



## IN THIS ISSUE

• <b>Highlights</b>	02
• <b>Letter from the Chairman</b>	04
• <b>Managing Director's Review</b>	08
• <b>Management Discussion and Analysis</b>	13
• <b>Sustainability Supplement</b>	43
• <b>Stewardship</b>	
Corporate Governance	97
Board Sub-Committees	134
Board Audit Committee Report	135
Board Human Resources and Remuneration Committee Report	137
Board Nomination Committee Report	139
Board Integrated Risk Management Committee Report	140
Directors' Interest in Contracts with the Company	141
Board of Directors	144
Board of Directors - Profiles	146
Corporate Management Team	148
Senior Management Team	151
Management Committee - Bangladesh	151
Managing Risk at Commercial Bank	153
Events 2010	170
Investor Relations	172
US\$ Income Statement	186
US\$ Balance Sheet	187
Decade at a Glance	188
Group Structure	190
• <b>Financial Reports</b>	
Annual Report of the Board of Directors	193
Statement of Directors' Responsibility	202
Managing Director's and Chief Financial Officer's Statement of Responsibility	203
Directors' Statement on Internal Control	204
Auditors' Report	205
Income Statement	206
Balance Sheet	207
Statement of Changes in Equity	208
Cash Flow Statement	210
Notes to the Financial Statements	212
• <b>Supplementary Information</b>	
Historical Landmarks	281
Correspondent Banks	282
Glossary of Financial and Banking Terms	284
Alphabetical Index	286
Notice of Meeting	287
Circular to Shareholders	289
Form of Proxy (Voting Shareholders)	Enclosed
Form of Proxy (Non-Voting Shareholders)	Enclosed
Investor Feedback Form	Enclosed
Corporate Information	Inner Back Cover



COMMERCIAL BANK

Our Interest Is In You

### 400TH ATM OPERATIONAL IN RUWANWELLA

*Our shoe size just got bigger... ie...  
our footprint just got wider!*

### LENDING OUR MUSCLE POWER TO SME AND MICROFINANCE SECTORS

*Lending Financial Support where  
it's Needed Most*

### THE 'FIRST ON THE GROUND' PRIVATE BANK IN KILINCHCHI

*State-of-the-art banking...  
uncompromised by Fleetness of Foot*

### SUBSTANTIAL NATIONAL DEVELOPMENT... AND A BANK READY TO ASSIST!

*National economic growth and  
well-being must travel a Smooth Road*

# Quick Read

THE WAY THE WIND IS BLOWING...

BOTH FOR THE BANK AND THE NATION, INDICATES A POSITIVE AND POTENTIALLY-LUCRATIVE FUTURE.

FROM THE BANK'S PERSPECTIVE, 2010 HAS BEEN A YEAR OF SIGNIFICANT PROGRESS WHERE WE HAVE RECORDED INNOVATIVE AND OFTEN PIONEERING ACHIEVEMENTS THAT GO WELL-BEYOND OUR ROBUST ECONOMIC PERFORMANCE. FROM FINANCING PIONEERING WINDMILL PROJECTS, TO ENHANCING OUR FOOTPRINT ACROSS SRI LANKA, MOST PARTICULARLY IN THE NORTH AND THE EAST, BROADENING OUR PORTFOLIO OF PREMIUM PRODUCTS AND SERVICES AND PLAYING A KEY ROLE IN THE NATION'S RESURGENCE, THE COMMERCIAL BANK HAS ITS 'FACE TO THE WINDS OF POSITIVE CHANGE' THAT ARE SET TO BLOW ACROSS OUR LAND.

FROM A NATIONAL PERSPECTIVE, SRI LANKA IS MOVING BEYOND YEARS OF STRIFE TOWARDS A PERIOD OF RESURGENCE AND DEVELOPMENT. THE SIGNS ARE EVERYWHERE TO BE SEEN - SRI LANKA IS A LAND ON THE MOVE... FORWARD!



We are known as, the benchmark private sector bank in Sri Lanka. Over the years, we have with clear vision, set standards, created an identity and forged a unique trend in banking that has brought us recognition year after year. We have maintained our cultural identity, reached to the grass roots and created a style that has set the trend. Today, our superlative range of products and services, powered by state-of-the-art technological superiority and peopled by a dynamic, highly motivated team have made us what we are, the most progressive bank in Sri Lanka.

## **Chairman in his Letter to Shareholders on page 4**



Welcomes the return of business confidence that eluded the Country for so long, and commends the Bank's Management for an excellent all round performance. Particularly, crossing the Rs. 5 Bn. mark in after tax profit and recording a 25% growth in advances whilst simultaneously bringing down the net NPL ratio to 4.22%. He concludes on a positive note albeit drawing attention to areas of some concern in Sri Lanka's macro-economic and industrial landscape.

## **Managing Director in his Review on page 8**

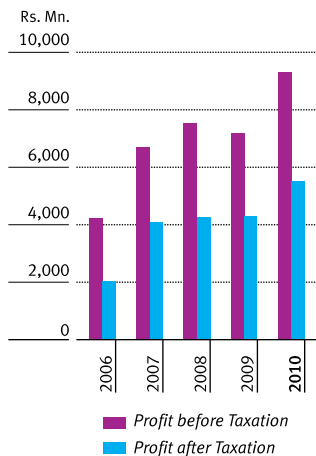


Attributes the superb performance amidst severe pressures on margins to the strength of the Commercial Bank brand which inspires trust and confidence; together with effective strategic planning, management initiative, board oversight, well-functioning systems and controls and of course, a lot of hard work. He summarises the great strides the Bank has made in operations and marketing as well. Concludes that the Bank is very well-placed to capitalise on the exciting opportunities in ensuing years. He draws attention to the Bank's need for building capital to support the expected significant increase in the advances portfolio.

