'Financial Instruments; Presentation' and Sri Lanka Accounting Standard No. 45 - 'Financial Instruments; Recognition & Measurement'*

Sri Lanka Accounting Standards No. 44 and No. 45 were issued and available for public in the latter part of 2008, and become effective for financial years beginning on or after January 01, 2011. Accordingly, Sri Lanka Accounting Standards No. 44 and No. 45 will be adopted in preparing and presenting the Financial Statements for the year ending December 31, 2011, for the first time.

These two Standards together provide comprehensive guidance on identification, classification, measurement and presentation of Financial Instruments (including derivatives), financial assets, financial liabilities and equity instruments. Accordingly, when a financial asset or liability is recognised initially, the Group is required to measure such financial asset or liability at its fair value, plus transaction costs that are directly attributable to the acquisition or issue of the financial asset, financial liability and subsequently measure either at fair value or amortised cost depending on the categorisation of financial assets and financial liabilities. Further, principles used with regard to impairment provision estimation for loans and advances in the aforesaid Accounting Standards for financial assets are considerably different from the current rules set out by the Central Bank of Sri Lanka.

In order to comply with the requirements of these Accounting Standards, in accordance with the implementation plan set out by the Accounting Standards Committee, Central Bank of Sri Lanka and the banking industry, the Bank is currently in the process of evaluating the impact, the aforesaid two Accounting Standards will have on its Financial Statements, and also has developed a road map to facilitate their implementation by the effective date.

## Notes to the Financial Statements

Due to the complex nature of the effect of these Accounting Standards, the impact of adoption is not estimable as at the date of publication of these Financial Statements.

### *Sri Lanka Accounting Standard No. 39 - 'Share-Based Payment'*

Sri Lanka Accounting Standard No. 39 was issued and available for public in the latter part of 2009, and becomes effective for financial years beginning on or after January 01, 2010. Accordingly, Sri Lanka Accounting Standard 39 will be adopted in preparing and presenting the Financial Statements for the year ending December 31, 2010, for the first time.

Sri Lanka Accounting Standard No. 39 requires an expense to be recognised where the Bank buys goods or services in exchange for shares or rights over shares (equity-settled transactions), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (cash-settled transactions). For equity-settled share-based payment transactions, the Bank is required to apply Sri Lanka Accounting Standard No. 39 in issuing shares, share options or other equity instruments that are to be issued after January 01, 2010.

The Bank is currently in the process of evaluating the impact, this Accounting Standard will have on its Financial Statements, and the impact of the same is not currently estimable as at the date of the publication of these Financial Statements.

## G Basis of Preparation

### G 1 Bases of Measurement

The balances reflected in the Financial Statements of the Group are measured under the historical cost convention, except Government Treasury Bills, Bonds and Other Securities. Dealing Securities and land & buildings which are stated at valuations as explained in Notes 17, 18 and 23 on pages 239, 241 and 253 respectively, 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. No adjustments have been made for inflationary factors affecting the Financial Statements, except as described above.

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

### G 2 Presentation and Functional 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 Group'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. There was no change in the Group's Presentation and Functional Currency during the year under review.

The information presented on pages 186 and 187 of this Annual Report does not form part of the Financial Statements and is only supplementary information. This information is presented in US Dollars and is solely for the convenience of stakeholders.

### G 3 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses.

As such, in the process of applying the Group's Accounting Policies, the management is required to make judgments, 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 judgments, estimates and assumptions are discussed in Notes G 3.1 to G 3.4 below.

#### *G 3.1 Impairment Losses on Bills of Exchange, Loans & Advances and Lease Receivable*

In addition to the provisions made for possible losses on bills of exchange, loans & advances and lease receivable based on the parameters in the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks' and directives for specific and

## Notes to the Financial Statements

general provisions on bills of exchange, loans & advances and lease receivable by the Central Bank of Sri Lanka, the Bank reviews its bills of exchange, loans & advances and lease receivable 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 judgments 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, borrower's financial situation, strategies adopted, the net realisable value of any underlying collaterals as well as identified structural weaknesses and deterioration in cash flows.

### G 3.2 Review of Impairment Losses on Other Assets

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or 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 Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty. Specific Accounting Policies on impairment of assets are discussed in Note L 10 on page 225.

### G 3.3 Defined Benefit Plans

The cost of defined benefit plans, gratuity and pension obligations is determined using actuarial valuations as detailed in Note M 9 to the Financial Statements on page 227. 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.

### G 3.4 Provisions for Liabilities and Charges

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

### G 4 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'.

### G 5 Offsetting

Assets and liabilities and income and expenses are not set-off unless permitted by the Sri Lanka Accounting Standards.

### G 6 Rounding

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

## SIGNIFICANT ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of these Consolidated Financial Statements are set out below:

### H 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 international 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 and net assets of its Associates in terms of the Sri Lanka Accounting Standard No. 27 (Revised 2005) on 'Investments in Associates'.

## Notes to the Financial Statements

### H 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 currently exercisable are taken into account. The Bank's interests in all its Subsidiaries together with the summarised financial information including total assets, total liabilities, revenue, profit or loss and the dividend are given in the Section on 'Group Structure' on page 190 of this Annual Report.

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 obtaining control 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 events in similar circumstances are applied consistently.

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

All Subsidiaries of the Bank have been incorporated in Sri Lanka.

A listing of the Bank's Subsidiaries is set out in Note 22 to the Financial Statements on page 252.

### H 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 significant influence effectively ceases. The Group discontinues the use of the Equity Method from the date that it ceases to have significant influence over an Associate and accounts for the investment in accordance with the Sri Lanka Accounting Standard No. 22 on 'Accounting for Investments'.

Under the Equity Method, investments in Associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the Associates and are reported as a separate line item in the Balance Sheet. Losses in excess of the cost of the investment in an Associate are recognised only when the Bank has incurred obligations on its behalf or has made payments on its behalf. Otherwise the investment is reported at nil value and the recognition of further losses is discontinued. If the associate subsequently reports profits, the Bank resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised.

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 Associates.

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.

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

A listing of the Group's Associates together with their fair values and the Group's share of contingent liabilities of such Associates are set out in Notes 21 and 37.3 (a) to the Financial Statements on pages 251 and 270. Summarised financial information of all Associates of the Bank which are accounted on Equity Method of Accounting together with the Bank's interests is given in the Section on 'Group Structure' on page 190 of this Annual Report.

## Notes to the Financial Statements

### H 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 (negative goodwill) 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, if any, 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 disposed, the difference between the proceeds on disposal and the net assets plus cumulative translation differences which have been directly recognised in equity and unimpaired goodwill, if any, is recognised in the Income Statement in the year of disposal.

No goodwill/discount on acquisition (negative goodwill) 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.

### H 4 Material Gains or Losses, Provisional Values or Error Corrections

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

### H 5 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.

### I Foreign Currency Transactions

Financial Statements of the Bank and the Group are presented in Sri Lankan Rupees, which is the Functional and Presentation Currency of the Bank and the Group.

#### I 1 Foreign Currency Transactions and Balances

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

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the middle exchange rate of the Functional Currency ruling at reporting date/Balance Sheet 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.

## Notes to the Financial Statements

### I 2 Transactions of the Off-Shore Banking Centre

These have been recorded in accordance with Note I 1 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.

### I 3 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.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rate ruling at transaction date.
- 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 disposal.

### I 4 Forward Exchange Contracts

Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Resulting net unrealised gains and losses are dealt with through the Income Statement.

## J 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.

### J 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 11 to the Financial Statements on page 235. This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard No. 14 (Revised 2005) on 'Income Taxes'.

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.

### J 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 for all Group Entities. 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.

Deferred tax assets are recognised for all deductible differences, unused tax credits and unused tax losses carried forward, if any, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the unused tax credits and unused tax losses carry forward 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.

## Notes to the Financial Statements

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.

Details of deferred tax assets and liabilities as at the Balance Sheet date are given in Note 29 to the Financial Statements on page 258.

### J 3 Withholding Tax on Dividends, Distributed by the Bank, Subsidiaries and Associates

- *Withholding tax on dividends distributed by the Bank*

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time as the liability to pay the related dividend is recognised.

- *Withholding tax on dividends distributed by the Subsidiaries and Associates*

Dividends received by the Bank from its Subsidiaries and Associates, has attracted a 10% deduction at source. This withholding tax deducted at source is added to the tax expense in the Group Financial Statements as a consolidation adjustment.

### J 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 01, 2005. Currently, the SRL is payable at the rate of 1.5% on the Corporate tax liability.

### J 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 01, 2004. Currently the ESC is payable at 1% on 'Liable Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

### J 6 Value Added Tax on Financial Services

The base for the computation of Value Added Tax on Financial Services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of Value Added Tax charged in determining the profit for the period is given in Note 7 to the Financial Statements on page 233.

### K Events After the Balance Sheet Date

Events After the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Balance Sheet date have been considered and appropriate disclosures are made in Note 41 to the Financial Statements on page 281, where necessary.

### K 1 Approval of Financial Statements by Board of Directors

The Financial Statements for the year ended December 31, 2009, were authorised for issue on February 18, 2010, in accordance with a resolution of the Board of Directors passed on February 18, 2010.

### L Assets and Bases of Their Valuation

#### L 1 Cash and Short-Term Funds (Cash and Cash Equivalents)

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. There were no cash and cash equivalent balances held by the Group companies that were not available for use by the Group.

Details of the cash and short-term funds are given in Note 15 to the Financial Statements on page 239.

## Notes to the Financial Statements

### L 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% on all deposit liabilities denominated in Sri Lankan Rupees (7.75% in 2008). 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.

Details of the Balances with Central Banks are given in Note 16 to the Financial Statements on page 239.

### L 3 Government Treasury Bills, Bonds and Other Securities

#### L 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 those investments that the Group acquires or incurs principally for the purpose of selling or holds as part of a portfolio that is managed for short-term profit. These investments are initially recognised at prices that prevail at the date of acquisition and subsequently marked to market and carried at that market value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.

Details of the Investments in Government Treasury Bills and Treasury Bonds held for trading are given in Note 17 to the Financial Statements on page 239.

#### L 3.2 Investments in Government Treasury Bills and Treasury 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 and carried at these values till their maturity in the Balance Sheet. Discount received/premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

Details of the investments in Government Treasury Bills and Treasury Bonds held to maturity are given in Note 17 to the Financial Statements on page 239.

#### L 3.3 Investments in Central Bank Securities Held to Maturity

Investments in Central Bank Securities are purchased primarily with the intention of holding them to maturity and are stated at cost and carried at these values till their maturity in the Balance Sheet.

Details of the Investments in Central Bank Securities held to maturity are given in Note 17 to the Financial Statements on page 239.

### L 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.

The difference between the purchase and the sale price represents interest income and is recognised in the Income Statement over the period of the resale agreement.

Value of the Securities Purchased under Resale Agreements is given on page 207 on the face of the Balance Sheet.

### L 5 Investments

#### L 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 initially measured at cost and subsequently measured at the market value as at the Balance Sheet date. Adjustment for changes in market values is accounted for in the Income Statement.

Details of the Dealing Securities are given in Note 18 to the Financial Statements on page 241.

#### L.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 sale 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.

## Notes to the Financial Statements

### L 5.3 Investment Securities

These are acquired and held for yield or capital growth in the medium to long term with the positive intent and ability to hold until maturity. Such securities are recorded at cost and any unpaid interest/dividend accrued thereon up to the date of purchase is reported under Interest and Fees Receivable. The subsequent receipt of interest/dividend is allocated between pre-acquisition and post-acquisition periods and the pre-acquisition portion is deducted from the cost as required by the Sri Lanka Accounting Standard No. 22 on 'Accounting for Investments'. 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.

Details of the Investment Securities are given in Note 19 to the Financial Statements on page 244.

### L 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'.

Under the Equity Method, the Investments in Associates are initially accounted for at cost and the carrying amount is adjusted for post-acquisition changes in the Bank's share of net assets of the Associates, less any impairment in the Bank's net investments in Associates as detailed in the Note H 2 on page 216.

Details of the Investments in Associates are given in Note 21 to the Financial Statements on page 251.

### L 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'.

Details of the Investments in Subsidiaries are given in Note 22 to the Financial Statements on page 252.

### L 5.6 Significant Restrictions on Investments

The Group or the Bank does not encounter any significant restrictions on the reliability of the investments or the remittance of income and proceeds of disposal.

### L 5.7 Unquoted Investments and Directors' Assessments of Fair Value

Details on unquoted investments and Directors' assessments of fair values are given in Notes 19, 21 and 22 to the Financial Statements on pages 244, 251 and 252, respectively.

### L 6 Loans and Advances to Customers

Loans and advances to customers which include Bills of Exchange, Loans & Advances and Lease Receivable are stated in the Balance Sheet net of provisions for possible loan losses and net of interest in suspense, which is not accrued to revenue.

#### L 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 on 'Classification of Loans and Advances, Income Recognition and Provisioning', as amended by the Direction No. 9 of 2008 on 'Amendments to Directions on Classification of Loans and Advances, Income Recognition and Provisioning for Licensed Commercial Banks in Sri Lanka' of the Central Bank of Sri Lanka.

Details of the Non-Performing Loans and Advances are given in Note 20.4 to the Financial Statements on page 249.

#### L 6.2 Provision for Loan Losses

##### Sri Lanka Operations

Provision for possible loan losses is made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosures in the Financial Statements of the Banks' and the Directions issued by the Central Bank of Sri Lanka as detailed below.

##### L 6.2.1 Specific Provisions

Specific provisions for possible loan losses are made in accordance with the aforesaid Directions issued 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'. As per the above Directions, the Banks are required to make specific provisions as shown in the table below. However, the Bank's provisioning policy is more stringent than the minimum specific provisions required by the Central Bank of Sri Lanka, since the Bank makes a full provision, based on the net exposure upon classification of loans and advances as substandard.

## Notes to the Financial Statements

Categories of Non-Performing Credit Facilities	Minimum Specific Provisioning Requirement (%)	Bank's Provisioning Policy
Substandard - Credit cards	25	Please refer Note L 6.4.1
Others	20	100%
Doubtful - Credit cards	50	Please refer Note L 6.4.1
Others	50	100%
Loss - Credit cards	100	Please refer Note L 6.4.1
Others	100	100%

In addition, the value of security is further discounted on the 'Hair Cut Rule' imposed by the Central Bank of Sri Lanka, i.e., the extent up to which the Forced Sale Value (FSV) of immovable property can be considered (as is given below) to arrive at the value of security in determining the provisioning for non-performing advances.

Item	% of FSV of Immovable Property that can be Considered as the Value of Security	
	Freehold Property	Leasehold Property
At the first time of provisioning	75	60
<b>Period in the loss section -</b>		
Less than 12 months	75	60
More than 12 but less than 24 months	60	50
More than 24 but less than 36 months	50	40
More than 36 but less than 48 months	40	30
More than 48 months	40 or less	Nil

However, in certain instances the Bank disregards the value of the security and is done on a case by case-basis.

When a loan is uncollectible, it is written-off against the related provision and is done after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written-off are included in Note 6 on 'Other Income' in the Income Statement.

### L 6.2.2 Statutory General Provisions

In addition, a general provision was made at the rate of 0.1% per quarter over 10 quarters on the total of performing and special mention loans and advances portfolio net of interest in suspense and advances secured by cash deposits, gold or Government Securities with the Bank, commencing fourth quarter 2006, as per paragraph 6 (1) (l) of the Direction No. 03 of 2008, issued by the Central Bank of Sri Lanka referred to above. Accordingly, the Bank fulfilled the above requirement by making a provision of 1% on total performing and special

mention loans and advances portfolio by the end of first quarter 2009. At present, the Bank maintains statutory general provisions at 1% based on the total performing and special mention loans and advances portfolio.

Details of the Provision for Loan Losses are given in Note 20.2 (b) to the Financial Statements on page 246.

### L 6.3 Finance Leases (Bank as a Lessor)

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.

Details of Lease Receivable are given in Note 20.3 to the Financial Statements on page 248.

#### L 6.3.1 Provision for Lease Receivable

Specific provisions have been made in relation to bad and doubtful leases as stated in Note L 6.2.1 on page 221.

In addition, a general provision for possible losses on lease receivable is made as specified in Note L 6.2.2 above.

### L 6.4 Credit Card Receivable

Amounts receivable on Credit Cards are included in loans and advances at the amounts expected to be recovered.

#### L 6.4.1 Provision for Credit Card Receivable

Provision for credit card receivable is made as follows:

Period Outstanding (in days)	Classification	General Provision	Specific Provision
		Made (%)	Made (%)
Less than 90	Regular	3	
More than 90 but less than 120	Special mention	3	
More than 120 but less than 180	Substandard		25
More than 180 but less than 240	Doubtful		100
More than 240	Loss		100

### L 6.5 Pawning Receivable

The Bank provides pawning facilities with two different maturity periods, namely, 6 months and 12 months. Amounts receivable on pawning are included in Loans and Advances at the amounts expected to be recovered.

## Notes to the Financial Statements

### L 6.5.1 Provision for Pawning Receivable

A 100% specific provision is made on Pawning Receivable after discounting the value of the security, where no payment is received within one month from the contractual maturity date.

Details of provisions made in respect of Bills of Exchange, Loans & Advances (including provisions for pawning and credit card receivable) and Lease Receivable as at the Balance Sheet date are given in Note 20.4 (c) to the Financial Statements on page 249.

## Bangladesh Operations

### L 6.6 Specific Provisions

Specific Provisions for possible loan losses are made in accordance with the Prudential Regulations issued by the Bangladesh Bank which are summarised below:

Categories of Non-performing Credit Facilities	Minimum Specific Provisioning Requirement (%)
Substandard - Short Term Agricultural Credit & Micro Credit	5
- Others**	20
Doubtful - Short Term Agricultural Credit & Micro Credit	5
- Others**	50
Bad/Loss - Short Term Agricultural Credit & Micro Credit	100
- Others**	100

\*\* This includes Continuous Loans, Demand Loans and Fixed Term Loans classified based on the Prudential Regulations of Bangladesh Bank.

Provisioning policy of the Bangladesh Operations of the Bank is in line with the minimum requirements prescribed by the Bangladesh Bank.

### L 6.7 General Provisions

General provisions for possible loan losses are made in accordance with the Prudential Regulations issued by the Bangladesh Bank which are summarised below:

Categories of Credit Facilities	Minimum General Provisioning Requirement* (%)
Housing Finance and Loans for Professionals to set up business under Consumer Financing Scheme	2
Other Unclassified Consumer Financing Loans	5
Loans kept in the 'Special Mention Account' (Net of Interest in Suspense)	5
Other unclassified loans	1

In addition, General Provision is made at 1% for Off-Balance Sheet exposures, effective from December 31, 2008.

## L 7 Property, Plant & Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard No. 18 (Revised 2005) on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used during more than one year.

### L 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 Group and cost of the asset can be reliably measured.

### L 7.2 Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

#### L 7.2.1 Cost Model

The Group applies the Cost Model to all Property, Plant & Equipment except freehold land and buildings and records at cost of purchase together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

#### L 7.2.2 Revaluation Model

The Group applies the Revaluation Model for the entire class of freehold land and buildings for measurement after initial recognition. 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, as permitted by the Central Bank of Sri Lanka, 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.

## Notes to the Financial Statements

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.

### L 7.3 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 Group and it can be reliably measured.

### L 7.4 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.

### L 7.5 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.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised as required by the Sri Lanka Accounting Standard No. 18 (Revised 2005) on 'Property, Plant and Equipment'.

### L 7.6 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.

### L 7.7 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:

	% Per Annum
Freehold and Leasehold buildings	2.5 (40 years)
Motor Vehicles	20 (5 years)
Computer Equipment	16.67- 20 (5-6 years)
Office Equipment	20 (5 years)
Furniture & Fittings	10 (10 years)
Office Interior Work	10 (10 years)
Machinery & Equipment	10 (10 years)

The above rates are compatible with the rates used by all Group entities.

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, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The asset's residual value, useful life and method of depreciation are reviewed at each Balance Sheet date and adjusted prospectively, as changes in accounting estimates.

All classes of Property, Plant & Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and end of the year are given in Note 23 to the Financial Statements on page 253.

### L 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 leasehold property whichever is shorter. No further revaluations of these leasehold properties are carried out.

Details of the Leasehold Property are given in Note 24 to the Financial Statements on page 255.

## Notes to the Financial Statements

### L 9 Intangible Assets

#### L 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.

#### L 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.

#### L 9.3 Useful Economic Lives, Amortisation and Impairment

The useful lives of Intangible Assets are assessed to be either finite or indefinite. The Group does not possess intangible assets with indefinite useful lives. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

##### L 9.3.1 Intangible Assets with Finite Lives and Amortisation

Intangible Assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each Balance Sheet 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.

##### L 9.3.1.1 Computer Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Balance Sheet under the category of intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses, if any.

##### L 9.3.1.2 Copyright

Cost of copyrights purchased is stated at cost less accumulated amortisation and any accumulated impairment losses, if any.

##### L 9.3.1.3 Amortisation of Intangible Assets

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:

	% Per Annum
Computer Software	16.67 (6 years)
Copyright	20 (5 years)

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.

##### L 9.3.2 Intangible Assets with Indefinite Lives

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.

#### L 9.4 Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. 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 intangible asset is derecognised.

The Group has only acquired intangible assets, a list of which with the reconciliation of carrying amounts, accumulated amortisation at the beginning and end of the year is given in Note 26 to the Financial Statements on page 256.

Amortisation recognised during the year in respect of intangible assets is included under the item of 'Premises, Equipment and Establishment Expenses' in the Income Statement of the Bank and the Group.

### L 10 Impairment of Assets

The policy for all assets including the selection of the cash-generating units to allocate the Group's assets and goodwill for the purpose of assessing such assets for impairment is as follows:

The Group 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 an asset may be impaired. If any such

## Notes to the Financial Statements

indication exists, or when an annual impairment testing for an asset is required, the Group 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 Balance Sheet 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.

### M Liabilities and Provisions

#### M 1 Deposits from Customers

Deposits from customers 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.

Details of the Deposits from Customers are given in Note 27 to the Financial Statements on page 257.