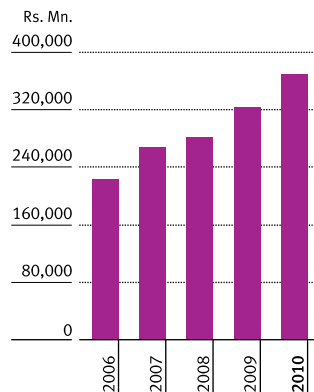


## All round Growth in Profitability, Productivity and Returns in 2010

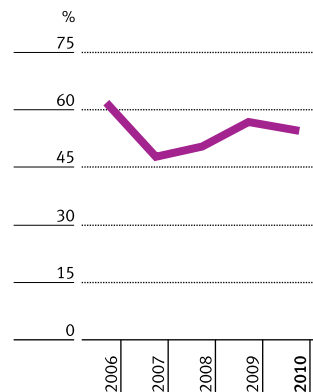
**Group Profit Before Taxation and After Taxation have Grown in Excess of 30%**



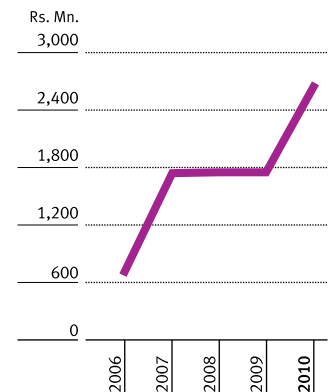
**Total Assets have Grown by almost 15%**



**Cost/Income Ratio has Improved by 2%**



**Gross Dividends Paid has Increased by Over 50%**



### Management Discussion and Analysis on [page 13](#)

Opens with an analysis of the macro-economic environment. Emerging markets are expected to recover faster than the advanced economies. In Sri Lanka, the macro-economic prospects as well as the prospects for the banking industry seem buoyant.

Financials show all round excellent performance despite heightened competition and pressure on margins. The sharp growth in business volumes is mainly organic. It also demonstrated good diversity across sources of income. Advances grew by a whopping 45.1 Bn. or 25.2% to reach a total of Rs. 223 Bn. This is whilst reducing the NPA portfolio by Rs. 2.7 Bn. bringing down the net NPA ratio to 4.22% from 6.84% in the previous year. Deposits grew by 10.7% to reach a total of Rs. 259.8 Bn. Both group profit before and after tax have grown in excess of 30%. The rise in operating expenses has been well-managed and the cost to income ratio has improved quite substantially by 2.2% ending at 54.69%.

Personal Banking has made the biggest contribution to the bottom line. Personal Banking accounted for 41%, 53% and 79% of pre tax profits, advances and deposits respectively. Some 15% of the Bank's pre-tax profit now comes from International Operations, with Bangladesh making the biggest contribution. A detailed review of each division including strategy, actions, core competencies and future outlook; plus a brief review of the performance of the Subsidiaries and Associates are given here.

### Sustainability Supplement on [page 43](#)

Commercial Bank was the first company to publish a triple bottom line report. That was some 10 years ago. Beginning last year, we have adopted the Global Reporting Initiative (G3) guidelines. This year, we have published a B level Report. The value of our human resources using the Lev and Schwartz model plus Economic Value Added (EVA) is featured. These stand at Rs. 50 Bn. and Rs. 3 Bn. respectively. The latter is indicative of the wealth that the Bank has created.

### Stewardship on [page 96](#)

Is a composite section covering Corporate Governance including all Board Sub-Committee Reports, information on the Board of Directors and management teams, Risk Management and Investor Relations. The number of shareholders has increased from 9,855 at the end of 2009 to 12,040 at the end of 2010. Commercial Bank remains the largest capitalised bank on the Colombo Bourse. Gross dividends for the year increased by some 50% to reach Rs. 2.6 Bn. In addition to a lot of background information useful to investors, this section also gives interim results, the twenty largest shareholders and their shareholdings, the performance of the share, composition of shareholders, Directors' shareholdings, US\$ accounts and a ten-year summary.

## FINANCIAL HIGHLIGHTS

	GROUP			BANK		
	2010	2009	Change %	2010	2009	Change %
<b>Results for the Year (Rs. Mn.)</b>						
Income	41,481.762	43,614.562	(4.89)	41,521.531	43,740.933	(5.07)
Profit Before Financial VAT and Taxation	12,009.384	9,393.965	27.84	12,026.311	9,455.958	27.18
Profit Before Taxation (PBT)	9,300.466	7,129.849	30.44	9,317.393	7,191.842	29.56
Provision for Taxation	3,790.472	2,936.832	29.07	3,794.100	2,886.853	31.43
Profit After Taxation (PAT)	5,509.994	4,193.017	31.41	5,523.293	4,304.989	28.30
Gross Dividends	2,642.249	1,751.467	50.86	2,642.249	1,751.467	50.86
<b>At the Year End (Rs. Mn.)</b>						
Shareholders' Funds (Capital and Reserves)	33,512.576	28,720.747	16.68	33,302.052	28,498.980	16.85
Deposits	259,744.567	234,730.680	10.66	259,778.911	234,744.706	10.66
Gross Loans and Advances	223,796.523	178,648.560	25.27	224,020.088	178,891.292	25.23
Total Assets	370,257.944	322,545.442	14.79	370,060.142	322,314.725	14.81
<b>Information per Ordinary Share (Rs.)</b>						
Earnings (Basic)	14.63	11.19	30.74	14.67	11.49	27.68
Earnings (Diluted)	14.52	11.09	30.93	14.56	11.39	27.83
Dividends	-	-	-	7.00	7.00	-
Net Assets Value	88.78	76.61	15.89	88.22	76.01	16.06
Market Value at the Year end - Voting	N/A	N/A	-	259.90	189.50	37.15
Market Value at the Year end - Non-Voting	N/A	N/A	-	162.00	124.75	29.86
<b>Ratios</b>						
Return on Average Shareholders' Funds (%)	17.71	15.26	2.45	17.87	15.83	2.04
Return on Average Assets (%)	1.59	1.39	0.20	1.60	1.43	0.17
Price Earnings (times) - Ordinary Voting Share	N/A	N/A	-	17.76	11.00	61.45
Price Earnings (times) - Ordinary Non-Voting Share	N/A	N/A	-	11.07	7.24	52.90
Year on Year growth in Earnings (%)	31.41	1.76	29.65	28.30	0.86	27.44
Dividend Yield (%) - per Ordinary Voting Share	N/A	N/A	-	2.69	3.69	(1.00)
Dividend Yield (%) - per Ordinary Non-Voting Share	N/A	N/A	-	4.32	5.61	(1.29)
Dividend Cover per Ordinary Share (times)	N/A	N/A	-	2.09	2.46	(15.04)
<b>Statutory Ratios</b>						
Liquid Assets (%) - Sri Lankan Operations	N/A	N/A	-	29.74	38.80	(9.06)
<b>Capital Adequacy Ratios</b>						
Tier I (%) - Minimum Requirement (5%)	10.86	11.92	(1.06)	10.87	11.90	(1.03)
Tier I & II (%) - Minimum Requirement (10%)	12.26	13.93	(1.67)	12.27	13.91	(1.64)

## FINANCIAL GOALS AND ACHIEVEMENTS

Financial Indicator - Bank	Goal	Achievement				
		2010	2009	2008	2007	2006
Return on Average Assets ROA (%)	Over 2	1.60	1.43	1.55	1.67	1.00
Return on Average Shareholders' Funds (%)	Over 20	17.87	15.83	17.13	20.63	12.73
Growth in Income (%)	Over 20	(5.07)	(0.85)	25.25	43.95	51.99
Growth in Profit After Taxation (%)	Over 20	28.30	0.86	4.02	103.89	(14.87)
Growth in Total Assets (%)	Over 20	14.81	14.62	4.95	19.63	24.38
Dividend per Share (DPS) (Rs.)	Over Rs. 5.00	7.00	7.00	7.00	7.00	5.00
Capital Adequacy Ratios: Group						
Tier I (%) - Minimum Requirement (5%)	Over 8	10.86	11.92	10.55	10.60	7.62
Tier I & II (%) - Minimum Requirement (10%)	Over 13	12.26	13.93	13.13	13.71	11.58

## OPERATING HIGHLIGHTS

### No. of Delivery Points

<b>187</b>	<b>17</b>
Sri Lanka	Bangladesh
2009: 172 & 15/2008: 170 & 11	

'Global Finance' of USA ranked the Bank as the 'Best Bank' for the 12th consecutive year

Won 4 top accolades including Overall - Gold at the National Business Excellence Awards 2010

### No. of ATMs

<b>400</b>	<b>14</b>
Sri Lanka	Bangladesh
2009: 355 & 13/2008: 333 & 13	

Business volumes increased: Loans & Advances by 25.23%, Deposit base by 10.66% and Total Assets by 14.81%

Largest market capitalisation among all listed banks and financial institutions

Banker's Forum CSR Awards by Banker's Forum in Bangladesh

### Staff Strength

<b>4,123</b>	<b>198</b>
Sri Lanka	Bangladesh
2009: 3,862 & 209/2008: 3,830 & 211	

Gross and Net NPL Ratios improved to 4.72% & 4.22% from 7.83% and 6.84% in 2009

Cost Income Ratio improved to 54.69% from 56.86% in 2009

No. of ATM Transactions during the year surpassed 45 Mn. with a 10% growth over 2009

### Contribution to Government - Sri Lanka

**Rs. 6,586.3 Mn.**  
2009: Rs. 5,068.4 Mn./2008: Rs. 5,361.5 Mn.

Cash dispensed through ATMs during the year surpassed Rs. 150 Bn. with a 30% growth over 2009

Launched margin trading

### Capital Expenditure - Bank

**Rs. 961.7 Mn.**  
2009: Rs. 891 Mn./2008: Rs. 906 Mn.

Open Credit Exposure Ratio improved to 18.61% from 28.68% in 2009

87% growth in Personal Loan portfolio by granting 44,418 new loans worth of Rs. 14.8 Bn.