#### M 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.

#### M 3 Borrowings

Borrowings include refinance borrowings, call money borrowings, credit balances in Nostro Accounts and borrowings from financial institutions and are shown at the gross value of the outstanding balance. They too are stated in the Balance Sheet at amounts payable. Interest paid/payable on these borrowings is charged to the Income Statement.

Details of the Borrowings are given in Note 28 to the Financial Statements on page 257.

#### M 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.

The difference between the sale and the purchase price represents interest expense, which is recognised in the Income Statement evenly over the period of the repurchased agreement.

Value of the Securities Sold under Repurchase Agreements is given on page 207 on the face of the Balance Sheet.

#### M 5 Debentures

These represent the funds borrowed by the Bank for long term funding requirements. These are recorded in the Balance Sheet at the cash value to be realised when settled.

Details of Debentures are given in Note 30 to the Financial Statements on page 259.

#### M 6 Other Liabilities

Other liabilities include interest, fees, expenses payable, amounts payable for gratuity/pensions and other provisions. These liabilities are recorded at the cash value to be realised when settled.

Details of Other Liabilities are given in Note 31 to the Financial Statements on page 260.

#### M 7 Provisions

A provision is recognised in the Balance Sheet when the Group has a legal or constructive obligation as a result of a past event and 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 the Balance Sheet date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

## Notes to the Financial Statements

### M 8 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.

#### M 8.1 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.

#### M 8.2 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 Lankan Rupees based on the exchange rate ruling at each Balance Sheet date. Exposure on forward contracts, swaps, options and futures are stated at values at which they are expected to crystallise at that date.

#### M 8.3 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.

### M 9 Defined Benefit Plans (DBPs)

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan.

#### M.9.1 Defined Benefit Pension Plans

##### M.9.1.1 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 01, 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.

As detailed in Note M 10.1 on page 228, 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 although not funded has been provided in full in the Financial Statements.
- 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 01, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resigns before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The subsidiaries of the Bank do not operate Pension Funds.

## Notes to the Financial Statements

### M 9.1.2 Principal Actuarial Assumptions

The principal assumptions used in the valuation were as follows:

Parameter	2009 (%)	2008 (%)
Discount Rate	11	12
Rate of Salary Increase	9	10

The demographic assumptions underlying the valuation are retirement age (55 or 60 years), early withdrawals from service, retirement on medical grounds, death before and after retirement, etc.

### M 9.1.3 Actuarial Valuation and Actuarial Valuation Method

The cost of providing benefits under the DBPs 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'.

### M 9.1.4 Recognition of Actuarial Gains or Losses

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.

### M 9.1.5 Recognition of Retirement Benefit Obligation

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

### M 9.1.6 Results of Actuarial Valuation

The results of the annual actuarial valuation carried out as at December 31, 2009, by Messrs Actuarial and Management Consultants (Pvt) Ltd., are summarised below:

- 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 provision kept in the Financial Statements was insufficient to meet the present value

of the promised retirement benefits by Rs. 9.183 Mn., and the Bank provided this shortfall in full in its Financial Statements as at December 31, 2009.

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

- The liability on account of 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 that the provision kept in the Financial Statements was insufficient to meet the present value of the promised retirement benefits amounting to Rs. 119.072 Mn. by Rs. 32.785 Mn., and hence the Bank provided this shortfall in full in its Financial Statements as at December 31, 2009.
- The provision kept for the Gratuity Liability in the Financial Statements was insufficient to meet the present value of the promised retirement benefits amounting to Rs. 124.003 Mn. by Rs. 63.392 Mn., and hence the Bank provided this shortfall too in full in its Financial Statements as at December 31, 2009.

Impact to the profit or loss for the year under review, the movement during the year in these liabilities and other information on actuarial assumptions used are given in Notes 8, 31 and 38 to the Financial Statements on pages 234, 260 and 271 respectively.

## M 10 Defined Contribution Plans (DCPs)

A Defined Contribution Plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay a further amount. Obligations to DCPs are recognised as an expense in the Income Statement as incurred. The Group has three such plans as explained below. Amounts recognised in the Income Statement as expenses on DCPs are given in Note 8 to the Financial Statements on page 234.

### M 10.1 Defined Contribution Pension Plans

As explained in Note M 9.1.1 earlier, during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered

## Notes to the Financial Statements

consisted of a past service package and a future service package. The cost 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. based on the salary levels that prevailed as at the date of implementation of this scheme. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who opted for the restructured scheme.

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

### M 10.2 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. Other Group entities and their employees contribute at the same percentage to the Employees' Provident Fund managed by the Central Bank of Sri Lanka.

### M 10.3 Employees' Trust Fund

The Bank and other Group entities contribute to the Employees' Trust Fund at 3% on the salaries of each employee.

## M 11 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities as explained in Note M 6 on page 226. 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.

Details of the Commitments and Contingencies are given in Note 37 to the Financial Statements on page 269.

## N Income Statement

### N 1 Revenue Recognition

#### N 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.

#### N 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 Note L 6.1 on page 221. 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.

#### N 1.3 Revenue Recognition on Non-Performing Loans

When loans and advances are classified as non-performing based on criteria as set out in Note L 6.1 on page 221, interest ceases to be recognised on such Loans and Advances. Thereafter, interest income on these loans and advances is recognised on a cash basis. 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.

#### N 1.4 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 periodic rate of return. 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.

## Notes to the Financial Statements

### **N 1.5 Income on Discounting of Bills of Exchange**

Income on discounting of Bills of Exchange is recognised on a cash basis.

### **N 1.6 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, Derivative Transactions, etc.

### **N 1.7 Dividend Income on Shares**

Dividend Income on Shares is recognised on an accrual basis only when the Bank's right to receive the dividend is established.

### **N 1.8 Interest Income on Investments in Debentures and Trust Certificates**

Interest Income on Investments in Debentures and Trust Certificates is recognised on an accrual basis.

### **N 1.9 Rental Income**

Rental Income is recognised on an accrual basis.

### **N 1.10 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.

### **N 1.11 Gains and/or Losses on Disposal of Property, Plant & Equipment, Non-Current Investments Held for Sale, Dealing Securities and Investment Securities**

Gains and/or Losses resulting from the Disposal of Property, Plant & Equipment, Non-Current Investments Held for Sale, Dealing Securities and Investment Securities are accounted for on a cash basis in the Income Statement, in the period in which the sale occurs.

## **N 2 Interest on Deposits, Borrowings, Securities Sold under Repurchase Agreements and Other Fund Based 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 fund-based 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.

## **N 3 Fees and Commission Expenses**

The Bank recognises Fees and Commission Expenses on an accrual basis.

## **N 4 Borrowing Costs**

Costs incurred in respect of funds specifically obtained for the acquisition of Property, Plant & Equipment are 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'.

## **N 5 Terminal Benefits**

The amounts paid as pension to those employees who are not covered by the previous Pension Fund as per Note M 9 on page 227 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 an expense in 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.

## **O 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 are recognised. Cash and Cash Equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and Cash Equivalents as referred to in the Cash Flow Statement are comprised of those items as explained in Note L 1 on page 219.

The Cash Flow Statement is given on pages 210 and 211 of this Annual Report.

## **P 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.

## Notes to the Financial Statements

In accordance with the Sri Lanka Accounting Standard No. 28 on 'Segment Reporting', segmental information is presented in respect of the Group based on the Group's management and internal reporting structure as shown below.

Primary Segments	Business Segments	Banking, Leasing, Dealing and Investments
Secondary Segments	Geographical Segments	Sri Lanka Operations and Bangladesh Operations

For the purpose of Segment Reporting disclosures, 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 are comprised of mainly Head Office expenses.

Inter-segment transactions are accounted for at fair market prices charged to inter-bank counterparts for similar services on an arm's length basis. 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.

Details of financial reporting by segment as required by the Sri Lanka Accounting Standard No. 28 on 'Segment Reporting' are given in Note 39 to the Financial Statements on page 273.

### Q Fiduciary Assets

Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

### R 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 41 to the Financial Statements on page 281.

The Bank does not have Preference Shares outstanding as at the Balance Sheet date and hence no liability is required in respect of Dividends on Preference Shares for the year under review (Rs. 40.684 Mn. in 2008).

### S Equity Compensation Benefits

The details of Employee Share Option Plans are given in Note 32 (b) to the Financial Statements on page 261.

### T Earnings Per Share

The Group presents Basic and Diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the Ordinary Shareholders and the weighted average number of Ordinary Shares outstanding for the effects of all dilutive potential Ordinary Shares, which comprise share options granted to employees.

The details of Earnings Per Share are given in Note 12 to the Financial Statements on page 237.

**Notes to the Financial Statements**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>2. INCOME</b>				
Interest income	35,914,314	37,213,374	35,924,842	37,188,224
Foreign exchange profit	2,962,221	2,633,321	2,962,221	2,633,321
Fees and commission income	2,529,829	2,714,980	2,529,920	2,715,061
Other income	2,208,198	1,398,347	2,323,950	1,578,643
<b>Total</b>	<b>43,614,562</b>	<b>43,960,022</b>	<b>43,740,933</b>	<b>44,115,249</b>
<b>3. INTEREST INCOME</b>				
Customer advances	26,583,446	29,134,243	26,628,131	29,156,825
Treasury Bills, Bonds, Central Bank Securities and other Money Market instruments	8,909,082	7,041,289	8,874,925	6,993,557
Loans at call	128,635	221,352	128,635	221,352
Interest rate Swaps	93,755	184,244	93,755	184,244
Placements with banks	199,396	632,246	199,396	632,246
<b>Total</b>	<b>35,914,314</b>	<b>37,213,374</b>	<b>35,924,842</b>	<b>37,188,224</b>
Since April 01, 2002, net interest income from 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 11.3.				
<b>4. INTEREST EXPENSES</b>				
Customer deposits	18,353,992	17,326,062	18,355,676	17,326,920
Repurchase Agreements and other Money Market instruments	3,785,567	4,639,546	3,805,556	4,656,621
Deposits at call	71,131	394,813	71,131	394,813
Interest rate Swaps	77,956	200,463	77,956	200,463
Due to banks	100,911	348,293	100,911	348,293
Debentures	625,759	977,881	625,759	977,881
Refinance borrowings	477,536	430,713	477,536	430,713
<b>Total</b>	<b>23,492,852</b>	<b>24,317,771</b>	<b>23,514,525</b>	<b>24,335,704</b>
<b>5. FEES AND COMMISSION INCOME</b>				
Trade and other related activities	992,458	1,245,267	992,458	1,245,267
Personal banking	233,546	213,492	233,637	213,573
Foreign remittances	162,552	131,848	162,552	131,848
Electronic banking	537,070	510,075	537,070	510,075
Professional services	46,774	65,250	46,774	65,250
Other	557,429	549,048	557,429	549,048
<b>Total</b>	<b>2,529,829</b>	<b>2,714,980</b>	<b>2,529,920</b>	<b>2,715,061</b>

## Notes to the Financial Statements

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>6. OTHER INCOME</b>				
Income from investments [Refer Note 6 (a)]	370,277	294,637	408,620	338,174
Bad debts recovered (including recovery of debts written off)	1,319,363	699,798	1,319,363	699,798
Other operating income [Refer Note 6 (b)]	518,558	403,912	595,967	540,671
<b>Total</b>	<b>2,208,198</b>	<b>1,398,347</b>	<b>2,323,950</b>	<b>1,578,643</b>
<b>6 (a) Income from Investments</b>				
Income from investment securities (quoted)	15,996	5,406	15,996	5,406
Income from investment securities (unquoted)	163,167	295,761	163,167	295,761
Income from investments in Associates (unquoted)	1,703	676	1,028	-
Income from investments in Subsidiaries (quoted)	-	-	34,037	34,037
Income from investments in Subsidiaries (unquoted)	-	-	3,278	9,500
Income from investments held for sale	-	10,587	-	10,587
Income from investments in Dealing Securities	1,399	3,987	1,399	3,987
Gain/(Loss) on Marked to Market Valuation on shares	70,456	(30,326)	70,456	(30,326)
Gain on Marked to Market Valuation on Treasury Bills and Bonds	119,259	9,222	119,259	9,222
Less: Dividends received from Associates transferred to the Investments in Associates (Refer Note 21)	(1,703)	(676)	-	-
<b>Total</b>	<b>370,277</b>	<b>294,637</b>	<b>408,620</b>	<b>338,174</b>
<b>6 (b) Other Operating Income</b>				
Capital gain/(loss) on sale of shares	(14,555)	221,289	100,967	395,443
Capital gain on sale of Treasury Bills and Bonds	406,714	48,484	406,714	48,484
Profit/(loss) on sale of Property, Plant & Equipment	5,403	20,052	(1,545)	10,704
Rental and other income	120,996	114,087	89,831	86,040
<b>Total</b>	<b>518,558</b>	<b>403,912</b>	<b>595,967</b>	<b>540,671</b>
<b>7. OPERATING EXPENSES</b>				
Operating expenses include the following:				
Directors' Remuneration	47,807	45,465	47,199	44,815
Auditors' Remuneration	7,639	7,682	7,176	7,017
Non-Audit fees	1,459	2,161	1,286	2,031
Pensions provided to past employees and past Directors	34,607	127,408	34,607	127,408
Depreciation of Property, Plant & Equipment	580,057	478,841	504,805	419,676
Amortisation of Leasehold Property	1,452	1,452	942	942
Amortisation of Intangible Assets	72,061	62,993	72,061	62,993
Professional and legal expenses	178,207	87,849	177,793	87,849
Advertising and marketing expenses	174,489	189,526	174,358	189,454
Donation to Corporate Social Responsibility (CSR) Trust	20,800	20,000	20,800	20,000
Other Donations	1,642	3,220	1,642	3,220
Employer's contribution to Employees' Provident Fund	252,174	198,631	249,784	196,721
Employer's contribution to Employees' Trust Fund	60,476	47,470	59,879	46,992
Financial Value Added Tax (VAT) on profits	2,264,116	2,091,468	2,264,116	2,091,468
Loss on Oil Hedging transactions	368,251	692,162	368,251	692,162

**Notes to the Financial Statements**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>8. PROVISION FOR STAFF RETIREMENT BENEFITS</b>				
Gratuity expense [Refer Note 31(a) (i)]	78,327	51,121	76,663	45,953
Contribution made to unfunded Pension Scheme [Refer Note 31(b) (i)]	32,785	106,350	32,785	106,350
Contribution made to Defined Pension Plans	338,350	292,592	338,350	292,592
Contribution made to Widows' & Orphans' Pension Fund	28	66	28	66
<b>Total</b>	<b>449,490</b>	<b>450,129</b>	<b>447,826</b>	<b>444,961</b>

**9. LOAN LOSSES AND PROVISIONS****Provision for bad & doubtful debts:**

Specific provision on Bills of Exchange [Refer Note 20.1(a)]	15,869	-	15,869	-
Specific provision on loans & advances	926,934	1,209,644	926,934	1,209,644
Specific provision on credit card receivables	155,556	105,740	155,556	105,740
Specific provision on lease receivable [Refer Note 20.3(d)]	399,799	285,661	399,799	285,661
<b>Total [Refer Note 20.4 (a)]</b>	<b>1,498,158</b>	<b>1,601,045</b>	<b>1,498,158</b>	<b>1,601,045</b>

General provision on Bills of Exchange [Refer Note 20.1(a)]	1,542	10,956	1,542	10,956
General provision on loans & advances	24,186	626,422	24,186	626,422
General provision on credit card receivables	(6,496)	4,446	(6,496)	4,446
General provision on lease receivable [Refer Note 20.3(d)]	(7,104)	30,202	(7,104)	30,202
<b>Total [Refer Note 20.4 (b)]</b>	<b>12,128</b>	<b>672,026</b>	<b>12,128</b>	<b>672,026</b>

Total provisions made during the year	1,510,286	2,273,071	1,510,286	2,273,071
Direct write-offs	23,412	5,141	23,412	5,141
<b>Total</b>	<b>1,533,698</b>	<b>2,278,212</b>	<b>1,533,698</b>	<b>2,278,212</b>

**10. SHARE OF PROFIT OF ASSOCIATES**

Equity Investments Lanka Ltd.	2,687	4,605	-	-
Commercial Insurance Brokers (Pvt) Ltd.	1,531	4,480	-	-
<b>Total</b>	<b>4,218</b>	<b>9,085</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements

### 11. INCOME TAX EXPENSE

#### 11.1 Entity-wise Breakup of the Income Tax Expense is as follows:

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Bank</b>				
Income tax expense of Domestic Banking Unit	2,155,967	2,465,926	2,155,967	2,465,926
Income tax expense of Off-Shore Banking Centre	214,396	219,343	214,396	219,343
Income tax expense of Bangladesh Operation	457,471	492,865	457,471	492,865
(Over)/Under provision for taxes in respect of prior years	(31,829)	82,661	(31,829)	82,661
Deferred tax (reversal)/charge	90,848	(9,025)	90,848	(9,025)
	<b>2,886,853</b>	<b>3,251,770</b>	<b>2,886,853</b>	<b>3,251,770</b>
<b>Subsidiaries</b>				
Income tax expense of Commercial Development Company PLC	26,593	23,004	-	-
Income tax expense of Commercial Bank Primary Dealer Ltd.	18,299	14,460	-	-
Income tax expense of ONEzero Company Ltd.	3,240	6,570	-	-
Income tax expense of X-pertise Ltd.	977	(104)	-	-
<b>Associates</b>				
Share of Income tax expense of Equity Investments Lanka Ltd.	114	142	-	-
Share of Income tax expense of Commercial Insurance Brokers (Pvt) Ltd.	756	-	-	-
<b>Total</b>	<b>2,936,832</b>	<b>3,295,842</b>	<b>2,886,853</b>	<b>3,251,770</b>
Effective tax rate (excluding deferred tax)			<b>38.88%</b>	<b>43.36%</b>

#### Income tax has been provided for on the taxable income at the following rates:

	2009 %	2008 %
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	42.5	45
Commercial Development Company PLC	35	35
ONEzero Company Ltd.	35	35
Commercial Bank Primary Dealer Ltd.	35	35
X-pertise Ltd.	35	35

## Notes to the Financial Statements

### 11.2 A reconciliation between income tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	Tax rate	GROUP		BANK	
		2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Accounting profit before tax from operations		7,125,631	7,407,163	7,191,842	7,520,142
Tax effect at the statutory income tax rates					
Domestic operations of the Bank	35.0%	1,942,890	2,086,908	1,942,890	2,086,908
On-shore banking operations of the Off-shore Banking Centre of the Bank	35.0%	132,708	133,937	132,708	133,937
Off-shore banking operations of the Off-shore Banking Centre of the Bank	20.0%	36,176	31,154	36,176	31,154
Bangladesh Operation	42.5%	459,290	458,596	459,290	458,596
Subsidiaries	35.0%	38,688	43,743	-	-
		2,609,752	2,754,338	2,571,064	2,710,595
Tax effect of exempt income		(542,608)	(596,539)	(542,372)	(596,539)
Tax effect of non-deductible expenses		3,035,471	3,366,767	2,998,496	3,334,557
Tax effect of deductible expenses		(2,270,197)	(2,343,348)	(2,236,531)	(2,312,469)
Share of Income tax expense of Associates		870	142	-	-
Social Responsibility Levy at 1.5% of Income tax		38,223	42,422	37,177	41,990
(Over)/Under provision of taxes in respect of prior years		(25,770)	82,702	(31,829)	82,661
Deferred tax (reversal)/charge [Refer Note 29]		91,091	(10,642)	90,848	(9,025)
Income tax expense reported in the Income Statement at the effective income tax rate		2,936,832	3,295,842	2,886,853	3,251,770

### 11.3 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 (earned 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 on 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. 335.909 Mn. and Rs. 332.493 Mn. respectively (Rs. 91.910 Mn. and Rs. 87.741 Mn. respectively in 2008).

## Notes to the Financial Statements

### 12. EARNINGS PER SHARE (EPS)

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 the 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 potentially dilutive 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 diluted Earnings Per Share calculation.

	2009 Rs. '000	2008 Rs. '000
<b>Group</b>		
<b>Amounts Used as the Numerator:</b>		
Net profit attributable to equity holders of the parent	4,191,935	4,118,884
Less : Dividend paid on cumulative redeemable preference shares	-	40,684
Net profit attributable to equity holders of the parent for basic and diluted EPS calculation	4,191,935	4,078,200
<b>Number of Ordinary Shares used as the Denominator:</b>		
Weighted average number of ordinary shares	249,547,749	249,313,748
Issue of Bonus shares during the year	-	-
Weighted Average Number of Ordinary Shares used for Basic EPS calculation	249,547,749	249,313,748
<b>Effect of Dilution:</b>		
Number of outstanding options under ESOP 2002, as at the year end [Refer Note 32 (b)]	1,619,266	2,034,306
Number of outstanding options under ESOP 2008, as at the year end [Refer Note 32 (c)]	684,563	-
<b>Weighted Average Number of Ordinary Shares adjusted for the effect of dilution</b>	<b>251,851,578</b>	<b>251,348,054</b>
<b>Basic Earnings Per Share (Rs.)</b>	<b>16.80</b>	<b>16.36</b>
<b>Diluted Earnings Per Share (Rs.)</b>	<b>16.64</b>	<b>16.23</b>

## Notes to the Financial Statements

### 13. DIVIDENDS

	GROUP		BANK	
	2009 Interim Rs. 3.00 (Paid during 2009) Rs. '000	2008 Interim Rs. 3.00 (Paid during 2008) Rs. '000	2009 Interim Rs. 3.00 (Paid during 2009) Rs. '000	2008 Interim Rs. 3.00 (Paid during 2008) Rs. '000
<b>On Ordinary Shares</b>				
Net dividend paid to the Ordinary Shareholders	685,138	684,043	685,138	684,043
Withholding tax deducted at source	64,430	64,163	64,430	64,163
Gross ordinary dividend paid	749,568	748,206	749,568	748,206
<b>On Preference Shares</b>				
Dividend paid on Cumulative Redeemable Preference Shares of Rs. 10.00 each for the period	-	36,616	-	36,616
Withholding tax deducted at source	-	4,068	-	4,068
Gross preference dividend paid	-	40,684	-	40,684
<b>Total dividends</b>	<b>749,568</b>	<b>788,890</b>	<b>749,568</b>	<b>788,890</b>

Two interim dividends of Rs. 1.50 per share each, totalling Rs. 3.00 per share were paid in 2009 to both the ordinary voting and non-voting shareholders of the Bank (The interim dividends paid for the year 2008 was Rs. 3.00 per share).