On-line Banking customer base grew by 36%

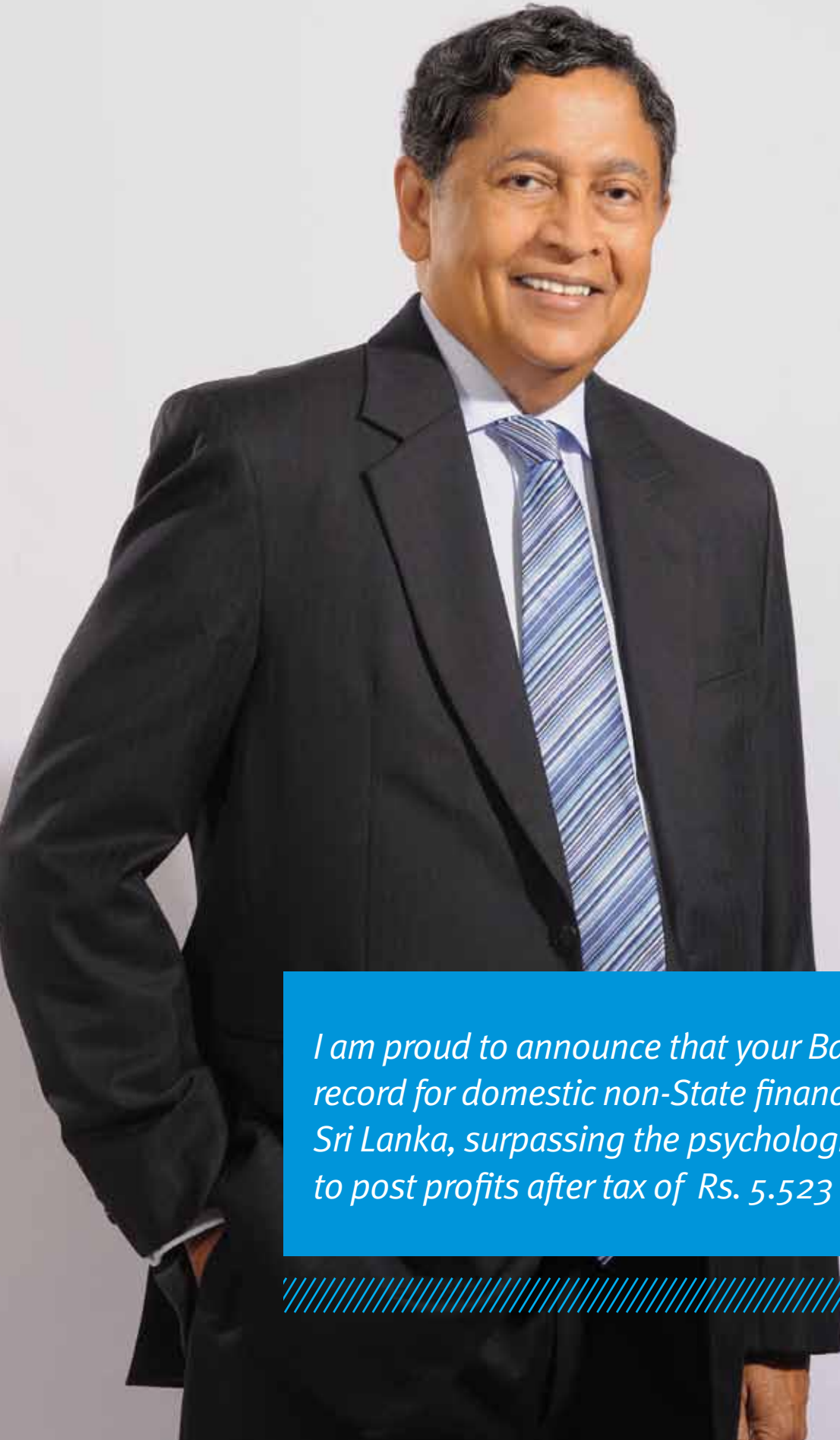
### Donations - Bank

**Rs. 58.3 Mn.**  
2009: Rs. 22 Mn./2008: Rs. 23 Mn.

POS volume of the Bank grew 70% over 2009

Became the first and only Sri Lankan Bank to issue Locally Personalised Chip Based Debit and Credit Cards

Set up a dedicated pawning unit



*I am proud to announce that your Bank has set a profits record for domestic non-State financial institutions in Sri Lanka, surpassing the psychological 'ceiling' of Rs. 5 Bn. to post profits after tax of Rs. 5.523 Bn. in 2010.*



## LETTER FROM THE CHAIRMAN

After three long decades of war, the Country enjoyed its first year of peace in 2010. Filled with new hope for the future, Sri Lankans began buying, building and investing more freely, boosting economic growth and business confidence. The effect was gradual at first; the effects of so long and bitter a conflict are not sloughed off overnight. However, by mid-year it was clear that all salient economic indicators were heading upwards and that Sri Lanka was heading into an era of growth and prosperity, perhaps even to realise at last its long-deferred potential to be one of the success stories of the developing world. Many problems still confront the Nation, but for the foreseeable future at least, prospects appear good.

The return of confidence following the end of the war had a pronounced effect on the Colombo Stock Market, which rose to record levels as investors flooded the bourse with 'hot money', seeking rapid returns on the back of rising share prices. The national exchequer was also bolstered by two successful development bond issues, in both of which Commercial Bank made substantial investments that stood us in good stead as the value of these bonds rose in the market. As foreign funds flowed into the country, the Rupee appreciated against the US dollar, worrying exporters until the Central Bank intervened to stabilise the exchange rate.

Credit demand was sluggish at the beginning of the year, and it was only around mid-year that it began to pick up, fuelled by private and State investments in infrastructure, reconstruction and business recovery in the war zones, and the reduction of market interest rates by Central Bank fiat. As demand rose, the Bank funded a 25% growth in advances, which rose to Rs. 224 Bn. at end 2010. Despite this record increase, careful portfolio management enabled us to bring down the non-performing loans ratio, mainly by bringing down the volume of non-performing loans in absolute terms. This coupled with an increase in the loan book brought down the gross and net non-performing ratios to 4.72% and 4.22% respectively from last year's 7.83% and 6.84%. I am delighted with this result, which demonstrates the responsibility of our credit staff and managers as well as the quality of our risk management and oversight. Such matters are easily neglected during periods of strong business growth, and it is reassuring to note that our management and the Board have not fallen into this error.

As the year went on, the auguries improved. There was visible growth all round and an improvement in export earnings. The IT industry did well. Another industry poised for take-off is tourism, and we have already begun to see growth in credit demand from firms in that business.

The 2011 Government Budget saw some rationalisation in the tax code and a reduction in the tax burden of banks, which had been the cause for considerable concern in the past. The relaxation of exchange controls and import duty reductions also fuelled credit demand and opened up new business opportunities for banks.

Under such conditions as these, it would be natural to expect the Bank to do well. However, the results we publish today show that we have done considerably better than even the benign economic weather would lead one to expect. I am proud to announce that your Bank has set a profits record for domestic non-State financial institutions in Sri Lanka, surpassing the psychological 'ceiling' of Rs. 5 Bn. to post profits after tax of Rs. 5,523 Bn. in 2010. Thus, in spite of the share split that occurred in the first half of the year under review and created 125 Mn. new shares, the Board's decision to pay a dividend per share of Rs. 7/-, following the trend in the last 02 years, is one the Bank can well-afford. Shareholders will be happy to note that the gross dividend, once fully paid, will amount to Rs. 2.6 Bn. which is more than a 50% increase over last year.

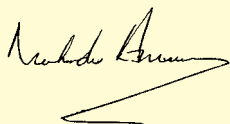
Other performance results for 2010, both financial and operational, are in keeping with the record profits figure and the substantial increase in advances mentioned earlier.

Looking forward, the prospects are good, although a few clouds appear on the horizon. Inflation, for example, continues to be a worry. Although, held under control in 2010, we may expect to see increases in the near future: inflationary pressure, already apparent, will only increase as economic growth picks up. Complaints about the cost of living are already being heard from consumers; these were augmented by rising food prices on both the world and domestic markets. The recent floods that destroyed crops and infrastructure in the agricultural heartlands of the country are likely to have an exacerbating effect on food price inflation.

Another area of concern is that, while economic activity has increased, the inflow of Foreign Direct Investments (FDI) has been slow. Therefore, the onus is on the Government to instill confidence in the minds of prospective foreign investors.

In the meantime, the growth in IT and associated services continues to afford opportunities for the Bank. One area with great potential is that of 'Knowledge-Process Outsourcing' (KPO). Sri Lanka boasts large numbers of qualified professionals, particularly in such areas as accountancy, law and information technology, who could provide the human capital for investment in this new and potentially lucrative 'export' industry.

I conclude this message by expressing my thanks to my colleagues on the Board for their assistance and insight; to the Managing Director and his management team for the outstanding performance their leadership skills and expertise have reaped in the year under review; to our staff for their exemplary efforts and dedication; and to all our stakeholders, particularly our shareholders, for their trust and continued support. It is a matter of great satisfaction to me that Commercial Bank was able to repay that trust and support in such full measure in 2010.