The Board of Directors has recommended the payment of a final dividend of **Rs. 4.00 per share to both the ordinary voting and non-voting shareholders of the Bank** for the year ended December 31, 2009 (Rs. 4.00 in 2008) which will be declared at the forthcoming Annual General Meeting to be held on March 30, 2010. 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. Final dividend payable for the year 2009 amounts to Rs. 999.768 Mn. (Rs. 997.608 Mn. in 2008).

### 14. UNAPPROPRIATED PROFIT/(LOSS) CARRIED FORWARD

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Commercial Bank of Ceylon PLC</b>	<b>929,905</b>	<b>929,269</b>	<b>1,004,116</b>	<b>1,003,480</b>
Unappropriated Profit Carried Forward	1,004,116	1,003,480	-	-
Goodwill amortised on Acquisition of Commercial Development Company PLC	(74,211)	(74,211)	-	-
<b>Subsidiaries:</b>				
Commercial Development Company PLC	(18,466)	(4,450)	-	-
Unappropriated Profit Carried Forward	21,890	14,879	-	-
Depreciation/Amortisation on re-classification of Investment Property	(40,356)	(19,329)	-	-
Commercial Bank Primary Dealer Ltd.	-	99,337	-	-
ONEzero Company Ltd.	40,545	38,109	-	-
X-Pertise Ltd.	-	1,609	-	-
<b>Associates:</b>				
Equity Investments Lanka Ltd.	3,352	1,807	-	-
Commercial Insurance Brokers (Pvt) Ltd.	23,496	24,750	-	-
<b>Total</b>	<b>978,832</b>	<b>1,090,431</b>	<b>1,004,116</b>	<b>1,003,480</b>

## Notes to the Financial Statements

### 15. CASH AND SHORT TERM FUNDS

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Coins and notes held in local currency	4,847,771	4,382,795	4,847,751	4,382,590
Coins and notes held in foreign currency	708,331	737,746	708,331	737,746
Due from Banks	17,288,490	15,996,793	17,288,490	15,996,793
Loans at call and at short notice	1,212,067	2,997,577	1,212,067	2,997,577
<b>Total</b>	<b>24,056,659</b>	<b>24,114,911</b>	<b>24,056,639</b>	<b>24,114,706</b>

The Bank did not make payments to counterparty banks for the oil hedging transactions with effect from June 02, 2009 in response to a directive received from the Controller of Exchange of the Central Bank of Sri Lanka. Consequently, one of the counterparty banks appropriated USD 4.172 Mn. (Rs. 477.048 Mn.) which was kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit and the amount due to the said counterparty bank are reflected in the Balance Sheet as at December 31, 2009.

### 16. BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Current Account with the Central Bank of Sri Lanka	10,016,148	7,494,269	10,016,148	7,494,269
Current Account with the Bangladesh Bank	1,778,409	2,828,142	1,778,409	2,828,142
<b>Total</b>	<b>11,794,557</b>	<b>10,322,411</b>	<b>11,794,557</b>	<b>10,322,411</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, 2009 the minimum cash reserve requirement was 7.00% of the rupee deposit liabilities. (7.75% in 2008). 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.

### 17. GOVERNMENT TREASURY BILLS, BONDS AND OTHER SECURITIES

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000

#### 17.1 Government Treasury Bills and Treasury Bonds held for Trading

Government Treasury Bills and Bonds held for trading (Gross)	10,541,014	3,819,377	10,541,014	3,819,377
Gain on Marked to Market Valuation	119,259	9,222	119,259	9,222
<b>Total (Net)</b>	<b>10,660,273</b>	<b>3,828,599</b>	<b>10,660,273</b>	<b>3,828,599</b>

#### 17.2 Government Treasury Bills and Treasury Bonds held to Maturity

Government Treasury Bills and Bonds held to Maturity	47,340,029	31,769,819	47,340,029	31,534,726
Treasury Bonds Maturing after one year	20,525,683	16,269,926	20,525,683	16,269,926
<b>Total</b>	<b>67,865,712</b>	<b>48,039,745</b>	<b>67,865,712</b>	<b>47,804,652</b>

**Notes to the Financial Statements**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>17.3 Other Securities</b>				
Central Bank Securities held to Maturity	18,144,677	-	18,144,677	-
<b>Total</b>	18,144,677	-	18,144,677	-
<b>Total Government Treasury Bills, Bonds and Other Securities</b>	96,670,662	51,868,344	96,670,662	51,633,251

**17.4 Assets Pledged**

Nature of Assets	Nature of Liability	2009		2008	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government Treasury Bills and Bonds	Secured against the Repo instruments	31,491,466	28,750,209	31,491,466	28,750,209
		31,491,466	28,750,209	31,491,466	28,750,209

**17.5 Details of Government Treasury Bills and Treasury Bonds held to Maturity - Bank**

Year of Maturity	2009		2008	
	Face Value Rs. '000	Market Value Rs. '000	Face Value Rs. '000	Market Value Rs. '000
<b>17.5 (a) Government Treasury Bills</b>				
2009	-	-	18,061,324	17,223,057
2010	34,437,152	33,588,917	-	-
<b>Total</b>	34,437,152	33,588,917	18,061,324	17,223,057

**17.5 (b) Government Treasury Bonds**

Year of Maturity	2009		2008	
	Face Value Rs. '000	Market Value Rs. '000	Face Value Rs. '000	Market Value Rs. '000
2009	-	-	6,035,290	5,932,023
2010	4,283,063	4,396,372	550,000	517,837
2011	3,425,000	3,616,408	-	-
2012	550,000	587,104	-	-
2013	1,084,338	1,063,552	774,003	772,120
2014	481,378	495,015	-	-
2016	600,000	600,000	600,000	600,000
<b>Total</b>	10,423,779	10,758,451	7,959,293	7,821,980

**17.5 (c) Sri Lanka Development Bonds/Sovereign Bonds**

Year of Maturity	2009		2008	
	Face Value Rs. '000	Market Value Rs. '000	Face Value Rs. '000	Market Value Rs. '000
2009	-	-	22,455,096	22,455,096
2010	22,410,960	22,410,960	-	-
2012	1,144,000	1,207,354	111,806	111,806
<b>Total</b>	23,554,960	23,618,314	22,566,902	22,566,902
<b>Total</b>	68,415,891	67,965,682	48,587,519	47,611,939

## Notes to the Financial Statements

### 18. DEALING SECURITIES

	GROUP				BANK			
	As at December 31, 2009		As at December 31, 2008		As at December 31, 2009		As at December 31, 2008	
	Cost Rs. '000	Market Value Rs. '000						
<b>Quoted:</b>								
<b>SHARES</b>								
Merchant Bank of Sri Lanka PLC (125,421 Ordinary Shares) (153,614 Ordinary Shares as at December 31, 2008)	3,020	2,446 (@ Rs. 19.50)	4,627	1,114 (@ Rs. 7.25)	3,020	2,446 (@ Rs. 19.50)	4,627	1,114 (@ Rs. 7.25)
HDFC Bank of Sri Lanka (38,000 Ordinary Shares) (38,000 Ordinary Shares as at December 31, 2008)	8,493	5,615 (@ Rs. 147.75)	8,493	2,128 (@ Rs. 56.00)	8,493	5,615 (@ Rs. 147.75)	8,493	2,128 (@ Rs. 56.00)
John Keells Holdings PLC (177,553 Ordinary Shares) (177,553 Ordinary Shares as at December 31, 2008)	28,912	30,450 (@ Rs. 171.50)	28,912	8,878 (@ Rs. 50.00)	28,912	30,450 (@ Rs. 171.50)	28,912	8,878 (@ Rs. 50.00)
Hemas Holdings PLC (18,300 Ordinary Shares) (18,300 Ordinary Shares as at December 31, 2008)	2,199	2,246 (@ Rs. 122.75)	2,199	1,011 (@ Rs. 55.25)	2,199	2,246 (@ Rs. 122.75)	2,199	1,011 (@ Rs. 55.25)
Richard Pieris & Company PLC (87,266 Ordinary Shares) (87,266 Ordinary Shares as at December 31, 2008)	7,121	3,403 (@ Rs. 39.00)	7,121	1,963 (@ Rs. 22.50)	7,121	3,403 (@ Rs. 39.00)	7,121	1,963 (@ Rs. 22.50)
Asian Hotels Properties PLC (40,100 Ordinary Shares) (190,100 Ordinary Shares as at December 31, 2008)	2,041	3,789 (@ Rs. 94.50)	8,376	4,705 (@ Rs. 24.75)	2,041	3,789 (@ Rs. 94.50)	8,376	4,705 (@ Rs. 24.75)
Tokyo Cement Company (Lanka) PLC (50,000 Non-Voting Ordinary Shares) (61,200 Non-Voting Ordinary Shares as at December 31, 2008)	843	988 (@ Rs. 19.75)	1,032	444 (@ Rs. 7.25)	843	988 (@ Rs. 19.75)	1,032	444 (@ Rs. 7.25)
Dankotuwa Porcelain PLC (41,667 Ordinary Shares) (41,667 Ordinary Shares as at December 31, 2008)	1,348	469 (@ Rs. 11.25)	1,348	219 (@ Rs. 5.25)	1,348	469 (@ Rs. 11.25)	1,348	219 (@ Rs. 5.25)
Dipped Products PLC (87,100 Ordinary Shares) (87,100 Ordinary Shares as at December 31, 2008)	8,734	7,491 (@ Rs. 86.00)	8,734	4,943 (@ Rs. 56.75)	8,734	7,491 (@ Rs. 86.00)	8,734	4,943 (@ Rs. 56.75)
Lanka IOC PLC (250,000 Ordinary Shares) (250,000 Ordinary Shares as at December 31, 2008)	12,167	4,313 (@ Rs. 17.25)	12,167	3,813 (@ Rs. 15.25)	12,167	4,313 (@ Rs. 17.25)	12,167	3,813 (@ Rs. 15.25)
Dialog Telekom PLC (330,000 Ordinary Shares) (330,000 Ordinary Shares as at December 31, 2008)	8,842	2,393 (@ Rs. 7.25)	8,842	1,980 (@ Rs. 6.00)	8,842	2,393 (@ Rs. 7.25)	8,842	1,980 (@ Rs. 6.00)

**Notes to the Financial Statements**

	GROUP				BANK			
	As at December 31, 2009		As at December 31, 2008		As at December 31, 2009		As at December 31, 2008	
	Cost Rs. '000	Market Value Rs. '000						
ACL Cables PLC (10,800 Ordinary Shares) (10,800 Ordinary Shares as at December 31, 2008)	589	829 (@ Rs. 76.75)	589	324 (@ Rs. 30.00)	589	829 (@ Rs. 76.75)	589	324 (@ Rs. 30.00)
Pelwatte Sugar Industries PLC (12,300 Ordinary Shares) (12,300 Ordinary Shares as at December 31, 2008)	443	369 (@ Rs. 30.00)	443	132 (@ Rs. 10.75)	443	369 (@ Rs. 30.00)	443	132 (@ Rs. 10.75)
Ceylon Guardian Investment Trust PLC (701 Ordinary Shares) (2,000 Ordinary Shares as at December 31, 2008)	95	315 (@ Rs. 450.00)	270	164 (@ Rs. 82.00)	95	315 (@ Rs. 450.00)	270	164 (@ Rs. 82.00)
Chemical Industries Colombo PLC (13,140 Ordinary Shares) (13,140 Ordinary Shares as at December 31, 2008)	777	828 (@ Rs. 63.00)	777	378 (@ Rs. 28.75)	777	828 (@ Rs. 63.00)	777	378 (@ Rs. 28.75)
Overseas Reality Ceylon PLC (103,100 Ordinary Shares) (103,100 Ordinary Shares as at December 31, 2008)	1,424	1,598 (@ Rs. 15.50)	1,424	670 (@ Rs. 6.50)	1,424	1,598 (@ Rs. 15.50)	1,424	670 (@ Rs. 6.50)
DFCC Bank PLC (18,840 Ordinary Shares) (18,840 Ordinary Shares as at December 31, 2008)	2,851	3,146 (@ Rs. 167.00)	2,851	999 (@ Rs. 53.00)	2,851	3,146 (@ Rs. 167.00)	2,851	999 (@ Rs. 53.00)
Nawaloka Hospitals PLC (12,900 Ordinary Shares) (12,900 Ordinary Shares as at December 31, 2008)	39	40 (@ Rs. 3.10)	39	23 (@ Rs. 1.80)	39	40 (@ Rs. 3.10)	39	23 (@ Rs. 1.80)
eChanneling PLC (425,000 Ordinary Shares) (450,000 Ordinary Shares as at December 31, 2008)	10,432	4,144 (@ Rs. 9.75)	11,046	3,150 (@ Rs. 7.00)	10,432	4,144 (@ Rs. 9.75)	11,046	3,150 (@ Rs. 7.00)
Distilleries Company of Sri Lanka PLC (52,000 Ordinary Shares) (65,000 Ordinary Shares as at December 31, 2008)	6,225	5,473 (@ Rs. 105.25)	7,781	3,283 (@ Rs. 50.50)	6,225	5,473 (@ Rs. 105.25)	7,781	3,283 (@ Rs. 50.50)
Colombo Dockyard PLC (310 Ordinary Shares) (310 Ordinary Shares as at December 31, 2008)	12	76 (@ Rs. 244.75)	12	16 (@ Rs. 50.00)	12	76 (@ Rs. 244.75)	12	16 (@ Rs. 50.00)
Asiri Medical Services PLC (44,000 Ordinary Shares) (44,000 Ordinary Shares as at December 31, 2008)	350	484 (@ Rs. 11.00)	350	253 (@ Rs. 5.75)	350	484 (@ Rs. 11.00)	350	253 (@ Rs. 5.75)
Amaya Leisure PLC (2009 - Nil) (411,000 Ordinary Shares as at December 31, 2008)	-	-	14,924	7,295 (@ Rs. 17.75)	-	-	14,924	7,295 (@ Rs. 17.75)

## Notes to the Financial Statements

	GROUP				BANK			
	As at December 31, 2009		As at December 31, 2008		As at December 31, 2009		As at December 31, 2008	
	Cost Rs. '000	Market Value Rs. '000						
The Fortress Resorts PLC (2009 - Nil) (174,893 Ordinary Shares as at December 31, 2008)	-	-	2,609	752 (@ Rs. 4.30)	-	-	2,609	752 (@ Rs. 4.30)
Eden Hotel Lanka PLC (2009 - Nil) (75,000 Ordinary Shares as at December 31, 2008)	-	-	1,705	525 (@ Rs. 7.00)	-	-	1,705	525 (@ Rs. 7.00)
Taj Lanka Hotels PLC (2009 - Nil) (145,400 Ordinary Shares as at December 31, 2008)	-	-	2,753	1,018 (@ Rs. 7.00)	-	-	2,753	1,018 (@ Rs. 7.00)
Colombo Land & Development Company PLC (2009 - Nil) (400,000 Ordinary Shares as at December 31, 2008)	-	-	2,643	1,440 (@ Rs. 3.60)	-	-	2,643	1,440 (@ Rs. 3.60)
Vidulanka PLC (2009 - Nil) (5,500 Ordinary Shares from Bonus Issue as at December 31, 2008)	-	-	-	107 (@ Rs. 19.50)	-	-	-	107 (@ Rs. 19.50)
John Keells PLC (2009 - Nil) (30,300 Ordinary Shares as at December 31, 2008)	-	-	3,006	1,818 (@ Rs. 60.00)	-	-	3,006	1,818 (@ Rs. 60.00)
John Keells Hotels PLC (2009 - Nil) (600,000 Ordinary Shares as at December 31, 2008)	-	-	5,318	3,000 (@ Rs. 5.00)	-	-	5,318	3,000 (@ Rs. 5.00)
Hayleys PLC (2009 - Nil) (10,000 Ordinary Shares as at December 31, 2008)	-	-	1,600	860 (@ Rs. 86.00)	-	-	1,600	860 (@ Rs. 86.00)
Kelani Cables PLC (2009 - Nil) (15,000 Ordinary Shares as at December 31, 2008)	-	-	2,807	885 (@ Rs. 59.00)	-	-	2,807	885 (@ Rs. 59.00)
	<b>106,957</b>	<b>80,905</b>	154,798	58,290	<b>106,957</b>	<b>80,905</b>	154,798	58,290
Provision for diminution in value	(26,052)		(96,508)		(26,052)		(96,508)	
<b>Total</b>	<b>80,905</b>		58,290		<b>80,905</b>		58,290	

## Notes to the Financial Statements

## 19. INVESTMENT SECURITIES

	GROUP				BANK			
	As at December 31, 2009		As at December 31, 2008		As at December 31, 2009		As at December 31, 2008	
	Cost Rs. '000	Market Value/ Managers' Buying Price Rs. '000						
<b>Quoted:</b>								
<b>SHARES</b>								
Hatton National Bank PLC (7,700 Ordinary Shares) (7,700 Ordinary Shares as at December 31, 2008)	315	1,311 (@ Rs. 170.25)	315	537 (@ Rs. 69.75)	315	1,311 (@ Rs. 170.25)	315	537 (@ Rs. 69.75)
Sampath Bank PLC (1,554 Ordinary Shares) (1,554 Ordinary Shares as at December 31, 2008)	72	317 (@ Rs. 204.25)	72	106 (@ Rs. 68.00)	72	317 (@ Rs. 204.25)	72	106 (@ Rs. 68.00)
Seylan Bank PLC (1,000 Ordinary Shares) (1,000 Ordinary Shares as at December 31, 2008)	24	37 (@ Rs. 37.00)	24	29 (@ Rs. 28.50)	24	37 (@ Rs. 37.00)	24	29 (@ Rs. 28.50)
DFCC Bank PLC (1,748 Ordinary Shares) (1,748 Ordinary Shares as at December 31, 2008)	155	292 (@ Rs. 167.00)	155	93 (@ Rs. 53.00)	155	292 (@ Rs. 167.00)	155	93 (@ Rs. 53.00)
Nations Trust Bank PLC (1,333 Ordinary Shares) (1,333 Ordinary Shares as at December 31, 2008)	22	49 (@ Rs. 36.75)	22	30 (@ Rs. 22.25)	22	49 (@ Rs. 36.75)	22	30 (@ Rs. 22.25)
NDB Bank PLC (2,712 Ordinary Shares) (2,712 Ordinary Shares as at December 31, 2008)	215	559 (@ Rs. 206.00)	215	233 (@ Rs. 86.00)	215	559 (@ Rs. 206.00)	215	233 (@ Rs. 86.00)
<b>DEBENTURES</b>								
DFCC Bank PLC (Floating Rate - 2011) (10,000 Debentures of Rs. 1,000.00 each) (10,000 Debentures of Rs. 1,000.00 each as at December 31, 2008)	10,000	10,000 (@ Rs. 1,000.00)						
Nations Trust Bank PLC (20.53% - 2013) (95,000 Debentures of Rs. 1,000.00 each)	95,000	95,000 (@ Rs. 1,000.00)	-	-	95,000	95,000 (@ Rs. 1,000.00)	-	-
Sampath Bank PLC (Floating Rate - 2009) (2009 - Nil) (70,000 Debentures of Rs. 100.00 each as at December 31, 2008)	-	-	7,000	6,563 (@ Rs. 93.75)	-	-	7,000	6,563 (@ Rs. 93.75)
Senkadagala Finance PLC (14% - 2009) (2009 - Nil) (40,000 Debentures of Rs. 100.00 each as at December 31, 2008)	-	-	4,000	4,000 (@ Rs. 100.00)	-	-	4,000	4,000 (@ Rs. 100.00)
<b>Sub Total</b>	<b>105,803</b>	<b>107,565</b>	<b>21,803</b>	<b>21,591</b>	<b>105,803</b>	<b>107,565</b>	<b>21,803</b>	<b>21,591</b>

## Notes to the Financial Statements

	GROUP				BANK			
	As at December 31, 2009		As at December 31, 2008		As at December 31, 2009		As at December 31, 2008	
	Cost Rs. '000	Market Value/ Managers' Buying Price Rs. '000						
<b>Unquoted: SHARES</b>								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares) (4,400 Ordinary Shares as at December 31, 2008)	440	440 (@ Rs. 100.00)						
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares) (62,500 Ordinary Shares as at December 31, 2008)	625	625 (@ Rs. 10.00)						
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares) (1,000,000 Ordinary Shares as at December 31, 2008)	10,000	10,000 (@ Rs. 10.00)						
Lanka Financial Service Bureau Ltd. (225,000 Ordinary Shares) (225,000 Ordinary Shares as at December 31, 2008)	2,250	2,250 (@ Rs. 10.00)						
Dialog Telekom PLC (877,500,000 Preference Shares) (1,053,000,000 Preference Shares as at December 31, 2008)	877,500	877,500 (@ Rs. 1.00)	1,053,000	1,053,000 (@ Rs. 1.00)	877,500	877,500 (@ Rs. 1.00)	1,053,000	1,053,000 (@ Rs. 1.00)
Central Depository of Bangladesh Ltd. (6 Shares of Bangladesh Taka 1.000 Mn. each. Converted @ Rs. 1.65689 per Taka) (6 Shares of Bangladesh Taka 1.000 Mn. each. Converted @ Rs. 1.63490 per Taka as at December 31, 2008)	9,941	9,941	9,809	9,809	9,941	9,941	9,809	9,809
<b>LEASE BACKED SECURITIES</b>								
Senkadagala Finance PLC	18,577	18,577	51,853	51,853	18,577	18,577	51,853	51,853
Commercial Leasing Company PLC	-	-	11,641	11,641	-	-	11,641	11,641
<b>TRUST CERTIFICATES/BONDS</b>								
People's Leasing Company PLC	-	-	15,500	15,500	-	-	15,500	15,500
Senkadagala Finance PLC	-	-	18,050	18,050	-	-	18,050	18,050
Government of Bangladesh Bonds	157	157	2,168	2,168	157	157	2,168	2,168
<b>Sub Total</b>	<b>919,490</b>	<b>919,490</b>	<b>1,175,336</b>	<b>1,175,336</b>	<b>919,490</b>	<b>919,490</b>	<b>1,175,336</b>	<b>1,175,336</b>
<b>Total</b>	<b>1,025,293</b>	<b>1,027,055</b>	<b>1,197,139</b>	<b>1,196,927</b>	<b>1,025,293</b>	<b>1,027,055</b>	<b>1,197,139</b>	<b>1,196,927</b>

**Notes to the Financial Statements****20. BILLS OF EXCHANGE, LOANS & ADVANCES AND LEASE RECEIVABLE**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>20.1 Bills of Exchange</b>				
Export bills	2,594,298	2,266,071	2,594,298	2,266,071
Import bills	369,913	895,263	369,913	895,263
	<b>2,964,211</b>	<b>3,161,334</b>	<b>2,964,211</b>	<b>3,161,334</b>
Less: Loan loss provision [Refer Note 20.1 (a)]	60,997	52,426	60,997	52,426
Interest in suspense [Refer Note 20.1 (b)]	56,167	50,033	56,167	50,033
<b>Total</b>	<b>2,847,047</b>	<b>3,058,875</b>	<b>2,847,047</b>	<b>3,058,875</b>

**20.1 (a) Movement in the Provision for Bad & Doubtful Bills of Exchange:**

	GROUP		BANK	
<b>Specific Provision</b>				
Opening balance	26,401	26,401	26,401	26,401
Amount provided	15,869	-	15,869	-
Amount reversed	(8,840)	-	(8,840)	-
<b>Closing balance</b>	<b>33,430</b>	<b>26,401</b>	<b>33,430</b>	<b>26,401</b>
<b>General Provision</b>				
Opening balance	26,025	15,069	26,025	15,069
Amount provided	1,542	10,956	1,542	10,956
<b>Closing balance</b>	<b>27,567</b>	<b>26,025</b>	<b>27,567</b>	<b>26,025</b>
<b>Total provision</b>	<b>60,997</b>	<b>52,426</b>	<b>60,997</b>	<b>52,426</b>

**20.1 (b) Movement in the Interest in Suspense on Bills of Exchange:**

	GROUP		BANK	
Opening balance	50,033	40,370	50,033	40,370
Interest suspended during the year	6,134	9,663	6,134	9,663
<b>Closing balance</b>	<b>56,167</b>	<b>50,033</b>	<b>56,167</b>	<b>50,033</b>

**20.2 Loans & Advances**

	GROUP		BANK	
Sri Lankan Rupee and foreign currency loans & advances [Refer Note 20.2 (a)]	171,583,401	176,657,832	171,586,168	176,721,610
Less: Loan loss provision [Refer Note 20.2 (b)]	4,448,582	4,462,812	4,448,582	4,462,812
Interest in suspense [Refer Note 20.2 (c)]	5,808,525	4,400,341	5,808,525	4,400,341
<b>Total</b>	<b>161,326,294</b>	<b>167,794,679</b>	<b>161,329,061</b>	<b>167,858,457</b>

## Notes to the Financial Statements

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000

### 20.2 (a) Sri Lankan Rupee and Foreign Currency Loans & Advances

#### Sri Lankan Rupee Loans & Advances:

Overdrafts	29,560,434	34,536,493	29,560,434	34,595,566
Loans	93,873,460	93,525,269	93,876,227	93,529,974
Preshipment loans	242,494	347,786	242,494	347,786
Staff loans	3,410,349	3,008,960	3,410,349	3,008,960
Interest receivable and others	3,938,374	2,864,532	3,938,374	2,864,532
<b>Sub Total</b>	<b>131,025,111</b>	<b>134,283,040</b>	<b>131,027,878</b>	<b>134,346,818</b>

#### Foreign Currency Loans & Advances:

Overdrafts	7,470,908	8,524,324	7,470,908	8,524,324
Loans	27,210,789	27,463,440	27,210,789	27,463,440
Preshipment loans	5,682,754	6,196,608	5,682,754	6,196,608
Interest receivable	193,839	190,420	193,839	190,420
<b>Sub Total</b>	<b>40,558,290</b>	<b>42,374,792</b>	<b>40,558,290</b>	<b>42,374,792</b>
<b>Total</b>	<b>171,583,401</b>	<b>176,657,832</b>	<b>171,586,168</b>	<b>176,721,610</b>

### 20.2 (b) Movement in the Provision for Bad & Doubtful Loans & Advances:

#### Specific Provision

Opening balance	3,029,052	2,507,225	3,029,052	2,507,225
Amount provided	1,082,490	1,315,384	1,082,490	1,315,384
Exchange rate variance on foreign currency provision	15,249	(3,506)	15,249	(3,506)
Amount reversed	(1,132,132)	(790,051)	(1,132,132)	(790,051)
<b>Closing balance</b>	<b>2,994,659</b>	<b>3,029,052</b>	<b>2,994,659</b>	<b>3,029,052</b>

#### General Provision

Opening balance	1,433,760	796,170	1,433,760	796,170
Amount provided	17,690	630,868	17,690	630,868
Exchange rate variance on foreign currency provision	2,473	6,722	2,473	6,722
<b>Closing balance</b>	<b>1,453,923</b>	<b>1,433,760</b>	<b>1,453,923</b>	<b>1,433,760</b>
<b>Total provision</b>	<b>4,448,582</b>	<b>4,462,812</b>	<b>4,448,582</b>	<b>4,462,812</b>

### 20.2 (c) Movement in the Interest in Suspense on Loans & Advances:

Opening balance	4,400,341	3,249,805	4,400,341	3,249,805
Interest suspended during the year	3,504,566	2,260,345	3,504,566	2,260,345
Amount recovered during the year	(2,096,382)	(1,109,809)	(2,096,382)	(1,109,809)
<b>Closing balance</b>	<b>5,808,525</b>	<b>4,400,341</b>	<b>5,808,525</b>	<b>4,400,341</b>

**Notes to the Financial Statements**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>20.3 Lease Receivable</b>				
<b>20.3 (a) Lease Receivable within one year</b>				
Total lease rentals receivable within one year	4,979,011	5,406,677	5,077,575	5,467,607
Less: Unearned lease income	1,402,927	2,137,140	1,449,835	2,162,599
Loan loss provision	220,400	173,342	217,223	173,248
Interest in Suspense [Refer Note 20.3 (e)]	135,497	87,171	135,497	87,171
<b>Sub Total</b>	<b>3,220,187</b>	<b>3,009,024</b>	<b>3,275,020</b>	<b>3,044,589</b>
<b>20.3 (b) Lease Receivable from one to five years</b>				
Total lease rentals receivable from one to five years	5,620,196	7,632,625	5,880,736	7,776,716
Less: Unearned lease income	1,004,255	1,048,995	1,076,486	1,088,288
Loan loss provision	284,489	265,765	287,670	265,859
<b>Sub Total</b>	<b>4,331,452</b>	<b>6,317,865</b>	<b>4,516,580</b>	<b>6,422,569</b>
<b>20.3 (c) Lease Receivable after five years</b>				
Total lease rentals receivable after five years	2,427	17,886	2,427	17,886
Less: Unearned lease income	189	792	189	792
Loan loss provision	138	429	134	429
<b>Sub Total</b>	<b>2,100</b>	<b>16,665</b>	<b>2,104</b>	<b>16,665</b>
<b>Total</b>	<b>7,553,739</b>	<b>9,343,554</b>	<b>7,793,704</b>	<b>9,483,823</b>
<b>20.3 (d) Movement in the Provision for Bad and Doubtful Lease Receivable:</b>				
<b>Specific Provision</b>				
Opening balance	353,370	156,472	353,370	156,472
Amount provided	399,799	285,661	399,799	285,661
Amount reversed	(327,206)	(88,763)	(327,206)	(88,763)
<b>Closing balance</b>	<b>425,963</b>	<b>353,370</b>	<b>425,963</b>	<b>353,370</b>
<b>General Provision</b>				
Opening balance	86,166	55,964	86,166	55,964
Amount provided	(7,104)	30,202	(7,104)	30,202
<b>Closing balance</b>	<b>79,062</b>	<b>86,166</b>	<b>79,062</b>	<b>86,166</b>
<b>Total provision</b>	<b>505,025</b>	<b>439,536</b>	<b>505,025</b>	<b>439,536</b>
<b>20.3 (e) Movement in the Interest in Suspense Account on Lease Receivable</b>				
Opening balance	87,171	46,221	87,171	46,221
Interest suspended during the year	90,048	82,672	90,048	82,672
Amount recovered during the year	(41,722)	(41,722)	(41,722)	(41,722)
<b>Closing balance</b>	<b>135,497</b>	<b>87,171</b>	<b>135,497</b>	<b>87,171</b>

The maturity analysis of Bills of Exchange, Loans & Advances and Lease Receivable is given in Note 35.

## Notes to the Financial Statements

### 20.4 Non-Performing Bills of Exchange, Loans & Advances and Lease Receivable

Net exposure on non-performing loans & advances and lease receivable as at December 31, before discounting the value of the securities obtained is given below:

	GROUP				BANK			
	2009 Rs. '000	%	2008 Rs. '000	%	2009 Rs. '000	%	2008 Rs. '000	%
Bills of Exchange	60,777		71,001		60,777		71,001	
Loans & advances	13,349,859		10,408,909		13,349,859		10,408,909	
Lease receivable	603,864		662,312		603,864		662,312	
Non-performing loans & advances (*)	14,014,500	7.84	11,142,222	5.97	14,014,500	7.83	11,142,222	5.96
Add: Interest receivable on non-performing loans & advances	4,093,313		3,007,946		4,093,313		3,007,946	
Gross non-performing loans & advances	18,107,813		14,150,168		18,107,813		14,150,168	
Less: Interest in suspense [Refer Note 20.4 (d)]	6,000,189		4,537,545		6,000,189		4,537,545	
Net non-performing loans & advances	12,107,624	6.85	9,612,623	5.19	12,107,624	6.84	9,612,623	5.19
Less: Specific provisions for bad & doubtful debts [Refer Note 20.4 (a)]	3,454,052		3,408,823		3,454,052		3,408,823	
<b>Net exposure</b>	<b>8,653,572</b>	<b>4.90</b>	<b>6,203,800</b>	<b>3.35</b>	<b>8,653,572</b>	<b>4.89</b>	<b>6,203,800</b>	<b>3.35</b>

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000

#### 20.4 (a) Specific Provision for Bad & Doubtful Debts - Summary

##### Specific Provision

Opening balance	3,408,823	2,690,098	3,408,823	2,690,098
Amount provided (Refer Note 9)	1,498,158	1,601,045	1,498,158	1,601,045
Exchange rate variance on foreign currency provisions	15,249	(3,506)	15,249	(3,506)
Amount reversed	(1,468,178)	(878,814)	(1,468,178)	(878,814)
<b>Closing balance</b>	<b>3,454,052</b>	<b>3,408,823</b>	<b>3,454,052</b>	<b>3,408,823</b>

#### 20.4 (b) General Provision for Bad & Doubtful Debts - Summary

##### General Provision

Opening balance	1,545,951	867,203	1,545,951	867,203
Amount provided (Refer Note 9)	12,128	672,026	12,128	672,026
Exchange rate variance on foreign currency provisions	2,473	6,722	2,473	6,722
<b>Closing balance</b>	<b>1,560,552</b>	<b>1,545,951</b>	<b>1,560,552</b>	<b>1,545,951</b>
<b>Total</b>	<b>5,014,604</b>	<b>4,954,774</b>	<b>5,014,604</b>	<b>4,954,774</b>

#### 20.4 (c) Provision for bad & doubtful debts - Summary

Bills of Exchange [Refer Note 20.1(a)]	60,997	52,426	60,997	52,426
Loans & Advances [Refer Note 20.2(b)]	4,448,582	4,462,812	4,448,582	4,462,812
Lease receivable [Refer Note 20.3(d)]	505,025	439,536	505,025	439,536
<b>Closing balance</b>	<b>5,014,604</b>	<b>4,954,774</b>	<b>5,014,604</b>	<b>4,954,774</b>

#### 20.4 (d) Interest in Suspense - Summary

Opening balance	4,537,545	3,336,396	4,537,545	3,336,396
Interest suspended during the year	3,600,748	2,352,680	3,600,748	2,352,680
Amount recovered during the year	(2,138,104)	(1,151,531)	(2,138,104)	(1,151,531)
<b>Closing balance</b>	<b>6,000,189</b>	<b>4,537,545</b>	<b>6,000,189</b>	<b>4,537,545</b>

**Notes to the Financial Statements**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>20.4 (e) Provision Cover - Gross</b>				
Specific provisions to Gross non-performing loans and advances	3,454,052 x 100	3,408,823 x 100	3,454,052 x 100	3,408,823 x 100
	14,014,500	11,142,222	14,014,500	11,142,222
<b>Provision cover (Gross)</b>	<b>24.65%</b>	<b>30.59%</b>	<b>24.65%</b>	<b>30.59%</b>

**20.4 (f) Provision Cover - Net**

Specific provisions to Net non-performing loans and advances	3,454,052 x 100	3,408,823 x 100	3,454,052 x 100	3,408,823 x 100
	12,107,624	9,612,623	12,107,624	9,612,623
<b>Provision cover (Net)</b>	<b>28.53%</b>	<b>35.46%</b>	<b>28.53%</b>	<b>35.46%</b>

The Net exposure of Rs. 8,653.572 Mn. (Rs. 6,203.800 Mn. as at December 31, 2008) is covered by Securities valued over Rs. 8,653.572 Mn. (Over Rs. 6,203.800 Mn. as at December 31, 2008) excluding machinery and stocks.

**20.4 (g) Open Credit Exposure**

Net Exposure to Capital Base (Regulatory Capital as per the Basel II Computation)	8,653,572 x 100	6,203,800 x 100	8,653,572 x 100	6,203,800 x 100
	30,149,539	29,088,026	30,175,603	29,001,198
<b>Open Credit Exposure</b>	<b>28.70%</b>	<b>21.33%</b>	<b>28.68%</b>	<b>21.39%</b>

**20.5 Bills of Exchange, Loans & Advances and Lease Receivable - Summary**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Bills of Exchange (Refer Note 20.1)	2,964,211	3,161,334	2,964,211	3,161,334
Loans & advances (Refer Note 20.2)	171,583,401	176,657,832	171,586,168	176,721,610
Lease receivable [Refer Note 20.3 (a), (b) and (c)]	8,194,261	9,870,261	8,434,226	10,010,530
Gross Bills of Exchange, loans & advances and lease receivable	182,741,873	189,689,427	182,984,605	189,893,474
Less: Provision for bad & doubtful debts [Refer Note 20.4 (c)]	(5,014,604)	(4,954,774)	(5,014,604)	(4,954,774)
Interest in suspense [Refer Note 20.4 (d)]	(6,000,189)	(4,537,545)	(6,000,189)	(4,537,545)
<b>Net Bills of Exchange, Loans &amp; Advances and Lease Receivable</b>	<b>171,727,080</b>	<b>180,197,108</b>	<b>171,969,812</b>	<b>180,401,155</b>

## Notes to the Financial Statements

### 20.6 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			
	2009 Rs. '000	%	2008 Rs. '000	%	2009 Rs. '000	%	2008 Rs. '000	%
Exports	17,461,926	9.77	20,738,284	11.11	17,461,926	9.76	20,738,284	11.10
Tourism & allied	5,526,476	3.09	6,136,145	3.29	5,526,476	3.09	6,136,145	3.28
Industrial	29,277,295	16.39	29,702,579	15.91	29,277,295	16.37	29,702,579	15.89
Agriculture & fishing	8,788,994	4.92	8,166,631	4.37	8,788,994	4.91	8,166,631	4.37
Commercial trading	17,456,240	9.77	18,315,548	9.81	17,456,240	9.76	18,315,548	9.80
Imports	21,220,217	11.88	23,644,173	12.67	21,220,217	11.86	23,644,173	12.65
Consumption	9,682,392	5.42	9,751,498	5.22	9,682,392	5.41	9,751,498	5.22
Services	22,311,277	12.49	22,345,636	11.97	22,551,241	12.61	22,485,905	12.03
Housing & construction	16,853,677	9.43	17,843,086	9.56	16,853,677	9.42	17,843,086	9.55
Others	30,070,066	16.84	30,037,902	16.09	30,072,834	16.81	30,101,680	16.11
<b>Total loans &amp; advances</b>	<b>178,648,560</b>	<b>100.00</b>	<b>186,681,482</b>	<b>100.00</b>	<b>178,891,292</b>	<b>100.00</b>	<b>186,885,529</b>	<b>100.00</b>

### 21. INVESTMENTS IN ASSOCIATES

	Holding (%)	GROUP				BANK			
		December 31, 2009		December 31, 2008		December 31, 2009		December 31, 2008	
		Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000						
<b>Unquoted:</b>									
Equity Investments Lanka Ltd. (Incorporated in Sri Lanka)	22.92	44,331	47,683	44,331	46,138	44,331	47,683	44,331	46,138
(4,110,938 Ordinary Shares)									
(4,110,938 Ordinary Shares as at December 31, 2008)									
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		1,807		(2,657)					
Current year's share of profit after tax		2,573		4,464					
Less: Dividend received during the year		(1,028)		-					
Current year's retained profit		1,545		4,464					
Balance at the end of the year		3,352		1,807					
<b>Total</b>		<b>47,683</b>	<b>47,683</b>	<b>46,138</b>	<b>46,138</b>	<b>44,331</b>	<b>47,683</b>	<b>44,331</b>	<b>46,138</b>
Commercial Insurance Brokers (Pvt) Ltd. (Incorporated in Sri Lanka)	18.91	100	24,950	100	24,850	-	-	-	-
(120,000 Ordinary Shares)									
(120,000 Ordinary Shares as at December 31, 2008)									
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		24,750		20,946					
Current year's share of profit after tax		775		4,480					
Less: Dividend received during the year		(675)		(676)					
Current year's retained profit		100		3,804					
Balance at the end of the year		24,850		24,750					
<b>Total</b>		<b>24,950</b>	<b>24,950</b>	<b>24,850</b>	<b>24,850</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total value of investments in unquoted Associates at carrying value on equity basis		72,633		70,988		44,331		44,331	
Total Market Value/Directors' Valuation of Investments in Associate Companies			72,633		70,988		47,683		46,138

**Notes to the Financial Statements****22. INVESTMENTS IN SUBSIDIARIES**

	GROUP				BANK				
	December 31, 2009		December 31, 2008		December 31, 2009		December 31, 2008		
	Balance	Market Value/ Directors' Valuation							
Holding (%)	Rs. '000	Rs. '000							
<b>Quoted:</b>									
Commercial Development Company PLC (Incorporated in Sri Lanka)	94.55	-	-	-	-	274,393	589,977	274,393	624,014
(11,345,705 Ordinary Shares)						(@ Rs. 52.00)		(@ Rs. 55.00)	
(11,345,705 Ordinary Shares as at December 31, 2008)									
<b>Unquoted:</b>									
ONEzero Company Ltd. (Incorporated in Sri Lanka)	100.00	-	-	-	-	5,000	5,000	5,000	5,000
(500,000 Ordinary Shares)						(@ Rs. 10.00)		(@ Rs. 10.00)	
(500,000 Ordinary Shares as at December 31, 2008)									
Commercial Bank Primary Dealer Ltd. (Incorporated in Sri Lanka)	100.00	-	-	-	-	-	-	150,000	150,000
(2009 - Nil)								(@ Rs. 10.00)	
(15,000,000 Ordinary Shares as at December 31, 2008)									
X-pertise Ltd. (Incorporated in Sri Lanka)	100.00	-	-	-	-	-	-	4,288	4,288
(2009 - Nil)								(@ Rs. 10.00)	
(428,797 Ordinary Shares as at December 31, 2008)									
<b>Total</b>		-	-	-	-	<b>279,393</b>	<b>594,977</b>	<b>433,681</b>	<b>783,302</b>

## 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	31.12.09 Total	31.12.08 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 the beginning 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
Additions during the year	20,592	3,304	9,594	250,196	162,208	304,323	148,206	898,423	880,702
Surplus on revaluation of property	-	-	-	-	-	-	-	-	41,568
Disposals during the year	-	-	-	(72,376)	(61,224)	(35,327)	-	(168,927)	(85,429)
Exchange rate variance	-	-	-	1,026	237	2,005	-	3,268	7,639
Transfers/Adjustments	-	-	-	22	-	(322)	(22,557)	(22,857)	(88,596)
As at the end of the year	1,157,934	954,702	619,032	2,435,340	378,205	2,197,064	155,139	7,897,416	7,187,509
<b>Accumulated Depreciation</b>									
As at the beginning of the year	-	147,048	32,383	1,392,620	135,939	1,136,874	-	2,844,864	2,434,572
Charge for the year	-	37,028	25,210	257,658	58,824	201,337	-	580,057	478,841
Disposals during the year	-	-	-	(71,223)	(38,347)	(30,321)	-	(139,891)	(72,982)
Exchange rate variance	-	-	-	1,009	222	1,698	-	2,929	4,222
Transfers/Adjustments	-	-	-	14	-	(14)	-	-	211
As at the end of the year	-	184,076	57,593	1,580,078	156,638	1,309,574	-	3,287,959	2,844,864
<b>Net Book Value as at 31.12.09</b>	<b>1,157,934</b>	<b>770,626</b>	<b>561,439</b>	<b>855,262</b>	<b>221,567</b>	<b>887,490</b>	<b>155,139</b>	<b>4,609,457</b>	<b>-</b>
Net Book Value as at 31.12.08	1,137,342	804,350	577,055	863,852	141,045	789,511	29,490		4,342,645

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

Class of Asset	2009			2008		
	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	397,314	-	397,314	376,722	-	376,722
Freehold buildings	640,873	192,196	448,677	637,569	174,814	462,755
Leasehold buildings	238,214	74,100	164,114	238,027	71,434	166,593
<b>Total</b>	<b>1,276,401</b>	<b>266,296</b>	<b>1,010,105</b>	<b>1,252,318</b>	<b>246,248</b>	<b>1,006,070</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	31.12.09 Total	31.12.08 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 the beginning 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
Additions during the year	20,592	3,304	187	249,590	999	303,874	148,206	726,752	815,813
Disposals during the year	-	-	-	(72,376)	(1,793)	(35,327)	-	(109,496)	(60,051)
Exchange rate variance	-	-	-	1,026	237	2,005	-	3,268	7,639
Transfers/Adjustments	-	-	-	22	-	(322)	(22,557)	(22,857)	(88,596)
As at the end of the year	1,157,934	954,702	104,625	2,433,641	63,250	2,138,885	155,139	7,008,176	6,410,509
<b>Accumulated Depreciation</b>									
As at the beginning of the year	-	147,048	12,960	1,392,021	39,123	1,097,582	-	2,688,734	2,318,110
Charge for the year	-	37,028	3,481	257,462	8,685	198,149	-	504,805	419,676
Disposals during the year	-	-	-	(71,223)	(1,498)	(30,321)	-	(103,042)	(53,485)
Exchange rate variance	-	-	-	1,009	222	1,698	-	2,929	4,222
Transfers/Adjustments	-	-	-	14	-	(14)	-	-	211
As at the end of the year	-	184,076	16,441	1,579,283	46,532	1,267,094	-	3,093,426	2,688,734
<b>Net Book Value as at 31.12.09</b>	<b>1,157,934</b>	<b>770,626</b>	<b>88,184</b>	<b>854,358</b>	<b>16,718</b>	<b>871,791</b>	<b>155,139</b>	<b>3,914,750</b>	-
Net Book Value as at 31.12.08	1,137,342	804,350	91,478	863,358	24,684	771,073	29,490		3,721,775

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

Class of Asset	2009			2008		
	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	397,314	-	397,314	376,722	-	376,722
Freehold buildings	640,873	192,196	448,677	637,569	174,814	462,755
Leasehold buildings	102,995	28,529	74,466	102,808	25,863	76,945
<b>Total</b>	<b>1,141,182</b>	<b>220,725</b>	<b>920,457</b>	<b>1,117,099</b>	<b>200,677</b>	<b>916,422</b>

### 23.3 Revaluation of Freehold and Leasehold Land & Buildings

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 valuation methods adopted for this purpose include, 'Income approach', 'Cost approach', 'Investment method' and 'Comparison method'. The surplus on the revaluation amounting to Rs. 1,131.147 Mn. was credited to the Revaluation Reserve Account.