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

Colombo  
February 15, 2011

***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 First Bank to  
Finance Wind Power  
in Sri Lanka***



## *Seizing Opportunity... Developing National Resources*

*Of all the projects that Commercial Bank has lent its support to, one of the clearest examples of the Bank's pioneering and entrepreneurial spirit is to be found in its association with the Senok Group to implement its commercial wind power project in Kalpitiya. This was a first, not only for the Bank, but also for Sri Lanka. The Bank financed the 02 projects which is linked to the National Grid.*

*Our interest in the renewable energy sector stems from the Bank's own Social and Environmental Policy, which aims*

*at developing sustainable, clean and low cost energy in the island.*

*In addition to these wind power projects, the Bank has also financed many mini hydro power projects and is keenly pursuing the financing of other renewable energy-generating projects such as biomass.*

*Our commitment to the renewable energy sector was strengthened with the Bank entering into a Risk Sharing scheme with IFC in 2009. With this scheme, the Bank is now able to extend greater financial support to Sri Lanka's energy sector.*



## MANAGING DIRECTOR'S REVIEW

# *A team effort guided by strategic decisions paved the path for a remarkable year*

### A REMARKABLE YEAR

The year under review saw Commercial Bank crossing the Rs. 5 Bn. mark in post-tax profit; in fact the figure reached Rs. 5,523 Bn. by the end of the year, an increase of 28.30% over our results for 2009. Business volumes increased, with advances growing by a quarter, a welcome result after the decline seen in the previous year. Practically every ratio improved substantially, and I believe our shareholders will be especially

pleased to note that the average return on shareholders' funds for 2010, at 17.87%, is considerably higher than the yield on Treasury Bills.

We mandated a share split in the first quarter to create additional market liquidity, attracting a wider cross-section of shareholders in the process. The one-for-two split created 125 million new shares, but the year's results have been so strong that the Board has been able to

decrease the same rate of dividend as was distributed in 2009: Rs. 7/- per share. Of this, Rs. 5/- as cash and the balance as a scrip dividend.

It is true, that a number of factors in the economic and business environment were strongly conducive to growth in 2010. There is no doubt that they contributed in great measure to the record results achieved by the Bank. Yet, in spite of the advantageous business

environment that prevailed especially in the second half of the year, the results published in this Annual Report could not have been achieved without effective strategic planning, management initiative, Board oversight, well-functioning systems and controls and, above all, a great deal of hard work.

2010 was a profitable year; but that does not mean it was an easy one. The Bank faced strong



competitive challenges, which kept margins under constant pressure and obliged us to redouble our efforts to retain market share in vital sectors. The economic weather may have been good, but the voyage was far from plain sailing. Yet, the strength of our brand, and the trust and confidence that it commands, gave us a vantage position to forge ahead.

**STRATEGIC DECISIONS THAT SUPPORTED GROWTH**

Indeed, prospects at the beginning of the year seemed less than encouraging. True, the economy was expected to grow as a result of the 'peace dividend'; yet during the first quarter, it only but inched forward. Credit demand remained depressed and the advances portfolio of the Bank was slow, at first, to thrive. Making a virtue of

a necessity, we used the excess liquidity resulting from this to make judicious investments in Treasury bills and bonds. If the current downward pressure on interest rates continues, the relatively high rates that we have managed to lock in, have potential to deliver worthwhile capital gains in the future.

Of course, advances picked up remarkably as the year went on. Credit demand was driven by post-war

reconstruction and business revival (especially in the North and the East), the need to fund new infrastructure projects island-wide and, above all, by a fall in market interest rates. Demand for credit in the form of leases, also depressed at the year's outset, boomed after import duty on motor vehicles was reduced.

## MANAGING DIRECTOR'S REVIEW

# *Brighter prospects appear to be opening up as the social and economic effects of Sri Lanka's long-war disperse*

### **OPERATIONS AND MARKETING**

Growth in advances was strongly supported by our marketing and operational activities. Another milestone was reached this year, when our four hundredth ATM was installed at Ruwanwella Branch; to our knowledge, this is the largest ATM network in a private bank in Sri Lanka. Together with the 14 branches and 03 service counters we opened or refurbished in the year under review, the augmented ATM network reflects the Bank's determination to make its products and services conveniently accessible to customers all over the country; and ultimately to all Sri Lankans.

We also made numerous advances in product and service quality, among them a chip-embedded credit card offering greater security to card holders, and mechanisms to build business in the priority-banking segment.

One area that saw remarkable growth, albeit small in relative volume, was pawn broking. In this fiercely competitive segment we achieved results more than 40% in excess of target. While high gold

prices helped swell the size of advances against proffered collateral, such results would not have been possible without our efforts to make pawn broking services available at 75 branches.

Another success, in a very different area, was the rollout of margin-trading services for investment-banking customers. Currently, these are offered mainly to large customers in good standing, though we are moving to broaden the base in 2011. Even with the limitations in force, the new service experienced tremendous growth in facility approvals and disbursements, vindicating our decision to introduce it at a time when the stock market was unusually buoyant.

All these business gains and product introductions were made possible by ongoing advancements in IT, general business infrastructure, operational efficiency, and the skills, knowledge and commitment of our team.

We paid equally close attention to business sectors where our performance was more modest. One of these was the SME and

microfinance sector. We worked hard at building this potentially very attractive business in the year under review, setting up 'SME centres' throughout the island to provide training and marketing advice for entrepreneurs and help them find markets for their products. We are now targeting industries, SMEs and micro-enterprises with marketing and promotions carried out through their input suppliers. In the micro segment, we are also considering the formation of a new institution to offer finance and extension services to the needy micro-entrepreneurs.

### **PROFITING FROM LIBERALISATION AND GROWTH**

Brighter prospects appear to be opening up as the social and economic effects of Sri Lanka's long-war disperse. Business confidence has largely recovered. Reconstruction and an island-wide return to business as usual are intensifying economic activity and driving credit demand. Economic liberalisation, in particular the removal of exchange controls, provides exciting opportunities for banks and financial institutions.

The achievements of the year under review have left Commercial Bank almost ideally placed to profit from these opportunities, provided we make the right decisions and carry them through effectively.