### 23.4 Title restriction on Property, Plant & Equipment

There were no restrictions on the title of Property, Plant & Equipment of the Group as at the Balance Sheet date.

### 23.5 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of Property, Plant & Equipment pledged as securities for liabilities.

### 23.6 Compensation from third parties for items of Property, Plant & Equipment

There were no compensation received/receivable from third parties for items of Property, Plant & Equipment that were impaired, lost or given up.

## Notes to the Financial Statements

### 23.7 Fully Depreciated Property, Plant & Equipment

The cost of fully-depreciated Property, Plant & Equipment of the Bank which are still in use as at the Balance Sheet date is as follows:

	2009 Rs. '000	2008 Rs. '000
Computer equipment	910,523	813,736
Motor vehicles	19,302	20,477
Equipment, furniture and fixtures	516,956	449,989

### 23.8 Temporarily idle Property, Plant & Equipment

Following Property, Plant & Equipment of the Bank were temporarily idle as at the Balance Sheet date:

	2009 Rs. '000	2008 Rs. '000
Computer equipment	81,267	73,028
Equipment, furniture and fixtures	29,679	19,220

### 23.9 Property, Plant & Equipment retired from active use

Following Property, Plant & Equipment of the Bank were retired from active use as at the Balance Sheet date:

	2009 Rs. '000	2008 Rs. '000
Computer equipment	40,134	-
Equipment, furniture and fixtures	9,018	9,018

## 24. LEASEHOLD PROPERTY

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Cost/Valuation</b>				
As at the beginning of the year	128,700	128,700	84,840	84,840
Additions during the year	-	-	-	-
As at the end of the year	128,700	128,700	84,840	84,840
<b>Accumulated Amortisation</b>				
As at the beginning of the year	11,116	9,735	3,768	2,897
Transfers during the year	-	(71)	-	(71)
Amortisation for the year	1,452	1,452	942	942
As at the end of the year	12,568	11,116	4,710	3,768
<b>Net book value</b>	116,132	117,584	80,130	81,072

The leasehold rights to land is disclosed under Leasehold Property as per a ruling issued by the revised Urgent Issues Task Force (UITF) 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.

**Notes to the Financial Statements**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>25. OTHER ASSETS</b>				
Refundable deposits and prepayments	437,323	380,133	423,710	369,431
Clearing account balance	2,285,199	2,245,221	2,285,199	2,245,221
Receivables on oil hedging transactions	1,913,597	–	1,913,597	–
Other accounts	382,170	614,055	402,017	554,343
<b>Total</b>	<b>5,018,289</b>	<b>3,239,409</b>	<b>5,024,523</b>	<b>3,168,995</b>

**26. INTANGIBLE ASSETS****26.1 Computer Software and Copyrights****Cost/Valuation**

As at the beginning of the year	685,307	610,549	685,261	610,503
Additions during the year	110,982	74,758	110,982	74,758
As at the end of the year	796,289	685,307	796,243	685,261

**Accumulated Amortisation**

As at the beginning of the year	478,981	415,988	478,980	415,987
Amortisation for the year	72,061	62,993	72,061	62,993
As at the end of the year	551,042	478,981	551,041	478,980
<b>Net book value</b>	<b>245,247</b>	<b>206,326</b>	<b>245,202</b>	<b>206,281</b>

**26.2 Software Under Development****Cost/Valuation**

As at the beginning of the year	90,397	73,971	89,110	73,971
Additions during the year	71,308	73,220	71,308	71,933
Transfers/Adjustments during the year	(19,392)	(56,794)	(18,105)	(56,794)
As at the end of the year	142,313	90,397	142,313	89,110
<b>Total net book value</b>	<b>387,560</b>	<b>296,723</b>	<b>387,515</b>	<b>295,391</b>

There were no restrictions on the title of the intangible assets of the Group as at the Balance Sheet date. Further, there were no items pledged as securities for liabilities.

## Notes to the Financial Statements

### 27. DEPOSITS

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Local Currency Deposits</b>				
Current account deposits	17,411,728	13,600,878	17,423,009	13,616,409
Savings deposits	69,587,683	49,212,943	69,590,428	49,213,195
Time deposits	75,846,631	71,777,977	75,846,631	71,777,977
Certificates of deposit	4,216,279	3,538,205	4,216,279	3,538,205
Sub total	167,062,321	138,130,003	167,076,347	138,145,786
<b>Foreign Currency Deposits</b>				
Current account deposits	5,193,079	4,589,679	5,193,079	4,589,679
Savings deposits	23,584,225	23,022,759	23,584,225	23,022,759
Time deposits	38,891,055	34,122,762	38,891,055	34,122,762
Sub total	67,668,359	61,735,200	67,668,359	61,735,200
<b>Total deposits</b>	<b>234,730,680</b>	<b>199,865,203</b>	<b>234,744,706</b>	<b>199,880,986</b>
<b>27 (a) Analysis of Deposits</b>				
Deposits from banks	2,165,283	3,567,307	2,165,283	3,567,307
Deposits from finance companies	3,010,590	2,508,618	3,010,590	2,508,618
Deposits from other customers	229,554,807	193,789,278	229,568,833	193,805,061
<b>Total</b>	<b>234,730,680</b>	<b>199,865,203</b>	<b>234,744,706</b>	<b>199,880,986</b>

The maturity analysis of deposits is given in Note 35.

The Foreign Currency Deposits include a balance held by the Bank amounting to US\$ 15.0 Mn., a deposit from the People's Bank. People's Bank initiated legal action and obtained an enjoining order preventing the Bank from investing and/or setting off the sum of USD 15.0 Mn. held by the Bank in settlement of the outstanding due to the Bank on the oil hedging transactions. However, on January 15, 2010, the interim injunction sought by the People's Bank was not granted by the Commercial High Court, Colombo. As a result, subsequent to the Balance Sheet date, the Bank duly set off the US\$ 15.0 Mn. deposit against the amount due from the People's Bank.

### 28. BORROWINGS

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Call money borrowings	-	1,150,000	-	1,150,000
Borrowings from banks abroad	2,608,547	4,160,895	2,608,547	4,160,895
Re-finance borrowings	7,886,167	7,180,705	7,886,167	7,180,705
Long term borrowings	1,144,000	1,128,000	1,144,000	1,128,000
<b>Total</b>	<b>11,638,714</b>	<b>13,619,600</b>	<b>11,638,714</b>	<b>13,619,600</b>

The maturity analysis of Borrowings is given in Note 35.

## Notes to the Financial Statements

### 29. DEFERRED TAX

#### 29 (a) Summary of Net Deferred Tax Liability

	GROUP				BANK			
	2009		2008		2009		2008	
	Temporary Difference Rs. '000	Tax Effect Rs. '000						
As at the beginning of the year	1,940,707	676,396	2,038,883	692,686	1,559,302	542,904	1,582,894	552,322
Amount originating/(reversing) during the year	258,752	91,091	(83,157)	(10,641)	258,059	90,848	(23,592)	(9,025)
Deferred tax effect on revaluation surplus on property	-	-	39,928	13,975	-	-	-	-
Deferred tax effect on re-classification of revaluation surplus to retained earnings	-	-	(54,947)	(19,231)	-	-	-	-
Exchange rate variance	-	(370)	-	(393)	-	(370)	-	(393)
As at the end of the year	2,199,459	767,117	1,940,707	676,396	1,817,361	633,382	1,559,302	542,904

#### 29 (b) Reconciliation of Net Deferred Tax Liability

	GROUP				BANK			
	Balance Sheet		Income Statement		Balance Sheet		Income Statement	
	2009 Rs. '000	2008 Rs. '000						
<b>Deferred Tax Liabilities on:</b>								
Accelerated Depreciation for tax purposes - Own Assets	323,247	308,859	(14,388)	(46,257)	289,648	278,970	(10,678)	(45,579)
Accelerated Depreciation for tax purposes - Leased Assets	461,838	407,335	(54,503)	864	461,838	407,335	(54,503)	864
Revaluation surplus on property	129,457	129,457	-	-	-	-	-	-
Deferred tax on re-classification of revaluation surplus to retained earnings	(19,231)	(19,231)	-	-	-	-	-	-
	895,311	826,420	(68,891)	(45,393)	751,486	686,305	(65,181)	(44,715)
<b>Deferred Tax Assets on:</b>								
Finance Leases	7,527	3,883	3,644	1,487	-	-	-	-
Defined Benefit Plans	106,139	76,176	29,963	54,325	103,576	73,436	30,140	53,518
General Provision for loans and advances	14,535	14,420	115	696	14,535	14,420	115	696
Effect of brought forward reversal of deferred tax assets on general provision	-	55,737	(55,737)	-	-	55,737	(55,737)	-
	128,201	150,216	(22,015)	56,508	118,111	143,593	(25,482)	54,214
Effect of exchange rate variance	7	192	(185)	(474)	7	192	(185)	(474)
<b>Deferred income tax on income/(expenses)</b>			(91,091)	10,641			(90,848)	9,025
<b>Net deferred tax liability</b>	<b>767,117</b>	<b>676,396</b>			<b>633,382</b>	<b>542,904</b>		

## Notes to the Financial Statements

### 30. DEBENTURES

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
As at the beginning of the year	4,436,030	6,680,440	4,436,030	6,680,440
Redemptions during the year	(1,000,000)	(2,244,410)	(1,000,000)	(2,244,410)
As at the end of the year	3,436,030	4,436,030	3,436,030	4,436,030

As at December 31, 2009, debentures consisted of 3,436,030 Unsecured Subordinated Redeemable Debentures of Rs. 1,000/- each issued by the Bank in 2005 and 2006.

Debenture Categories	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		Value as at December 31,	
					2009	2008	2009	2008
					%	%	Rs. '000	Rs. '000
<b>Fixed Rate Debentures</b>								
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
							1,799,310	1,799,310
<b>Floating Rate Debentures</b>								
2005/2010 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	10.10.2005	10.10.2010	16.10	22.19	120,000	120,000
2005/2010 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	10.10.2005	10.10.2010	16.62	23.43	905,000	905,000
2006/2011 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	16.10	22.19	15,000	15,000
2006/2011 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	16.62	23.43	465,000	465,000
2006/2011 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2011	22.24	23.43	131,020	131,020
2006/2013 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2013	22.24	23.43	300	300
2006/2016 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2016	22.24	23.43	400	400
2004/2009 - 3 months TB rate (Net) + 2% p.a. (Redeemed on October 01, 2009)	Not listed	Quarterly	01.10.2004	01.10.2009	17.49	22.19	-	1,000,000
							1,636,720	2,636,720
<b>Total debentures</b>							3,436,030	4,436,030

#### Notes

**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.

**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.

**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. OTHER LIABILITIES**

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Accrued interest	5,136,822	4,534,951	5,136,822	4,534,951
Accrued expenditure	1,443,436	1,299,988	1,441,595	1,295,667
Cheques sent on clearing	2,606,622	2,113,904	2,606,622	2,113,904
Provision for gratuity payable [Refer Note 31 (a)]	176,201	103,280	167,463	94,681
Provision for un-funded pension scheme [Refer Note 31 (b)]	119,072	106,350	119,072	106,350
Payable on oil hedging transactions	709,734	406,876	709,734	406,876
Other accounts	2,049,999	1,528,571	2,074,471	1,550,853
<b>Total</b>	<b>12,241,886</b>	<b>10,093,920</b>	<b>12,255,779</b>	<b>10,103,282</b>

**31 (a) Provision for Gratuity Payable**

At the beginning of the year	103,280	56,868	94,681	50,893
Expense recognised in the Income Statement [Refer Note 31 (a) (i)]	78,327	51,121	76,663	45,953
Exchange difference	333	1,170	333	1,170
Benefits paid by the plan	(5,739)	(5,879)	(4,214)	(3,335)
<b>At the end of the year</b>	<b>176,201</b>	<b>103,280</b>	<b>167,463</b>	<b>94,681</b>

**31 (a) (i) Expense Recognised in the Income Statement**

Interest cost	10,686	–	9,846	–
Current service cost	25,134	39,173	25,082	34,324
Provision made during the year	13,913	11,948	13,271	11,629
Actuarial gain	28,594	–	28,464	–
<b>At the end of the year</b>	<b>78,327</b>	<b>51,121</b>	<b>76,663</b>	<b>45,953</b>

**31 (b) Provision for Un-funded Pension Scheme**

At the beginning of the year	106,350	–	106,350	–
Expense recognised in the Income Statement [Refer Note 31 (b) (i)]	32,785	106,350	32,785	106,350
Benefits paid by the plan	(20,063)	–	(20,063)	–
<b>At the end of the year</b>	<b>119,072</b>	<b>106,350</b>	<b>119,072</b>	<b>106,350</b>

**31 (b) (i) Expense Recognised in the Income Statement**

Interest cost	17,016	–	17,016	–
Current service cost	–	–	–	–
Provision made during the year	–	106,350	–	106,350
Actuarial gain	15,769	–	15,769	–
<b>At the end of the year</b>	<b>32,785</b>	<b>106,350</b>	<b>32,785</b>	<b>106,350</b>

The assumptions underlying the actuarial valuation carried out by Messrs Actuarial and Management Consultants (Pvt) Ltd. are given in Note 38 to the Financial Statements on page 271.

## Notes to the Financial Statements

### 32. STATED CAPITAL

As at December 31,	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Opening balance	10,548,123	10,514,807	10,548,123	10,514,807
Issue of ordinary shares under Employee Share Option Plans	-	33,316	-	33,316
Redemption of 11.25% Cumulative Redeemable Preference Share Capital	-	(1,000,000)	-	(1,000,000)
<b>Opening Balance as Reported Previously</b>	<b>10,548,123</b>	<b>9,548,123</b>	<b>10,548,123</b>	<b>9,548,123</b>
Reclassification of Preference Share Redemption [Refer Note 36 (i)]	-	1,000,000	-	1,000,000
<b>Opening Balance (Restated)</b>	<b>10,548,123</b>	<b>10,548,123</b>	<b>10,548,123</b>	<b>10,548,123</b>
Issue of ordinary shares under Employee Share Option Plan	59,669	-	59,669	-
<b>Closing Balance</b>	<b>10,607,792</b>	<b>10,548,123</b>	<b>10,607,792</b>	<b>10,548,123</b>

#### 32 (a) Movement in Number of Ordinary Shares

	No. of Ordinary Voting Shares		No. of Ordinary Non-Voting Shares	
	2009	2008	2009	2008
Opening balance	233,281,226	232,931,177	16,120,797	16,120,797
Issue of ordinary shares under Employee Share Option Plan	540,045	350,049	-	-
<b>Closing balance</b>	<b>233,821,271</b>	<b>233,281,226</b>	<b>16,120,797</b>	<b>16,120,797</b>

The above shares are quoted in the Colombo Stock Exchange. The non-voting shares rank pari pasu in respect of all rights with the ordinary voting shares of the Bank except voting rights on resolutions passed at general meetings.

#### 32 (b) Employee Share Option Plan - 2002

The Bank obtained the approval of the shareholders at an Extraordinary 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 up to 5% of the ordinary voting shares at the rate of 1.25% shares each year over a period of four years, upon the Bank achieving specified performance targets.

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	4,760,203
Additions consequent to scrip issues	-	17,922	241,051	730,293	989,266
Options cancelled due to non-acceptance and resignations	(25,057)	(28,293)	(14,697)	(161,882)	(229,929)
Number of options exercised up to December 31, 2009	(624,943)	(802,129)	(1,687,128)	(786,074)	(3,900,274)
<b>Number of options outstanding as at December 31, 2009</b>	<b>-</b>	<b>-</b>	<b>177,173</b>	<b>1,442,093</b>	<b>1,619,266</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 used/exercised options offered and the 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.

## Notes to the Financial Statements

### 32 (c) Employee Share Option Plan - 2008

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on April 16, 2008, to introduce an Employee Share Option Plan for the benefit of all the executive officers in Grade III and above by creating up to 3% of the ordinary voting shares at the rate of 1% of shares each year over a period of three to five years, upon the Bank achieving specified performance targets.

The details relating to the Tranche I of the Employee Share Option Plan 2008 are given below:

	Option I	Option II	Option III	Total
Date granted/to be granted	April 30, 2008	April 30, 2009	April 30, 2010	
Price (Rs.) - (*)	143.60	143.60	143.60	
Exercisable between	April 30, 2009 to April 29, 2011	April 30, 2010 to April 29, 2012	April 30, 2011 to April 29, 2013	
Original number of options - (**)	777,308	777,308	777,308	2,331,924
Options cancelled due to resignations, retirements and deaths	(54,174)	-	-	(54,174)
Options vested/to be vested	723,134	777,308	777,308	2,277,750
Number of options exercised up to December 31, 2009	(38,571)	-	-	(38,571)
<b>Number of options outstanding as at December 31, 2009</b>	<b>684,563</b>	<b>777,308</b>	<b>777,308</b>	<b>2,239,179</b>

(\*) Determined on the basis of the weighted average market price of Bank's voting shares, during the period of ten market days immediately prior to each option offer date.

(\*\*) 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 rights issue of shares, capitalisation of reserves, stock splits or stock dividends by the Bank during the vesting period the number of used/exercised options offered and the prices are suitably amended in line with the accepted market practices.

The number of options granted to the Managing Director under Tranche I is 36,937.

## 33. STATUTORY RESERVES

### 33.1 Statutory Reserve Fund

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

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Opening balance	1,847,916	1,634,497	1,847,097	1,633,678
Add: Transfers during the year	215,249	213,419	215,249	213,419
Less: Reversals during the year consequent to liquidation	(819)	-	-	-
<b>Closing balance</b>	<b>2,062,346</b>	<b>1,847,916</b>	<b>2,062,346</b>	<b>1,847,097</b>

### 33.2 Primary Dealer Special Risk Reserve

As per the Direction 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 of the Primary Dealer Unit to a special risk reserve annually.

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Opening balance	48,809	23,658	48,809	23,658
Transfer from the Income Statement	52,982	25,151	52,982	25,151
<b>Closing balance</b>	<b>101,791</b>	<b>48,809</b>	<b>101,791</b>	<b>48,809</b>
<b>Total Statutory Reserves</b>	<b>2,164,137</b>	<b>1,896,725</b>	<b>2,164,137</b>	<b>1,895,906</b>

## Notes to the Financial Statements

### 34. RESERVES

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Capital Reserves</b>				
Revaluation Reserve [Refer Notes 23 and 34.1]	1,533,746	1,533,746	1,286,695	1,286,695
<b>Sub Total</b>	<b>1,533,746</b>	<b>1,533,746</b>	<b>1,286,695</b>	<b>1,286,695</b>
<b>Revenue Reserves</b>				
General Reserve [Refer Note 34.2]	13,807,767	11,518,821	13,807,767	11,518,821
Foreign Currency Translation Reserve [Refer Note 34.3]	(371,527)	(361,796)	(371,527)	(361,796)
Unappropriated profit carried forward (Refer Note 14)	978,832	1,090,431	1,004,116	1,003,480
<b>Sub Total</b>	<b>14,415,072</b>	<b>12,247,456</b>	<b>14,440,356</b>	<b>12,160,505</b>
<b>Total</b>	<b>15,948,818</b>	<b>13,781,202</b>	<b>15,727,051</b>	<b>13,447,200</b>

#### 34.1 Revaluation Reserve

Opening balance	1,533,746	1,489,474	1,286,695	1,286,695
Surplus on revaluation of property	-	39,302	-	-
Deferred tax effect on revaluation surplus on property	-	4,970	-	-
<b>Closing balance</b>	<b>1,533,746</b>	<b>1,533,746</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.

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.

The last such revaluation of Bank's land & buildings was carried out in 2004.