Already, my team and I are addressing some of the salient possibilities. One of these is infrastructure finance. As the construction and maintenance of roads and highways falls increasingly into the hands of private contractors, an opportunity arises for private sector banks to get involved with financing the development of Sri Lanka's road network. In addition to direct returns from the business itself, this is a highly visible aspect of national development that is likely to enhance the prestige and brand value of financial institutions involved in it.

The relaxation of foreign exchange controls makes it possible for banks to increase fee-based activity to companies and high-net-worth individuals wishing to make investments overseas. Commercial Bank will take the lead in providing advice and services to this segment.

## MANAGING DIRECTOR'S REVIEW

As Sri Lanka's population continues to age, the demand for wealth-management services among retirees and those preparing for retirement is growing. This is another area in which the Bank sees potential; in fact, we pioneered the provision of specialised services and amenities to senior citizens at our Reid Avenue branch many years ago. We are now extending the concept of specialised branches to another growth segment; high-net-worth customers. A premium branch is soon to be opened at Gregory's Road, Colombo 7. Our aim is to capture early leadership in this segment.

One aspect of our profile that will require close attention is capital adequacy. With economic growth and rising credit demand, a significant increase in the advances portfolio is to be expected. Already, increased lending is putting pressure on our capital adequacy ratio, which currently stands at 12.27%, barely above the statutory minimum of 10%. Building capital will therefore be of great importance in 2011 and going forward.

### A TEAM EFFORT

As I said earlier, our outstanding performance this year was not achieved without considerable effort as well as effective planning, management and oversight. Every one of our 4,321 people was an important contributor to the final results, and may take justified personal pride in them. I would like to conclude this brief review by offering all staff members my congratulations and thanks. In particular, I should like to thank the management team, and the people in the Bank's many supporting departments and offices whom our customers rarely see, but whose contribution is of such vital importance to the success of our endeavours.

My thanks and congratulations are equally due to the Chairman and to the Board of Directors for their diligent oversight and wise guidance, which helped us negotiate a complex and eventful year successfully, moving the Bank in the right direction. Further, I would also like to extend my gratitude to officers at all levels of the Central Bank of Sri Lanka

for their co-operation and regulatory guidance and Messrs Ernst & Young for their professional approach in carrying out the audit and issuing their report enabling the Bank to hold the Annual General Meeting on time. I believe our stakeholders will agree with me that they depict a bank ideally placed to capitalise on the exciting opportunities awaiting us in 2011 and the years ahead.



**A.L. Gooneratne**  
*Managing Director*

Colombo  
February 15, 2011



# *Margin Trading... a boon to investors in the Stock Market*

*Adding our support to the development of the  
equity market and growing shareholder returns*



The recent history of the Colombo bourse reflects a success story of world class proportions. Its phenomenal growth in the post-conflict period has been unprecedented. Yet, adequate and reasonably-priced funding has always been a constraint in Sri Lanka's equity market. Matters are tipped to get even more difficult, when brokers cease funding by June 2011.

Enter Commercial Bank, with a premium product offer as a Margin Provider. We believe that we can adequately fill the void created by the absence of credit from the brokers and help to make the Sri Lankan stock market, one of the best performing in the world.

As at end 2010, the Bank has been able to record large volumes of Margin Trading facility approvals and disbursements of funds, with more facility approvals and disbursements scheduled for 2011. In addition, the Bank was able to build up a large and diverse customer portfolio with a mix of large and small facilities approved by the Bank.



# *Management Discussion and Analysis*

Opens with an analysis of the macro-economic environment. Emerging markets are expected to recover faster than the advanced economies. In Sri Lanka, the macro-economic prospects as well as the prospects for the banking industry seem buoyant.

Financials show all round excellent performance despite heightened competition and pressure on margins. The sharp growth in business volumes is mainly organic. It also demonstrated good diversity across sources of income.

A detailed review of each division including strategy, actions, core competencies and future outlook; plus a brief review of the performance of the Subsidiaries and Associates are given here.

## THE MACROECONOMIC ENVIRONMENT

### GLOBAL ECONOMY

The year 2010 was characterised by differences in the speed of economic recovery; the growth in advanced economies remained subdued while many emerging economies remained buoyant. Global GDP is projected to expand by 4.4% in 2011 as against 5.0% in 2010 owing to strong recovery during the 2nd half of 2010 and new policy initiatives in the United States which is expected to result in improved economic activity in 2011.

In general terms, financial conditions are expected to be constant with some positive expectations. Tightened bank lending in major advanced economies are expected to stretch and yields are expected to be low throughout 2011. Growth in the US economy is projected to increase to 3.0% in 2011 as against 2.8% in 2010. However, in the Euro zone, financial stress is likely to stay at a relatively high level and growth is expected to decline to 1.5% in 2011, compared to 1.8% in 2010.

In China, overall growth is projected to average 10.3% in 2010 and 9.6% in 2011, while that of India is estimated at 9.7% in 2010 and 8.4 in 2011. Growth in both these countries is mainly driven by domestic demand. During 2011, emerging and developing economies are expected to grow at a relatively higher rate of 6.5% as compared to 2.5% projected for advanced economies.

Oil demand will continue to rise as the global recovery progresses, with its buoyancy determined in part by the strength of expansion in activity. Overall, food prices will remain high in real terms compared with averages over the past few decades.

### SRI LANKAN ECONOMY

The conclusion of war in Sri Lanka has radically improved the security situation and enhanced stability, boosting confidence among local as well as foreign investors. In particular, tourism, agriculture, fisheries, financial services and construction are expected to take off with their positive spillover effects on several other sectors of the economy.

The GDP growth rate for 2010 is estimated to be 8.0%. The industrial sector is estimated to have recorded a higher growth of 8.7% followed by 7.9% for services sector and 6.3% for agricultural sector. The economic growth rate is projected to be around 8% to 9% in the medium term.

The annual average inflation as measured by the Colombo Consumers Price Index (CCPI) had reached 5.9% in December 2010, from 3.4% in December 2009. It is likely to go up further in 2011.

The budget deficit is estimated at 8% of GDP in 2010 which is an improvement compared to 9.9% recorded in 2009. It is likely to reduce further in the short to medium term as a result of initiatives taken by the Government.