#### 34.2 General Reserve

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Opening balance	11,518,821	10,278,367	11,518,821	10,278,367
Transfer from the Income Statement	-	2,240,454	-	2,240,454
<b>Opening balance as Reported Previously</b>	<b>11,518,821</b>	<b>12,518,821</b>	<b>11,518,821</b>	<b>12,518,821</b>
Reclassification of Preference Share Redemption [Refer Note 36 (i)]	-	(1,000,000)	-	(1,000,000)
<b>Opening balance (Restated)</b>	<b>11,518,821</b>	<b>11,518,821</b>	<b>11,518,821</b>	<b>11,518,821</b>
Transfer from the Income Statement	2,288,946	-	2,288,946	-
<b>Closing balance</b>	<b>13,807,767</b>	<b>11,518,821</b>	<b>13,807,767</b>	<b>11,518,821</b>

#### 34.3 Foreign Currency Translation Reserve

Opening balance	(361,796)	(427,485)	(361,796)	(427,485)
Net unrealised gains/(losses) for the year from the translation of Financial Statements of the Bangladesh operation	(9,731)	65,689	(9,731)	65,689
<b>Closing balance</b>	<b>(371,527)</b>	<b>(361,796)</b>	<b>(371,527)</b>	<b>(361,796)</b>

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation are translated in to the presentation currency (Sri Lankan Rupees) at the rate of exchange ruling at the Balance Sheet date and their Income Statement is translated at the average exchange rate for the period. The exchange difference arising on the translation is taken directly to Foreign Currency Translation Reserve and is classified as part of Equity.

**Notes to the Financial Statements****35. MATURITY ANALYSIS****35 (a) Group**

(i) 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 31.12.2009 Rs. '000	Total as at 31.12.2008 Rs. '000
<b>Interest Earning Assets:</b>							
Cash and Short Term Funds	16,619,017	-	-	-	-	16,619,017	15,747,912
Balances with Central Banks	552,325	26,830	-	-	-	579,155	1,651,103
Government Treasury Bills, Bonds and other Securities	37,376,959	38,768,020	-	-	-	76,144,979	35,598,418
Securities purchased under resale agreements	5,152,507	50,613	-	-	-	5,203,120	3,400,455
Investment Securities	5,601	305,475	595,000	95,000	-	1,001,076	1,172,273
Treasury Bonds maturing after one year	-	-	17,070,691	2,578,696	876,296	20,525,683	16,269,926
Bills of Exchange, loans and advances and lease receivable	78,248,087	28,023,472	38,581,917	14,770,220	12,103,384	171,727,080	180,197,108
<b>As at 31.12.2009</b>	<b>137,954,496</b>	<b>67,174,410</b>	<b>56,247,608</b>	<b>17,443,916</b>	<b>12,979,680</b>	<b>291,800,110</b>	
As at 31.12.2008	121,413,356	46,072,825	52,549,635	17,678,547	16,322,832		254,037,195
<b>Non-Interest Earning Assets:</b>							
Cash and Short Term Funds	7,437,642	-	-	-	-	7,437,642	8,366,999
Balances with Central Banks	7,928,437	2,529,394	313,536	193,342	250,693	11,215,402	8,671,308
Dealing Securities	80,905	-	-	-	-	80,905	58,290
Investment Securities	10,098	-	-	-	14,119	24,217	24,866
Investments in Associates	-	-	-	-	72,633	72,633	70,988
Interest and Fees Receivable	1,783,095	-	-	-	-	1,783,095	2,341,033
Property, Plant & Equipment	-	-	-	-	4,609,457	4,609,457	4,342,645
Leasehold Property	-	-	-	-	387,560	387,560	296,723
Other Assets	4,973,774	-	-	-	44,515	5,018,289	3,239,409
Intangible Assets	-	-	-	-	116,132	116,132	117,584
<b>As at 31.12.2009</b>	<b>22,213,951</b>	<b>2,529,394</b>	<b>313,536</b>	<b>193,342</b>	<b>5,495,109</b>	<b>30,745,332</b>	
As at 31.12.2008	19,897,191	2,111,751	277,155	186,103	5,057,645		27,529,845
<b>Total Assets - As at 31.12.2009</b>	<b>160,168,448</b>	<b>69,703,804</b>	<b>56,561,144</b>	<b>17,637,258</b>	<b>18,474,789</b>	<b>322,545,442</b>	
Total Assets - As at 31.12.2008	141,310,547	48,184,576	52,826,790	17,864,650	21,380,477		281,567,040
<b>Percentage - As at 31.12.2009</b>	<b>49.65</b>	<b>21.61</b>	<b>17.54</b>	<b>5.47</b>	<b>5.73</b>	<b>100.00</b>	
Percentage - As at 31.12.2008	50.20	17.11	18.76	6.34	7.59		100.00

## Notes to the Financial Statements

(ii) 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 31.12.2009 Rs. '000	Total as at 31.12.2008 Rs. '000
<b>Interest Bearing Liabilities:</b>							
Deposits	148,393,396	51,217,779	5,694,306	3,345,496	4,711,415	213,362,392	181,824,480
Borrowings	2,558,754	1,330,729	3,856,360	1,905,745	1,840,916	11,492,504	13,575,554
Securities sold under repurchase agreements	19,751,603	10,004,652	16,895	-	-	29,773,150	24,959,644
Debentures	-	1,309,000	1,153,820	550	972,660	3,436,030	4,436,030
<b>As at 31.12.2009</b>	<b>170,703,753</b>	<b>63,862,160</b>	<b>10,721,381</b>	<b>5,251,791</b>	<b>7,524,991</b>	<b>258,064,076</b>	
As at 31.12.2008	149,883,172	51,974,068	10,215,144	5,206,668	7,516,656		224,795,708
<b>Non-Interest Bearing Liabilities:</b>							
Deposits from customers	21,368,288	-	-	-	-	21,368,288	18,040,723
Borrowings	146,210	-	-	-	-	146,210	44,046
Tax liabilities	805,372	374,930	30,748	-	-	1,211,050	1,663,249
Deferred tax	-	-	633,382	133,735	-	767,117	676,396
Other liabilities	12,241,886	-	-	-	-	12,241,886	10,093,920
Stated Capital	-	-	-	-	10,607,792	10,607,792	10,548,123
Statutory Reserves	-	-	-	-	2,062,346	2,062,346	1,847,916
Reserves	-	-	-	-	16,050,609	16,050,609	13,830,011
Minority Interest	-	-	-	-	26,068	26,068	26,948
<b>As at 31.12.2009</b>	<b>34,561,756</b>	<b>374,930</b>	<b>664,130</b>	<b>133,735</b>	<b>28,746,815</b>	<b>64,481,366</b>	
As at 31.12.2008	28,095,090	1,746,848	676,396	-	26,252,998		56,771,332
<b>Total Liabilities and Equity - As at 31.12.2009</b>	<b>205,265,509</b>	<b>64,237,090</b>	<b>11,385,511</b>	<b>5,385,526</b>	<b>36,271,806</b>	<b>322,545,442</b>	
Total Liabilities and Equity - As at 31.12.2008	177,978,262	53,720,916	10,891,540	5,206,668	33,769,654		281,567,040
<b>Percentage - As at 31.12.2009</b>	<b>63.63</b>	<b>19.92</b>	<b>3.53</b>	<b>1.67</b>	<b>11.25</b>	<b>100.00</b>	
Percentage - As at 31.12.2008	63.21	19.08	3.87	1.85	11.99		100.00

## Notes to the Financial Statements

### 35.2 Bank

(i) 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 31.12.2009 Rs. '000	Total as at 31.12.2008 Rs. '000
<b>Interest Earning Assets:</b>							
Cash and short term funds	16,619,017	–	–	–	–	16,619,017	15,747,912
Balances with Central Banks	552,325	26,830	–	–	–	579,155	1,651,103
Government Treasury Bills, Bonds other Securities	37,376,959	38,768,020	–	–	–	76,144,979	35,363,325
Securities purchased under resale agreements	5,152,507	50,613	–	–	–	5,203,120	3,400,455
Investment Securities	5,601	305,475	595,000	95,000	–	1,001,076	1,172,273
Treasury Bonds maturing after one year	–	–	17,070,691	2,578,696	876,296	20,525,683	16,269,926
Bills of exchange, loans and advances and lease receivable	78,258,572	28,062,424	38,694,050	14,851,382	12,103,384	171,969,812	180,401,155
<b>As at 31.12.2009</b>	<b>137,964,981</b>	<b>67,213,362</b>	<b>56,359,741</b>	<b>17,525,078</b>	<b>12,979,680</b>	<b>292,042,842</b>	
As at 31.12.2008	121,382,310	46,072,825	52,549,635	17,678,547	16,322,832		254,006,149
<b>Non-Interest Earning Assets:</b>							
Cash and short term funds	7,437,622	–	–	–	–	7,437,622	8,366,794
Balances with Central Banks	7,928,437	2,529,394	313,536	193,342	250,693	11,215,402	8,671,308
Dealing Securities	80,905	–	–	–	–	80,905	58,290
Investment Securities	10,098	–	–	–	14,119	24,217	24,866
Investments in Associates	–	–	–	–	44,331	44,331	44,331
Investments in Subsidiaries	–	–	–	–	279,393	279,393	433,681
Interest and fees receivable	1,783,095	–	–	–	–	1,783,095	2,341,033
Property, Plant & Equipment	–	–	–	–	3,914,750	3,914,750	3,721,775
Leasehold property	–	–	–	–	80,130	80,130	81,072
Other assets	4,980,008	–	–	–	44,515	5,024,523	3,168,995
Intangible assets	–	–	–	–	387,515	387,515	295,391
<b>As at 31.12.2009</b>	<b>22,220,165</b>	<b>2,529,394</b>	<b>313,536</b>	<b>193,342</b>	<b>5,015,446</b>	<b>30,271,883</b>	
As at 31.12.2008	19,826,572	2,111,751	277,155	186,103	4,805,955		27,207,536
<b>Total Assets - As at 31.12.2009</b>	<b>160,185,146</b>	<b>69,742,756</b>	<b>56,673,277</b>	<b>17,718,420</b>	<b>17,995,126</b>	<b>322,314,725</b>	
Total Assets - As at 31.12.2008	141,208,882	48,184,576	52,826,790	17,864,650	21,128,787		281,213,685
<b>Percentage - As at 31.12.2009</b>	<b>49.70</b>	<b>21.64</b>	<b>17.58</b>	<b>5.50</b>	<b>5.58</b>	<b>100.00</b>	
Percentage - As at 31.12.2008	50.22	17.13	18.79	6.35	7.51		100.00

## Notes to the Financial Statements

(ii) 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 31.12.2009 Rs. '000	Total as at 31.12.2008 Rs. '000
<b>Interest Bearing Liabilities:</b>							
Deposits	148,393,396	51,217,779	5,694,306	3,345,496	4,711,415	213,362,392	181,824,480
Borrowings	2,558,754	1,330,729	3,856,360	1,905,745	1,840,916	11,492,504	13,575,554
Securities sold under repurchase agreements	19,784,541	10,103,091	16,895	-	-	29,904,527	25,075,091
Debentures	-	1,309,000	1,153,820	550	972,660	3,436,030	4,436,030
<b>As at 31.12.2009</b>	<b>170,736,691</b>	<b>63,960,599</b>	<b>10,721,381</b>	<b>5,251,791</b>	<b>7,524,991</b>	<b>258,195,453</b>	
As at 31.12.2008	149,998,619	51,974,068	10,215,144	5,206,668	7,516,656		224,911,155
<b>Non-Interest Bearing Liabilities:</b>							
Deposits from customers	21,382,314	-	-	-	-	21,382,314	18,056,506
Borrowings	146,210	-	-	-	-	146,210	44,046
Tax liabilities	828,558	374,049	-	-	-	1,202,607	1,664,563
Deferred tax	-	-	633,382	-	-	633,382	542,904
Other liabilities	12,255,779	-	-	-	-	12,255,779	10,103,282
Stated capital	-	-	-	-	10,607,792	10,607,792	10,548,123
Statutory Reserves	-	-	-	-	2,062,346	2,062,346	1,847,097
Reserves	-	-	-	-	15,828,842	15,828,842	13,496,009
<b>As at 31.12.2009</b>	<b>34,612,861</b>	<b>374,049</b>	<b>633,382</b>	<b>-</b>	<b>28,498,980</b>	<b>64,119,272</b>	
As at 31.12.2008	28,120,576	1,747,821	542,904	-	25,891,229		56,302,530
<b>Total Liabilities and Equity -</b>							
<b>As at 31.12.2009</b>	<b>205,349,552</b>	<b>64,334,648</b>	<b>11,354,763</b>	<b>5,251,791</b>	<b>36,023,971</b>	<b>322,314,725</b>	
Total Liabilities and Equity - As at 31.12.2008	178,119,195	53,721,889	10,758,048	5,206,668	33,407,885		281,213,685
<b>Percentage - As at 31.12.2009</b>	<b>63.71</b>	<b>19.96</b>	<b>3.52</b>	<b>1.63</b>	<b>11.18</b>	<b>100.00</b>	
Percentage - As at 31.12.2008	63.34	19.10	3.83	1.85	11.88		100.00

### Notes

- Loans and advances are shown net of interest in suspense and provision for bad and doubtful debts.
- Balances with Central Banks have been apportioned into the maturity groups based on the maturity pattern of the deposits liable for statutory reserve requirements.
- 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.
- 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.

## Notes to the Financial Statements

### 36. COMPARATIVE INFORMATION/RESTATEMENT

The presentation and classification of the following items in the Financial Statements are amended to ensure the comparability with the current year:

	GROUP		BANK	
	Current Presentation 2008 Rs. '000	As Reported Previously 2008 Rs. '000	Current Presentation 2008 Rs. '000	As Reported Previously 2008 Rs. '000
(i) Stated Capital	10,548,123	9,548,123	10,548,123	9,548,123
Statutory reserves	1,896,725	1,847,916	1,895,906	1,847,097
Reserves	13,781,202	14,830,011	13,447,200	14,496,009
	26,226,050	26,226,050	25,891,229	25,891,229
(ii) Personnel expenses	3,507,895	3,665,365	3,481,436	3,633,738
Provision for staff retirement benefits	450,129	292,659	444,961	292,659
	3,958,024	3,958,024	3,926,397	3,926,397
(iii) Fees and commission expenses	168,265	–	168,265	–
Other overhead expenses	3,834,438	4,002,703	3,897,915	4,066,180
	4,002,703	4,002,703	4,066,180	4,066,180
(iv) Government Treasury Bills, Bonds and other Securities	51,868,344	35,598,418	51,633,251	35,363,325
Treasury Bonds maturing after one year	–	16,269,926	–	16,269,926
	51,868,344	51,868,344	51,633,251	51,633,251

#### Reasons for Changes in the Presentation and Classification

(i) The Stated Capital and the General Reserve were reinstated with the redemption amount of the preference shares, during the current year. In accordance with the guideline issued by the 'Company Law & Other Legislation Committee' of The Institute of Chartered Accountants of Sri Lanka.

The Primary Dealer Special Risk Reserve which was classified under Reserves during the previous year was reclassified under Statutory Reserves, during the current year for better presentation in these Financial Statements.

(ii) The expenses relating to gratuity and the unfunded pension scheme, which was classified under personnel expenses during the previous year was reclassified under provision for staff retirement benefits in the Income Statement during the current year for better presentation in the Financial Statements.

(iii) The expenses relating to fees and commission, which was classified under other overhead expenses during the previous year was reclassified under a separate caption of 'Fees and Commission Income' in the Income Statement during the current year for better presentation in the Financial Statements.

(iv) The Treasury Bonds maturing after one year, which was presented on the face of the Balance Sheet during the previous year was reclassified under a separate caption of 'Government Treasury Bills, Bonds and Other Securities' in the Balance Sheet during the current year for better presentation in the Financial Statements.

## Notes to the Financial Statements

### 37. COMMITMENTS AND CONTINGENCIES

#### 37.1 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	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>37.1 (a) Capital Expenditure Commitments in relation to Property, Plant &amp; Equipment</b>				
Approved and contracted for	437,525	444,450	437,525	444,450
Approved but not contracted for	62,000	388,750	62,000	388,750
<b>Sub Total</b>	<b>499,525</b>	<b>833,200</b>	<b>499,525</b>	<b>833,200</b>
<b>37.1 (b) Capital Expenditure Commitments in relation to Intangible Assets</b>				
Approved and contracted for	121,135	177,053	121,135	177,053
<b>Sub Total</b>	<b>121,135</b>	<b>177,053</b>	<b>121,135</b>	<b>177,053</b>
<b>Total</b>	<b>620,660</b>	<b>1,010,253</b>	<b>620,660</b>	<b>1,010,253</b>

#### 37.2 Commitments on Government Securities

The Bank has entered into commitments with the Central Bank of Sri Lanka and with customers to buy/sell Government securities of which face values are given below:

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
With Central Bank of Sri Lanka	1,445,616	-	1,445,616	-
With customers	193,133	246,708	193,133	246,708
<b>Total</b>	<b>1,638,749</b>	<b>246,708</b>	<b>1,638,749</b>	<b>246,708</b>

## Notes to the Financial Statements

### 37.3 Contingencies

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 therefore form part of the overall risk profile of the Bank.

	GROUP		BANK	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Commitments on Direct Advances:</b>				
Commitments for unutilised facilities	16,070,878	16,647,191	16,070,878	16,647,191
<b>Sub Total</b>	<b>16,070,878</b>	<b>16,647,191</b>	<b>16,070,878</b>	<b>16,647,191</b>
<b>Contingent Liabilities:</b>				
Acceptances	6,465,157	6,823,002	6,465,157	6,823,002
Documentary credits	12,112,900	9,096,333	12,112,900	9,096,333
Guarantees	16,237,573	17,706,284	16,237,573	17,706,284
Bills for collection	8,990,904	9,835,411	8,990,904	9,835,411
Stock of travellers' cheques	645,181	867,450	645,181	867,450
Bullion on consignment	-	96,484	-	96,484
<b>Sub Total</b>	<b>44,451,715</b>	<b>44,424,964</b>	<b>44,451,715</b>	<b>44,424,964</b>
<b>Forward Exchange Contracts:</b>				
Forward exchange sales	49,678,729	32,023,385	49,678,729	32,023,385
Forward exchange purchases	35,845,335	19,148,522	35,845,335	19,148,522
<b>Sub Total</b>	<b>85,524,064</b>	<b>51,171,907</b>	<b>85,524,064</b>	<b>51,171,907</b>
<b>Interest Rate Swap Agreements/Currency Options:</b>				
Interest Rate Swaps	25,584	141,278	25,584	141,278
Currency options	-	26,194	-	26,194
<b>Sub Total</b>	<b>25,584</b>	<b>167,472</b>	<b>25,584</b>	<b>167,472</b>
<b>Exposure on Oil Hedging Transactions:</b>				
Exposure on oil hedging transactions	-	3,397,044	-	3,397,044
<b>Sub Total</b>	<b>-</b>	<b>3,397,044</b>	<b>-</b>	<b>3,397,044</b>
<b>Total Commitments and Contingencies</b>	<b>146,072,241</b>	<b>115,808,578</b>	<b>146,072,241</b>	<b>115,808,578</b>

#### 37.3 (a) Contingencies of Associates

The Associates of the Group do not have any contingencies as at the year end.

### 37.4 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 its outcome.

- (i) 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. Judgment was delivered against the Bank for a sum of Rs. 1.874 Mn. Bank lodged an appeal against the said judgment. Judgment of the appeal case is due to be delivered on March 19, 2010.
- (ii) 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. Judgment was delivered dismissing the plaintiff's action. Plaintiff has lodged an appeal against the judgment. Inquiry is fixed for March 9, 2010.

## Notes to the Financial Statements

- (iii) 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 30, 2010.
- (iv) 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 has been given not to do so. The Bank is defending the action. Judgment is fixed for June 02, 2010.
- (v) 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. Trial is fixed for February 25, 2010.
- (vi) 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 has not been sanctioned by the plaintiffs. 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. Trial is fixed for March 03, 2010.
- (vii) Court action has been initiated by a third party in proceedings number 0122/2009/DLM to claim the title of a property which has been mortgaged to the Bank by the present owner for several facilities granted. The facilities are presently in the non-performing category. Trial is fixed for February 24, 2010.
- (viii) 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. Judgment was delivered in favour of the Bank dismissing the plaintiff's action but the plaintiff has appealed against the judgment. The case is pending to be listed in the Supreme Court.
- (ix) A Labour Tribunal case in proceedings number 01/32/2009 filed by an ex-employee on termination of employment is pending against the Bank. The employee demands reinstatement. Next hearing will be on February 22, 2010.
- (x) Court action has been initiated for BDT 9.153 Mn. (approx. Rs. 15.166 Mn.) in proceedings number 149/05 against the Credit Agricole Indusuez and the Bank for the breach of contract due to alleged improper termination of a contract between Credit Agricole Indusuez 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 in the court requesting for a dismissal. The case was called up on February 16, 2010 and the next trial date is to be fixed.
- (xi) Court action has been initiated in proceedings number 571/2008/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. Court dismissed plaintiff's application for an interim injunction and the matter is due to be mentioned for answer of the defendant on April 26, 2010.

## Notes to the Financial Statements

### 38. EMPLOYEE RETIREMENT BENEFITS

#### 38.1 Pension Fund - Defined Benefit Plan

An actuarial valuation of the retirement Pension Fund was carried out as at December 31, 2009, by Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method' (PUC), the method recommended by the Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefits'.

The assets of the fund, which are independently administered by the Trustees as per the provision of the Trust Deed are held separately from those of the Bank.

#### 38.1 (a) Actuarial Assumptions - Demographic

##### Mortality

In service	A 67/70 Mortality table issued by the Institute of Actuaries, London
After retirement	A (90) Annuities table (Males & Females) issued by the Institute of Actuaries, London

##### Withdrawal

The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age category due to reasons other than death, ill health and normal retirement. The withdrawal rates used in the valuation of liabilities in respect of the active employees in the fund are those used in the last actuarial valuation conducted on December 31, 2008.

##### Disability

Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a 'scheme specific' study was not available.

##### Normal Retirement Age

55 or 60 years as indicated in the data file of active employees.

#### 38.1 (b) Actuarial Assumptions - Financial

##### Rate of Discount

In the absence of a deep market in long term bonds in Sri Lanka, a long term rate of 11% p.a. has been used to discount future liabilities having given weightage to the anticipated long term rate of inflation.

##### Salary Increases

A 9% p.a. salary increment rate has been used in respect of the active employees.

##### Post Retirement Pension Increase Rate

There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are given solely at the discretion of the Bank. Therefore, no specific rate was assumed for this valuation.

## Notes to the Financial Statements

### 38.1 (c) Movement in the Present Value of Defined Benefit Obligations

	2009 Rs. '000	2008 Rs. '000
Opening balance	59,195	65,392
Interest cost	9,471	-
Current service cost	1,439	-
Benefits paid during the year	(5,303)	(6,197)
Actuarial (gain)/loss	7,407	-
<b>Closing balance</b>	<b>72,209</b>	<b>59,195</b>

### 38.1 (d) Movement in the Fair Value of Plan Assets

Fair value as at the beginning of the year	59,904	65,025
Expected return on plan assets	6,589	-
Contribution paid into plan	1,226	1,076
Benefits paid by the plan	(5,303)	(6,197)
Actuarial gain/(loss) on plan assets	(616)	-
<b>Fair value as at the end of the year</b>	<b>61,800</b>	<b>59,904</b>

### 38.1 (e) Liability Recognised in the Balance Sheet

Present value of defined benefit obligations as at the end of the year	72,209	59,195
Fair value of plan assets as at the end of the year	(61,800)	(59,904)
Unrecognised actuarial gains/(losses)	-	-
<b>Net liability recognised in the Balance Sheet</b>	<b>10,409</b>	<b>(709)</b>

### 38.1 (f) Plan Assets consist of the following:

Treasury Bills	5,179	2,858
Deposits held with the Bank	56,621	57,046
<b>Total</b>	<b>61,800</b>	<b>59,904</b>

## 39. FINANCIAL REPORTING BY SEGMENT AS PER THE PROVISIONS OF SRI LANKA ACCOUNTING STANDARD NO. 28

The primary segment reporting format is determined to be business segments as the Group's risks and 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.

## Notes to the Financial Statements

### 39.1 Primary Segment Information - Business Segments (Group)

The following table presents the income, profit and certain asset and liability information regarding the Group's business segments for the year ended December 31, 2009 and comparative figures for the year ended December 31, 2008.

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>External Operating Income:</b>										
Net interest income	8,288,534	9,823,243	-	-	2,586,717	1,272,210	-	-	10,875,251	11,095,453
Foreign exchange profit	707,553	949,066	-	-	2,254,669	1,684,255	-	-	2,962,222	2,633,321
Lease income	-	-	1,546,209	1,800,150	-	-	-	-	1,546,209	1,800,150
Fees and commission income	2,522,774	2,575,711	-	-	7,055	139,269	-	-	2,529,829	2,714,980
Other income	1,072,105	644,177	327,206	88,763	525,973	57,706	236,463	434,466	2,161,747	1,225,112
Eliminations/unallocated	-	-	-	-	-	-	-	-	46,452	173,235
<b>Total Operating Income</b>	<b>12,590,966</b>	<b>13,992,197</b>	<b>1,873,415</b>	<b>1,888,913</b>	<b>5,374,414</b>	<b>3,153,440</b>	<b>236,463</b>	<b>434,466</b>	<b>20,121,710</b>	<b>19,642,251</b>
Credit loss expenses	(1,141,003)	(1,962,349)	(392,695)	(315,863)	-	-	-	-	(1,533,698)	(2,278,212)
Net operating income	11,449,963	12,029,848	1,480,720	1,573,050	5,374,414	3,153,440	236,463	434,466	18,588,012	17,364,039
<b>Segment result</b>	<b>5,223,844</b>	<b>4,395,689</b>	<b>2,266,110</b>	<b>1,356,244</b>	<b>2,097,627</b>	<b>2,248,532</b>	<b>189,171</b>	<b>373,824</b>	<b>9,776,752</b>	<b>8,374,288</b>
Unallocated operating expenses									(2,651,121)	(967,125)
Profit from operations									7,125,631	7,407,163
Share of profit of Associates - (before tax)									4,218	9,085
Income tax expense									(2,936,832)	(3,295,842)
Minority interest									(1,082)	(1,522)
<b>Net profit for the year, attributable to equity holders of the Parent</b>									<b>4,191,935</b>	<b>4,118,884</b>

As at December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Other Information</b>										
Segment assets	179,148,599	180,246,324	7,553,739	9,343,554	129,551,124	85,893,793	1,106,198	1,255,429	317,359,660	276,739,100
Investment in Associates	-	-	-	-	-	-	72,633	70,988	72,633	70,988
Unallocated assets	-	-	-	-	-	-	-	-	5,113,149	4,756,952
<b>Total assets</b>									<b>322,545,442</b>	<b>281,567,040</b>
Segment liabilities	153,536,766	156,410,633	7,553,739	9,343,554	129,551,124	85,893,793	1,178,831	1,326,417	291,820,460	252,974,397
Unallocated liabilities	-	-	-	-	-	-	-	-	1,978,167	2,339,645
<b>Total liabilities</b>									<b>293,798,627</b>	<b>255,314,042</b>

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Information on Cash Flows</b>										
Cash flows from operating activities	47,564,044	11,622,511	(1,675,793)	2,723,799	625,481	2,248,532	-	-	46,513,732	16,594,842
Cash flows from investing activities	172,980	117,889	-	-	(41,265,504)	375,817	262,287	1,594,938	(40,830,237)	2,088,644
Cash flows from financing activities	(1,001,962)	(1,200,154)	-	-	(1,990,617)	(4,833,725)	-	-	(2,992,579)	(6,033,879)
Capital expenditure										
Property, Plant & Equipment									(898,762)	(880,702)
Intangible assets									(162,898)	(91,184)
Eliminations/unallocated									(1,687,508)	(3,771,057)
<b>Net cash flow generated during the year</b>									<b>(58,252)</b>	<b>7,906,664</b>

## Notes to the Financial Statements

### 39.2 Secondary Segment Information - Geographical Segments

The following table presents the distribution of the Group/Bank total assets, income, 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, 2009 and comparative figures for the year ended December 31, 2008.

	GROUP				BANK			
	2009 Rs. '000	%	2008 Rs. '000	%	2009 Rs. '000	%	2008 Rs. '000	%
<b>Assets</b>								
Sri Lanka operations	292,769,703	90.77	255,334,940	90.68	292,538,986	90.76	254,981,585	90.67
International operations	29,775,739	9.23	26,232,100	9.32	29,775,739	9.24	26,232,100	9.33
<b>Total</b>	<b>322,545,442</b>	<b>100.00</b>	<b>281,567,040</b>	<b>100.00</b>	<b>322,314,725</b>	<b>100.00</b>	<b>281,213,685</b>	<b>100.00</b>
<b>Income</b>								
Sri Lanka operations	40,410,454	92.65	41,085,946	93.46	40,536,825	92.67	41,241,173	93.49
International operations	3,204,108	7.35	2,874,076	6.54	3,204,108	7.33	2,874,076	6.51
<b>Total</b>	<b>43,614,562</b>	<b>100.00</b>	<b>43,960,022</b>	<b>100.00</b>	<b>43,740,933</b>	<b>100.00</b>	<b>44,115,249</b>	<b>100.00</b>
<b>Profit before Tax</b>								
Sri Lanka operations	6,049,167	84.84	6,397,146	86.26	6,111,160	84.97	6,501,040	86.45
International operations	1,080,682	15.16	1,019,102	13.74	1,080,682	15.03	1,019,102	13.55
<b>Total</b>	<b>7,129,849</b>	<b>100.00</b>	<b>7,416,248</b>	<b>100.00</b>	<b>7,191,842</b>	<b>100.00</b>	<b>7,520,142</b>	<b>100.00</b>
<b>Profit after Tax</b>								
Sri Lanka operations	3,568,434	85.10	3,581,235	86.91	3,680,406	85.49	3,729,201	87.37
International operations	624,583	14.90	539,171	13.09	624,583	14.51	539,171	12.63
<b>Total</b>	<b>4,193,017</b>	<b>100.00</b>	<b>4,120,406</b>	<b>100.00</b>	<b>4,304,989</b>	<b>100.00</b>	<b>4,268,372</b>	<b>100.00</b>

### 40. RELATED PARTY DISCLOSURES

The Bank carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties in Sri Lanka Accounting Standard No. 30 'Related Party Disclosures' (Revised 2005). 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.

#### 40.1 Parent and Ultimate Controlling Party

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

#### 40.2 Transactions with Key Management Personnel (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 (including Executive and Non-Executive Directors), key employees who are holding directorships in subsidiary companies of the Bank and other key executives who meet the criteria described above.

##### 40.2.1 Compensation of KMPs

	2009 Rs. '000	2008 Rs. '000
Short term employment benefits	135,876	175,296
Post-employment benefits	16,496	15,101
Other long term benefits	958	920
<b>Total</b>	<b>153,330</b>	<b>191,317</b>

## Notes to the Financial Statements

### 40.2.2 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include; KMPs domestic partner and children, children of the KMPs domestic partner and dependants of the KMP or the KMPs domestic partner.

#### 40.2.2.1 Balance Sheet

	Year End Balance		Average Balance	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Assets</b>				
Loans and advances	35,433	62,703	44,001	62,607
Credit cards	913	441	908	551
<b>Total</b>	<b>36,346</b>	<b>63,144</b>	<b>44,909</b>	<b>63,158</b>
<b>Liabilities</b>				
Deposits	137,229	96,697	109,335	86,876
Securities sold under repurchase agreements	270,801	232,999	268,588	207,422
Debentures	1,000	1,100	1,000	1,100
<b>Total</b>	<b>409,030</b>	<b>330,796</b>	<b>378,923</b>	<b>295,398</b>

#### 40.2.2.2 Commitments and Contingencies

Undrawn facilities	20,932	20,861	21,286	21,379
<b>Total</b>	<b>20,932</b>	<b>20,861</b>	<b>21,286</b>	<b>21,379</b>

#### 40.2.2.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.19%	0.28%
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#### 40.2.2.4 Income Statement

	During the Year	
	2009 Rs. '000	2008 Rs. '000
Interest income	2,994	3,106
Interest expenses	47,449	41,599
Other income	15	49
Compensation to KMPs (Refer Note 40.2.1)	153,330	191,317

## Notes to the Financial Statements

### 40.2.2.5 Share Based Benefits to KMPs

	As at the Year End	
	2009	2008
Number of ordinary shares held	2,490,977	2,844,381
Dividends paid (In Rs. '000s)	19,075	15,052

Number of cumulative options allotted under the Employee Share Option Plan (ESOP) 2002

Tranche I	117,293	117,293
Tranche II	137,160	137,160
Tranche III	274,173	274,173
Tranche IV	356,490	356,490

Number of cumulative options allotted under the Employee Share Option Plan (ESOP) 2008

Tranche I	89,056	-
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### 40.2.3 Transactions, Arrangements and Agreements Involving Entities which are Controlled, and/or Significantly Influenced by the KMPs or their CFMs

#### 40.2.3.1 Balance Sheet

	Year End Balance		Average Balance	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Assets</b>				
Loans and advances	338	242	342	350
<b>Total</b>	<b>338</b>	<b>242</b>	<b>342</b>	<b>350</b>
<b>Liabilities</b>				
Deposits	217	227	496	229
<b>Total</b>	<b>217</b>	<b>227</b>	<b>496</b>	<b>229</b>

#### 40.2.3.2 Commitments and Contingencies

Undrawn facilities	2	233	142	128
<b>Total</b>	<b>2</b>	<b>233</b>	<b>142</b>	<b>128</b>

#### 40.2.3.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital

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#### 40.2.3.4 Income Statement

	During the Year	
	2009 Rs. '000	2008 Rs. '000
Interest income	83	80
Interest expenses	63	20

## Notes to the Financial Statements

### 40.3 Transactions with Group Related Parties

The Group related parties include the subsidiaries and associates of the Bank.

#### 40.3.1 Transactions with Subsidiary Companies of the Group/Bank.

##### 40.3.1.1 Balance Sheet

	Year End Balance		Average Balance	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Assets</b>				
Loans and advances	2,767	63,778	7,165	9,177
Credit cards	239,965	140,269	197,942	120,677
Other	16,295	31,452	23,874	31,452
<b>Total</b>	<b>259,027</b>	<b>235,499</b>	<b>228,981</b>	<b>161,306</b>
<b>Liabilities</b>				
Deposits	14,025	15,783	19,387	20,522
Securities sold under repurchase agreements	131,376	115,446	125,784	107,569
Other	38,936	43,330	41,133	43,330
<b>Total</b>	<b>184,337</b>	<b>174,559</b>	<b>186,304</b>	<b>171,421</b>

##### 40.3.1.2 Commitments and Contingencies

Letter of Credit	-	1,258	3,196	2,476
Guarantees	-	-	82	591
Undrawn facilities	50,000	6,080	46,723	63,694
<b>Total</b>	<b>50,000</b>	<b>7,338</b>	<b>50,001</b>	<b>66,761</b>

##### 40.3.1.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.97%	0.72%
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##### 40.3.1.4 Income Statement

	During the Year	
	2009 Rs. '000	2008 Rs. '000
Interest income	44,685	22,583
Interest expenses	21,673	17,933
Other income	153,541	43,705
Expenses paid	179,777	139,507

##### 40.3.1.5 Other Transactions

Computer hardware purchased from ONEzero Company Ltd.	110,440	39,234
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## Notes to the Financial Statements

### 40.3.2 Transactions with Associate Companies of the Group/Bank

#### 40.3.2.1 Balance Sheet

	Year End Balance		Average Balance	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Assets</b>				
Loans and advances	35,902	47,409	39,732	53,498
Credit cards	2,428	3,401	2,848	2,290
<b>Total</b>	<b>38,330</b>	<b>50,810</b>	<b>42,580</b>	<b>55,788</b>
<b>Liabilities</b>				
Deposits	5,331	37,009	11,662	14,962
Securities sold under repurchase agreements	2,232	12,564	14,499	21,902
Debentures	-	5,000	-	5,000
<b>Total</b>	<b>7,563</b>	<b>54,573</b>	<b>26,161</b>	<b>41,864</b>

#### 40.3.2.2 Commitments and Contingencies

Guarantees	2,525	2,525	2,525	2,525
<b>Total</b>	<b>2,525</b>	<b>2,525</b>	<b>2,525</b>	<b>2,525</b>

#### 40.3.2.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.13%	0.18%
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#### 40.3.2.4 Income Statement

	During the Year	
	2009 Rs. '000	2008 Rs. '000
Interest income	8,185	11,763
Interest expenses	2,926	4,655
Other income	14,366	12,753

#### 40.3.2.5 Other Transactions

Preference dividend paid	-	183
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## Notes to the Financial Statements

### 40.4 Transactions with Other Related Entities

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence, post employment benefit plans for the Bank's employees.

#### 40.4.1 Transactions with Entities which have a Significant Influence over the affairs of the Bank

##### 40.4.1.1 Balance Sheet

	Year End Balance		Average Balance	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Assets</b>				
Loans and advances	-	-	-	25
<b>Total</b>	-	-	-	25
<b>Liabilities</b>				
Deposits	57,818	68,557	12,608	11,236
<b>Total</b>	57,818	68,557	12,608	11,236

##### 40.4.1.2 Commitments and Contingencies

Undrawn facilities	-	450,000	-	449,975
<b>Total</b>	-	450,000	-	449,975

##### 40.4.1.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	-	1.55%
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##### 40.4.1.4 Income Statement

	During the Year	
	2009 Rs. '000	2008 Rs. '000
Interest income	11	5
Other income	31	115

##### 40.4.1.5 Other Transactions

Number of ordinary shares held as at the year end	67,099,881	67,099,881
Dividend paid (In Rs. '000s)	469,699	370,880

## Notes to the Financial Statements

### 40.4.2 Transactions with the Post-Employment Benefit Plans for the Employees of the Bank

#### 40.4.2.1 Balance Sheet

	Year End Balance		Average Balance	
	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
<b>Assets</b>				
Loans and advances	-	-	-	-
<b>Total</b>	-	-	-	-
<b>Liabilities</b>				
Deposits	46,557	2,088,003	592,762	2,614,934
Securities sold under repurchase agreements	260,392	1,046,902	297,753	793,646
<b>Total</b>	<b>306,949</b>	<b>3,134,905</b>	<b>890,515</b>	<b>3,408,580</b>

#### 40.4.2.2 Income Statement

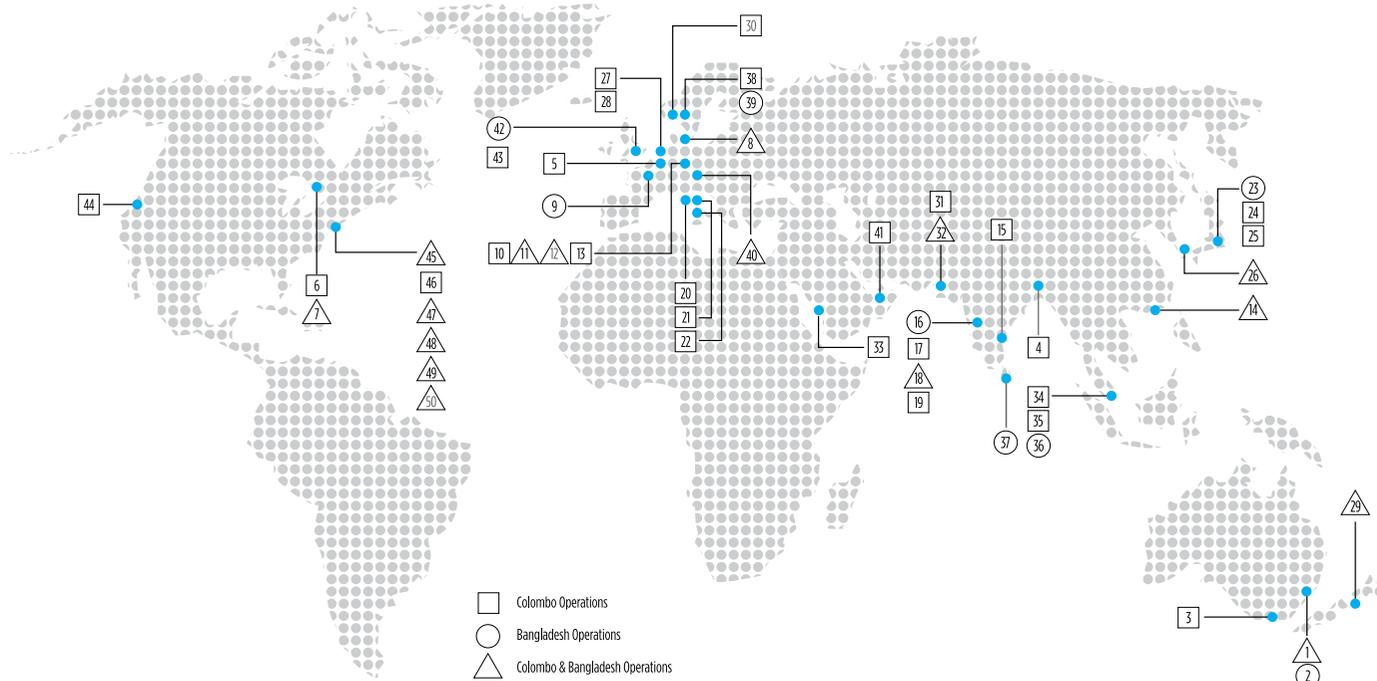
	During the Year	
	2009 Rs. '000	2008 Rs. '000
Interest expenses	143,866	800,305
Contribution made/Taxes paid by the Bank	590,838	483,474

## 41. 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 other than those disclosed below:

- Directors have recommended the payment of a final dividend of Rs. 4.00 per share for both the ordinary Voting and Non-Voting shareholders of the Bank for the year ended December 31, 2009. This will be declared at the forthcoming Annual General Meeting to be held on March 30, 2010 for shareholders' approval.
- The People's Bank entered into a contract with the Bank to facilitate the oil hedging transactions in September 2008. However, in November 2008, People's Bank stopped payments on this contract and initiated legal action by obtaining an enjoining order thereby preventing the Bank from investing and/or setting off the sum of US\$ 15.0 Mn. held by the Bank in settlement of the outstanding due to the Bank from the People's Bank until the case is determined. Subsequently, on January 15, 2010, the interim injunction sought by the People's Bank was not granted by the Commercial High Court, Colombo. As a result, subsequent to the Balance Sheet date, the Bank duly set off the US\$ 15.0 Mn. deposit against the amounts due from the People's Bank.