One year Government Treasury Bill rate was dropped to 7.55% in December 2010 from 9.3% recorded at the end of the previous year. However, it is not expected to exert upward pressure on interest rates in the medium to long run as there is excess liquidity in the banking system and Government is very keen on keeping interest rates at low levels to support expansion of economic activity in the country.

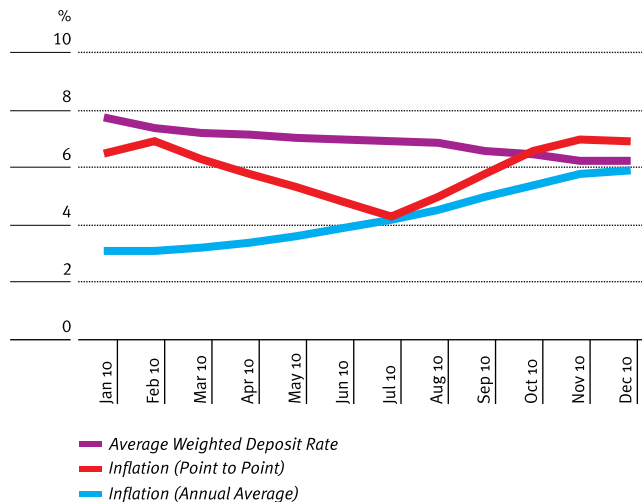
In the backdrop of strong foreign currency reserves, the Rupee appreciated by 3.1% as at end of 2010 against the USD and is likely to remain strong in the near future. The Government successfully raised

USD 1,000 Mn. through a sovereign bond with a ten-year maturity, issued in the international capital market. Recent relaxation of foreign exchange controls is expected to encourage further foreign fund inflows to the country. Gross official reserves of the country increased to USD 6.6 Bn. at end 2010 (equivalent to 6.1 months of imports) from USD 5.1 Bn. at end of 2009.

Estimated annual export earnings growth for 2010 is 13.3% and it is notable this has been achieved in a situation where GSP+ scheme had been withdrawn since August 2010. Meanwhile, country's imports are estimated to have grown by 34.9% in 2010 mainly due to an increase in import of intermediary goods. Workers remittances are estimated to have exceeded USD 4.1 Bn. in 2010, which is an increase of 24%, compared to the last year. Consequently, the current account deficit is estimated to be 3.8% of GDP for 2010 as against a deficit of 0.5% recorded in 2009.

The Colombo Stock Exchange (CSE) has shown exceptional performance during 2010 continuing the trend observed in 2009. CSE had been the world's second best performing market during the recent past with a 96% return in 2010 and a 125% in 2009. All Share Price Index (ASPI) and Milanka Price Index (MPI) recorded all time highs in October, 2010. The market capitalisation had increased to Rs. 2.2 Tn. at end December 2010 compared to Rs. 1.0 Tn. at the end of 2009.

**Interest Rates vs Inflation**



## THE MACROECONOMIC ENVIRONMENT

### BANKING SECTOR

Despite pressure on interest margins, banks were able to improve profitability mainly due to improved macroeconomic conditions that prevailed in the country. The banking sector experienced enhanced business volumes during the year. Total assets of the banking sector exceeded Rs. 3.5 Tn., a 17% growth over the last year. Similarly, deposits reached Rs. 2.5 Tn. and loans and advances reached Rs. 2.0 Tn., by the end of the year.

The sector experienced a relatively low liquid assets ratio compared to the previous year mainly due to shifting a part of the investments in Government Securities to Loans and Advances. Capital Adequacy Ratios of the banking sector declined due to increased loans and advances during the year, of which a major part were unrated and therefore attracts 100% risk weight at the Capital Adequacy Ratio (CAR) computation. Nevertheless, the banking sector maintained a satisfactory level of capital throughout the year.

The Central Bank reduced the policy rates several times during the year to stimulate the demand for credit in the country. There was a favourable movement in the deposit mix of banks as a result of repricing of maturing deposits. In the backdrop of improved macroeconomic conditions in the country, the demand for loans and advances continued to increase. At the same time, volumes of non-performing advances recorded a drop resulting in a decrease in the non-performing advances ratio in the entire banking industry.

Main regulatory changes/developments during the year *inter alia* include the following;

The Central Bank introduced a Deposit Insurance Scheme covering demand, savings and time deposits of commercial banks, licensed specialised banks and registered finance companies with effect from October 01, 2010.

General provisioning requirement for performing and overdue loans and advances was reduced to 0.9% at the year end from 1%. This will reduce further, by 0.1% per quarter during 2011 to reach 0.5% by end of 2011.

During the year, the Colombo Stock Exchange introduced an additional disclosure requirement on related party transactions that exceeds 10% of the equity or 5% of the total assets.

Banks are required to obtain an External Auditors' Certification for the effectiveness of Internal Control mechanisms and Annual Corporate Governance report as per a Central Bank Direction.

### FORGING AHEAD IN AN IMPROVED YET INTENSELY COMPETITIVE ENVIRONMENT

The auguries for 2010 were good from the outset. A 3 decade long war was over, parts of Sri Lanka that had been inaccessible for years were again open for business, and commercial sentiment was at its highest in years. The lingering effects of the global financial crisis, though still apparent, were fading. Leveraging these improved conditions, Commercial

Bank broadened its array of products and moved into new market segments, recording strong results in almost every area of operations and proving yet again its claim to be the best local private bank in Sri Lanka. Its domestic and overseas customer bases grew substantially, and despite corresponding increases in business volumes, its risk profile actually improved.

In Bangladesh, a territory of growing importance to the Bank, new geographical areas were covered and new relationships forged. Further, overseas business-promotion officers were placed in several Middle Eastern Countries to canvass inward remittances from expatriate Sri Lankans.

Overall, the year under review saw Commercial Bank further consolidate its already-firm leadership position. It continues to be the most profitable private sector bank and the largest in capital terms. This position was achieved amidst the increased intensity of competitiveness in the industry with 22 Licensed Commercial Banks (6 of which could be considered as fairly large including our bank) and 9 Licensed Specialised Banks vying to grab a share of a relatively small market. The Commercial Bank, with its 187 delivery points and a network of 400 ATMs, manages approximately 11% of the country's banking assets. The ATM network of Commercial Bank

which is undoubtedly recognised as the largest single network in Sri Lanka is connected to a global network of over a million Cirrus and Maestro ATMs.