## Correspondent Banks



Country, Name and Address of the Bank	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 <a href="http://www.citibank.com.au">www.citibank.com.au</a>	CITIAU2X	AUD	205636005 * 232603003
2. HSBC Bank Australia Ltd. 580, George Street, Sydney NSW 2000 <a href="http://www.hsbc.com.au">www.hsbc.com.au</a>	HKBAAU2S	AUD	011-796323-041*
3. National Australia Bank 11/120, Spencer Street, Melbourne Victoria 3000 - Australia <a href="http://www.national.com.au">www.national.com.au</a>	NATAAU33	AUD	1803020052500
<b>Bangladesh</b>			
4. Commercial Bank of Ceylon PLC 47, Motijheel Commercial Area, P.O. Box 3490, Dhaka 1000, Bangladesh <a href="http://www.combank.net">www.combank.net</a>	CCEYBDDH	ACS	2-802000017
<b>Belgium</b>			
5. Fortis Bank NV/SA Montagne DU PARC 3, B-1000, Brussels, Belgium <a href="http://www.fortis.com">www.fortis.com</a>	GEBABEBB	EUR	291-1179210-78
<b>Canada</b>			
6. Bank of Nova Scotia Trade Service & Financial Institutions 100, Yonge Street, 9th Floor, Toronto Ontario, Canada M5C 2W1	NOSCCATT	CAD	527120072214
7. Canadian Imperial Bank of Commerce Int'l Dept. Head Office, Commerce Court, Toronto M5L 1H1, Canada <a href="http://www.cibc.com">www.cibc.com</a>	CIBCCATT	CAD	1733117 1751514 *
<b>Denmark</b>			
8. Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen, Denmark <a href="http://www.nordea.com">www.nordea.com</a>	NDEADKKK	DKK	5000408909 5000017703 *
<b>France</b>			
9. Credit Agricole SA, 75710 Paris Cedex 15, CCP, Paris 702 U 020 France <a href="http://www.credit-agricole.fr">www.credit-agricole.fr</a>	AGRIFRPP	EUR	20533624000 *

Country, Name and Address of the Bank	BIC Code/Swift	CCY	Account No.
<b>Germany</b>			
10. Bayerische Hypo und Vereins Bank AG D-80311 Muenchen, Germany <a href="http://www.hvb.com">www.hvb.com</a> <a href="http://www.hvb.de">www.hvb.de</a>	HYVEDEMM	EUR	69101429
11. Commerz Bank AG ZTB BC Mitte 6.4, Mainzer Landstrasse 277-293, 60261, Frankfurt AM Main, Germany <a href="http://www.commerzbank.com">www.commerzbank.com</a>	COBADEFF	EUR	400872103701 400871436200 *
12. Standard Chartered Bank Data & Exposure Control, P.O. Box 110162 Theodor - Heuss - Allee 112, D60036 Frankfurt AM Main, Germany <a href="http://www.standardchartered.de">www.standardchartered.de</a>	SCBLDEF	EUR	018109406 018109205 018112204 *
13. West LB AG Girozentrale - P.O. Box D40199, Dusseldorf, Germany <a href="http://www.westlb.com">www.westlb.com</a> <a href="http://www.westlb.de">www.westlb.de</a>	WELADED	EUR	59031/EUR
<b>Hong Kong</b>			
14. Standard Chartered Bank P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road, Central Hong Kong <a href="http://www.standardchartered.com">www.standardchartered.com</a>	SCBLHKHH	HKD	41109468048 44709419107 *
<b>India</b>			
15. Bank of Ceylon, Chennai Chennai, India	BCEYIN5M	AC€	1-119
16. Calyon Bank (C.A. Indosuez) 12th Floor, Hoechst House, Nariman Point, Mumbai, India <a href="http://www.calyon.com">www.calyon.com</a>	BSUIINBB	AC\$	00712402150000USD *
17. Deutsche Bank AG, Ground Floor, CSD Area, Kodak House, 225, D.N. Road, Fort, Mumbai, India <a href="http://www.db.com">www.db.com</a>	DEUTINBB	AC\$	0212878-05-0
18. ICICI Bank Ltd. ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India <a href="http://www.icicibank.com">www.icicibank.com</a>	ICICINBB	AC\$	000406000181 000406000220 *
19. Standard Chartered Bank 23-25, Mahatma Gandhi Road, P.O. Box 558, Mumbai 400 001, India <a href="http://www.standardchartered.com">www.standardchartered.com</a>	SCBLINBB	AC\$	22205031885 22205394120

\* Accounts of Bangladesh Operation

## Correspondent Banks

Country, Name and Address of the Bank	BIC Code/Swift	CCY	Account No.	Country, Name and Address of the Bank	BIC Code/Swift	CCY	Account No.
<b>Italy</b>				<b>20. Banca Intesa BCI</b>			
#2612 Head Office, Int'l Money Transfer Dept., Piazza Della Scala 6, 20121 Milan, Italy www.bancaintesa.it	BCITITMM	EUR	100100003820	<b>35. Standard Chartered Bank</b>			
<b>21. Banco Popolare Society Cooperation</b>				P.O. Box 1901, 6, Battery Road, 7th Storey, Singapore 049909 www.standardchartered.com			
Piazza Nogara 2, 37121 Verona, Vr, Italy www.bpv.it	BAPPIT22	EUR	000400000082	<b>36. United Overseas Bank Ltd.</b>			
<b>22. Unicredito Italiano SPA</b>				80, Raffles Place 08-01, UOB Plaza 1, Singapore 048624 www.uobgroup.com			
Viale, Mberto, Tutini, 180, 1-00144 Rome, Italy www.unicreditgroup.eu	UNCRITMM	EUR	0995 4268	<b>Sri Lanka</b>			
<b>Japan</b>				<b>37. Commercial Bank of Ceylon PLC</b>			
<b>23. Bank of Tokyo Mitsubishi Ltd.</b>				Commercial House, 21, Bristol Street, P.O. Box 856, Colombo 1, Sri Lanka www.combank.net			
P.O. Box 191, Nihonbashi, Tokyo, Japan www.bk.mufg.jp	BOTKJPJT	JPY	653-0461318 *	<b>Sweden</b>			
<b>24. Standard Chartered Bank</b>				<b>38. Skandinaviska Enskilda Banken</b>			
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	Utlandsreskontran Stockholm S 106 40, Sweden www.sebgroup.com			
<b>25. Sumitomo Mitsui Banking Corporation</b>				<b>39. Svenska Handelbanken Stockholm, Sweden</b>			
International Business Operations Dept. P.O. Box 4, Tokyo Central 100 – 8201, Japan www.smbc.co.jp	SMBCJPJT	JPY	4395	HANDSESS SEK 40324079 *			
<b>Korea</b>				<b>Switzerland</b>			
<b>26. Kookmin Bank</b>				<b>40. UBS A.G.</b>			
9-1, 2GA, Namdaemun - RO, Jung - GU, Seoul 100-703, Korea www.kbstar.com	CZNBKRSE	US\$	7598USD010 7618USD013 *	P.O. Box CH-8098, Zurich, Switzerland www.ubs.com 0230-0000085408050000W 0230-0000036535050000N*			
<b>Netherlands</b>				<b>United Arab Emirates</b>			
<b>27. ABN Amro Bank N.V.</b>				<b>41. Mashreq Bank</b>			
32, Vijzelstraat, P.O. Box 669, Amsterdam, Netherlands www.abnamro.com	RBOSNL2A	EUR	540427349	P.O.Box 1250, Dubai, UAE www.mashreqbank.com BOMLAEAD AED 0195511268			
<b>28. Ing Bank N.V.</b>				<b>United Kingdom</b>			
P.O. Box 1800 1000 BV, Amsterdam, Netherlands www.ing.com	INGBNL2A	EUR	0050908928	<b>42. HSBC Bank PLC, 8, Canada Square,</b>			
<b>New Zealand</b>				London - UK www.hsbc.co.uk			
<b>29. Bank of New Zealand</b>				<b>43. Standard Chartered Bank</b>			
P.O. Box 2392, 1, Willis Street, Wellington, New Zealand www.bnz.co.nz	BKNZNZ22985	NZD	2659680000 2690700000 *	City Office, Branch No. 37, Grace Church Street, London EC3V 0BX, UK www.standardchartered.com			
<b>Norway</b>				<b>United States of America</b>			
<b>30. Den Norske Bank</b>				<b>44. Bank of America NT &amp; SA</b>			
Stranden 21, 0021, Oslo, Norway www.dnbnor.com	DNBANOKK	NOK	7002-02-04808	International Deposit Services, 1850 Gateway BL VD, 6th Floor, Concord CA 94520, USA www.bankofamerica.com BOFAUS6S US\$ 6290890098			
<b>Pakistan</b>				<b>45. Citi Bank</b>			
<b>31. Habib Bank AG Zurich</b>				111, Wall Street, 19th Floor, New York 10043, USA www.citibank.com CITIUS33 US\$ 36141446 US\$ 36241316 * US\$ 36242538 *			
P.O. Box 1424, Hirani Centre, 1.1, Chundrigar Road, Karachi 74200, Pakistan www.habibbank.com	HBZUPKKA	AC\$	20110-333-31503	<b>46. Deutsche Bank Trust Company Americas</b>			
<b>32. Standard Chartered Bank</b>				P.O. Box 318, Church Street Station, New York, NY 10008, USA www.db.com BKTRUS33 US\$ 04034566			
1.1, Chundrigar Road, Karachi 75600, Pakistan www.standardchartered.com	SCBLPKKA	AC\$	15000297601 15000288701 *	<b>47. HSBC Bank USA</b>			
<b>Saudi Arabia</b>				500, Stanton Christiana Road, New York Delaware 19713, NY - USA www.hsbcusa.com MRMDUS33 US\$ 0000045829 000147605 *			
<b>33. The National Commercial Bank</b>				<b>48. JP Morgan Chase Bank</b>			
International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah 21481, Saudi Arabia www.alahli.com	NCBKSAJE	US\$	55535150090301	Head Office, 270, Park Avenue, New York, NY 10017, USA www.jpmorganchase.com CHASUS33 US\$ 400808625 400809176 *			
<b>Singapore</b>				<b>49. Standard Chartered Bank</b>			
<b>34. City Bank NA</b>				One Madison Avenue, New York NY 10010-3603, USA www.standardchartered.com SCBLUS33 US\$ 3582052360001 3582052360002 3582052637001 *			
3, Temasek Avenue, # 14-00, Sennial Tower, Singapore 039190	CITISGSG	USD	00851122001	<b>50. Wachovia Bank N.A.</b>			
				11, Penn Plaza, 4th Floor, New York, NY 10038, USA www.wachovia.com PNBPUS3NNYC US\$ 2000191002407 2000193003365 *			

\* Accounts of Bangladesh Operation

## Information on the Freehold Land and Buildings of the Bank

[As required by Rule No. 7.6 (viii) of the continuing listing requirements of the Colombo Stock Exchange]

Location	Extent (Perches)	Cost or Revaluation of Land Rs. '000	Buildings (Square Feet)	Cost or Revaluation of Buildings Rs. '000	Total Value Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	As a % of Total Cost
<b>Holiday Bungalow - Haputale</b> No. 23, Lily Avenue, Welimada Road, Haputale	157	5,188	4,533	1,313	6,500	263	6,238	0.32
<b>Holiday Bungalow - Bandarawela</b> Ambatenne Estate, Bandarawela	423	8,468	5,546	3,032	11,500	489	11,011	0.57
<b>Bungalow for the CEO</b> No. 27, Queens Road, Colombo 3	64	192,300	5,616	2,700	195,000	1,500	193,500	10.03
<b>Union Place Building</b> No. 1, Union Place, Colombo 2	30	60,000	90,212	315,390	375,390	46,379	329,011	17.06
<b>Kandy Branch</b> No. 120, Kotugodella Veediya, Kandy	45	84,871	44,185	106,413	191,284	27,937	163,347	8.47
<b>Galle Fort Branch</b> No. 22, Church Street, Fort, Galle	100	57,563	11,625	17,438	75,000	10,898	64,102	3.32
<b>Jaffna Branch</b> No. 474, Hospital Road, Jaffna	77	76,000	5,146	9,000	85,000	5,625	79,375	4.12
<b>Matara Branch</b> No. 18, Station Road, Matara	37	16,893	8,137	9,607	26,500	1,779	24,721	1.28
<b>Matale Branch</b> No. 70, Kings Street, Matale	51	8,000	6,000	15,000	23,000	3,571	19,429	1.01
<b>Galewela Branch</b> No. 49/57, Matale Road, Galewela	99	10,454	6,380	2,904	13,358	691	12,666	0.66
<b>Wellawatte Branch</b> No. 343, Galle Road, Colombo 6	45	105,768	15,057	45,000	150,768	15,001	135,767	7.04
<b>Kollupitiya Branch</b> No. 285, Galle Road, Colombo 3	17	37,500	16,254	59,626	97,126	11,647	85,480	4.43
<b>Kotahena Branch</b> No. 198, George R De Silva Mawatha, Kotahena, Colombo 13	13	70,071	9,274	24,000	94,071	5,218	88,853	4.61
<b>Negombo Branch</b> No. 24, 26, Fernando Avenue, Negombo	37	16,000	14,439	29,800	45,800	9,313	36,488	1.89
<b>Hikkaduwa Branch</b> No. 217, Galle Road, Hikkaduwa	37	1,303	6,713	7,171	8,474	3,524	4,950	0.26
<b>Kurunegala Branch</b> No. 4, Suratissa Mawatha, Kurunegala	35	39,481	8,916	13,750	53,231	2,291	50,939	2.64
<b>Maharagama Branch</b> No. 154, High Level Road, Maharagama	18	12,425	8,000	16,475	28,900	2,112	26,788	1.39
<b>Borella Branch</b> No. 92, D S Senanayake Mawatha, Borella	16	23,000	12,566	37,000	60,000	5,000	55,000	2.85

### Information on the Freehold Land and Buildings of the Bank

Location	Extent (Perches)	Cost or Revaluation of Land Rs. '000	Buildings (Square Feet)	Cost or Revaluation of Buildings Rs. '000	Total Value Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	As a % of Total Cost
<b>Nugegoda Branch</b> No. 100, Stanley Tillakaratne Mawatha, Nugegoda	39	39,000	11,138	19,898	58,898	3,932	54,966	2.85
<b>Kegalle Branch</b> No. 186, Main Street, Kegalle	81	73,605	–	–	73,605	–	73,605	3.82
<b>Narahenpita Branch</b> No. 201, Kirula Road, Narahenpita	22	49,613	11,193	40,388	90,000	5,939	84,061	4.36
<b>Mutwal Branch</b> No. 677, Aluthmawatha Road, Colombo 15	17	20,592	–	–	20,592	–	20,592	1.07
<b>Pettah Branch</b> People's Park Shopping Complex, Colombo 11 (Condominium)	–	–	3,303	14,376	14,376	2,105	12,271	0.64
<b>Wennappuwa Branch</b> No. 262, 264, Colombo Road, Wennappuwa	36	8,665	8,852	19,000	27,665	3,065	24,600	1.28
<b>Galle City Branch</b> No. 130, Main Street, Galle	7	5,063	3,675	7,409	12,471	2,579	9,892	0.51
<b>Battaramulla Branch</b> No. 213, Kaduwela Road, Battaramulla	15	11,208	11,216	38,792	50,000	5,243	44,757	2.32
<b>Minuwangoda Branch</b> No. 42, Siriwardena Mawatha, Minuwangoda	25	8,575	4,310	4,675	13,250	649	12,601	0.65
<b>Nuwara Eliya Branch</b> No. 36, Buddha Jayanthi Mawatha, Nuwara Eliya	35	16,579	13,057	48,615	65,194	2,087	63,107	3.27
<b>Trincomalee Branch</b> No. 191, Central Road, Trincomalee	100	27,500	Bare Land	–	27,500	–	27,500	1.43
<b>Keyzer Street Branch</b> No. 32, Keyzer Street, Colombo 11	7	14,940	5,611	8,060	23,000	1,185	21,815	1.13
<b>Panadura Branch</b> No. 375, Galle Road, Panadura	12	8,930	6,168	14,490	23,420	1,959	21,461	1.11
<b>Chilaw Branch</b> No. 52, Colombo Road, Chilaw	35	25,850	Bare Land	–	25,850	–	25,850	1.34
<b>Narammala Branch</b> No. 55, Negombo Road, Narammala	49	11,510	5,760	5,284	16,794	661	16,134	0.84
<b>Ja - Ela Branch</b> No. 140, Negombo Road, Ja-Ela	13	11,023	7,755	18,096	29,119	1,433	27,686	1.44
<b>Total</b>		1,157,934		954,702	2,112,636	184,076	1,928,560	100.00

## 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 and 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 Ltd. 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 Mn. 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 Mn. 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.

### 2009

**Bank won the Gold Award in the Employer category at the 'National Decent Work Awards 2009' in recognition of the contribution towards the advancement of the national goal of 'Social dialogue on decent work for all'. It was awarded by the Ministry of Labour Relations and Manpower together with the ILO Office in Sri Lanka.**

**Becomes the First and only Bank in Sri Lanka to be CMMi certified.**

**Adjudged as Sri Lanka's 'Best Bank' for the 11th consecutive year by one of the world's most respected financial publications, Global Finance (USA).**

**Selected as the 'Best Bank in Sri Lanka' for 2009 by Finance Asia.**

**Won an international accolade from the UK based 'Trade Finance' magazine (published by Euromoney PLC) which adjudged the Bank as the 'Best Local Trade Bank' in Sri Lanka.**

**Bank installed its 350th ATM at the Piliyandala Branch.**

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## Notice of Meeting

Notice is hereby given that the Forty-First 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 01, on March 30, 2010, 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, 2009, 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. B.R.L. Fernando
  - (b) Mr. R.M.S. Fernando
  - (c) Dr. H.S. Wanasinghe (\*)
  - (d) Ms. J. Kuruppu
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 2010

By Order of the Board,

**Mrs. R.R. Dunuwille**

*Company Secretary*

February 18, 2010

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 proxyholder 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 7th 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 83 years on June 16, 2009 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 The Articles of Association of the Bank."*

## 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.

#### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

#### Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

#### 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.

#### Cost Method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the

investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

#### 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.

#### Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

#### Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

### 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.

#### Dividend Yield

Dividend earned per share as a percentage of its market value.

#### 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.

### Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

### F

#### Fair Value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### 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.

#### 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.

#### Group

A group is a parent and all its subsidiaries.

#### 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 and Commodities, etc.).

#### Human Resource Accounting

Is a method of accounting under which the human resource is considered as an asset (although not brought into the Balance Sheet) and the value is thus computed to focus attention of the management on this valuable asset.

## Glossary of Financial and Banking Terms

### 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 on interest-earning assets and the average interest rate paid on interest-bearing liabilities.

#### 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 and Treasury Bills & Bonds.

#### 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 a date.

#### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

#### 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 the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

#### Non-Performing Loans (NPLs)

A loan or an advance 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.

#### NPL Ratio

Total non-performing loans and advances (net of Interest in Suspense) divided by total loans and advances portfolio (net of Interest in Suspense).

### 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 and advances expressed as a percentage of regulatory capital base.

#### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

### P

#### Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

#### Parent

A Parent is an entity that has one or more subsidiaries.

#### Provision Cover

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

#### Prudence

Inclusion of a degree of caution in the exercise of judgment 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.

#### Risk-Adjusted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to Balance Sheet (or credit) equivalents and then by applying appropriate 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 entity 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 (SBL)

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.

# Investor Feedback Form

To request information or submit a comment/query to the Company, please complete the following and return this page to -

The Company Secretary  
Commercial Bank of Ceylon PLC  
'Commercial House'  
21, Bristol Street  
Colombo 01  
Sri Lanka

Name : .....

Permanent Mailing Address : .....

Contact Number - (Tel) .....

- (Fax) .....

- E-Mail .....

Name of Company : .....

(If Applicable)

Designation : .....

(If Applicable)

Company Address : .....

(If Applicable)

Queries /comments ..... ..... ..... ..... ..... ..... ..... ..... ..... .....
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Please tick the appropriate box

Would you like to receive soft copies of the Commercial Bank's Interim Reports via e-mail?

<input type="checkbox"/>	<input type="checkbox"/>
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Would you like to receive news and press releases of Commercial Bank via e-mail?

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

Would you like to receive any news on our products/services?

<input type="checkbox"/>	<input type="checkbox"/>
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**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. 07 of 2007. A Licensed Commercial Bank under the Banking Act No. 30 of 1988.

**Company Registration Number**

PQ 116

**Stock Exchange Listing**

The Ordinary Shares and the 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: 2430420, 2336700,  
2445010-15 (6 lines), 2486000, 4792000  
Tele-Banking: 2336633-5 (3 lines)  
Telex: 21520 COMEX CE  
Facsimile: 9411-2449889  
SWIFT Code - Sri Lanka: CCEYLKX  
SWIFT Code - Bangladesh: CCEYBDDH  
E-mail: email@combank.net  
Web: www.combank.net

**Head Office**

"Commercial House",  
No. 21, Bristol Street, P.O. Box 856,  
Colombo 1, Sri Lanka.

**Accounting Year-end**

December 31

**Tax Payer Identification Number (TIN)**

124006007

**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 2009). The Bank's Bangladesh Operation's credit rating, AA+ was reaffirmed by Credit Rating Information Services Ltd. (in 2009).

**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.

**Company Registrar**

S S P Corporate Services (Private) Ltd.,  
No. 101, Inner Flower Road,  
Colombo 3, Sri Lanka.  
Telephone: 2573894, 2576871  
Facsimile: 9411-2573609  
E-mail: sspsec@sitnet.lk

**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. D.S. Weerakkody  
Mr. P.M. Martelli  
Mr. R.M.S. Fernando  
Mrs. S.N. Wickramasinghe  
(*Appointed w.e.f. February 1, 2009*)  
Ms. J. Kuruppu  
(*Appointed w.e.f. December 23, 2009*)

**Company Secretary**

Mrs. R.R. Dunuwille

**Board Audit Committee**

Mr. B.R.L. Fernando (*Chairman*)  
Dr. H.S. Wanasinghe  
Mr. D.S. Weerakkody  
Mr. R.M.S. Fernando  
(*Appointed w.e.f. January 27, 2009*)  
Mrs. S.N. Wickramasinghe  
(*Appointed w.e.f. February 1, 2009*)  
Mr. A.L. Gooneratne (by invitation)

**Board Integrated****Risk Management Committee**

Mr. M.J.C. Amarasuriya (*Chairman*)  
Mr. B.R.L. Fernando  
Mr. R.M.S. Fernando  
(*Appointed w.e.f. January 27, 2009*)  
Mrs. S.N. Wickramasinghe  
(*Appointed w.e.f. February 1, 2009*)  
Mr. A.L. Gooneratne

**Board Nomination Committee**

Mr. M.J.C. Amarasuriya (*Chairman*)  
Mr. B.R.L. Fernando  
Ms. J. Kuruppu  
(*Appointed w.e.f. January 28, 2010*)  
Mr. A.L. Gooneratne (by invitation)

**Board Human Resources & Remuneration Committee**

Mr. M.J.C. Amarasuriya (*Chairman*)  
Dr. H.S. Wanasinghe  
Mr. D.S. Weerakkody  
Mr. A.L. Gooneratne  
Ms. J. Kuruppu  
(*Appointed w.e.f. January 28, 2010*)

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.  
Telephone: 011 2332317  
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 VISION

TO BE THE MOST TECHNOLOGICALLY ADVANCED, INNOVATIVE AND CUSTOMER FRIENDLY FINANCIAL SERVICES ORGANISATION IN SRI LANKA, POISED FOR FURTHER EXPANSION IN SOUTH ASIA

## OUR MISSION

PROVIDING RELIABLE, INNOVATIVE, CUSTOMER FRIENDLY FINANCIAL SERVICES, UTILISING CUTTING EDGE TECHNOLOGY AND FOCUSING CONTINUOUSLY ON PRODUCTIVITY IMPROVEMENT WHILST DEVELOPING OUR STAFF AND ACQUIRING NECESSARY EXPERTISE TO EXPAND LOCALLY AND REGIONALLY



The indigenous commercial bank with the highest credit rating by Fitch Ratings Lanka Ltd of AA+ (Ika)

The only Sri Lankan bank with a network of outlets in a foreign country (15 outlets and 13 ATMs in Bangladesh)