Besides, the Bangladesh operation has firmly established its name as one of the highly reputed foreign banks in that country with 17 delivery points and 14 ATMs.

# ***The 'First on the Ground' Private Bank in Kilinochchi***



## *State-of-the-art banking... uncompromised by Fleetness of Foot*

*The Commercial Bank of Ceylon opened its Kilinochchi branch in July 2010 becoming the first private bank in Sri Lanka to extend its services to the population of this district, in the immediate post-war period.*

*We were able to meet the 'need of the hour' in terms of providing premium banking and financial solutions to the people of this conflict-affected region with speed, yet with state-of-the-art products and services.*

*The urgent necessity to respond saw the Bank set up office in a converted container - however, this did not hinder the provision of our full complement of services. All over-the-counter services including the opening of Current, Savings and Fixed Deposit accounts, Collection of Inward Remittances (e-Exchange, MoneyGram, etc.), Issue and encashment of Travellers' Cheques and Foreign Currency Notes, Personal Loans, Leasing, Micro Finance and other Credit Facilities are available at this branch.*

*This branch serves many people from distant outlying areas further afield from Kilinochchi and is linked to all other Commercial Bank branches and Supermarket Banking counters island-wide permitting online real-time banking. It is also equipped with an ATM linked to 400 ATMs of Commercial Bank and over one million ATMs belonging to the Cirrus (Mastercard network) and Visa networks worldwide.*



## FINANCIAL REVIEW

### THE BANK IN 2010

Commercial Bank has always pursued prudent growth. 2010 was no different, prudence underpins the Bank's sterling performance in the year. The milestone after tax profit of Rs. 5 Bn. was surpassed.

The growth in business volumes was characterised by being organic; by being derived from across every segment; and by increasingly diversifying sources of income across new products, new customer segments and new geographies. The sharp growth in business volumes enabled the Bank to record substantial growth in operating profits. Commercial Bank has traditionally maintained one of the best cost to income ratios in the industry. Discipline management of expenses was another hallmark of the year. Risk management was further strengthened to support "prudent growth", as would be seen in the vastly-improved NPAs and provision cover ratios. The capital base has also become stronger through organically generated equity. However, capital adequacy ratios recorded a drop owing to the rapid surge in our loans portfolio.

Moving forward, the growth momentum will be supported by increasingly focusing on the basics, such as liquidity, capital and risk management; as well as diversifying further the sources of income. As Sri Lanka steps in to a new era of economic development, Commercial Bank will be conscious of playing its part in supporting the economic development thrust of the country.

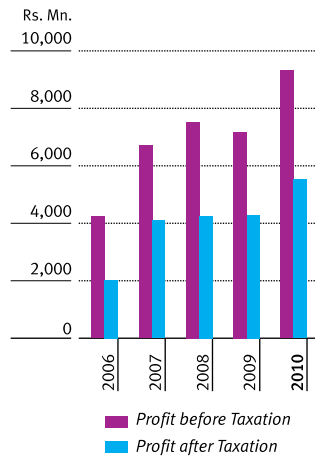
### BANK PERFORMANCE

#### Profitability

In the backdrop of strong economic growth, the Sri Lankan banking sector performed well in 2010, while

Commercial Bank too recorded splendid results. Pre-tax profit grew to Rs. 9,317.4 Mn. from Rs. 7,191.8 Mn. reported last year, an increase of over Rs. 2.1 Bn. or 29.6%. Provision for taxes increased by 31.4% during the year. As a result, profit after tax grew by 28.3%, from Rs. 4,304.9 Mn. to Rs. 5,523.3 Mn., surpassing for the first time a landmark figure of five billion rupees. This is very likely the first time that a locally-incorporated private commercial bank has achieved such a feat.

#### Profit Before Taxation and After Taxation



As you would see from our financial results, the Bank has demonstrated a sustained and consistent track record of delivering record performance in each year. Over the last 5 years, the Bank achieved a Compound Annual Growth Rate (CAGR) of 20.7% and 18.5% in pre and post tax profits respectively.

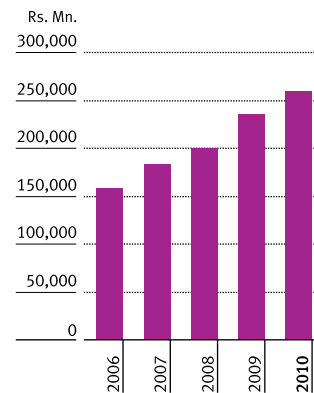
We welcome the stance taken by the Government to address the high tax burden that was applicable to the banking industry in Sri Lanka, which was a protracted grievance of the sector via its budget proposals for the ensuing year. VAT rate on

financial services has now been reduced to 12% from 20% and corporate tax rate to 28% from 35%. It has been proposed in the Budget to transfer the savings accruing from these reductions to a special fund maintained at the Central Bank, for funding to needy sectors at lower cost. The new tax structure nevertheless improves the potential of banking in Sri Lanka as income to be derived from loans granted out of money put into this fund will be exempt from taxes, and is thus very good news for our shareholders.

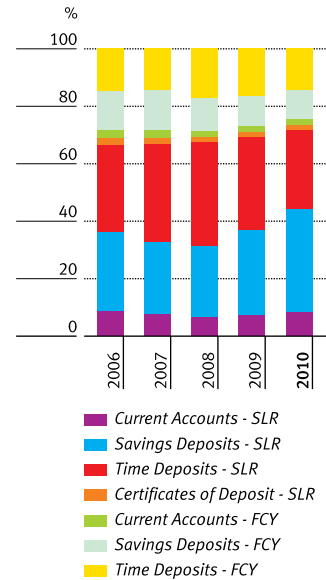
#### Deposits & Advances

The Bank recorded a strong organic growth in its business volumes amidst a highly competitive environment during the year. The deposit base of the Bank grew by 10.7% or Rs. 25.0 Bn. to record Rs. 259.8 Bn. at the end of the year. The Bank also witnessed a favourable shift in the deposit mix. This was partly as a result of repricing of deposits that matured at low rates due to the low interest rate regime prevailed during the year.

#### Total Deposits



#### Deposit Mix



#### Deposit Mix - 2010



- Current Accounts - SLR 9%
- Savings Deposits - SLR 36%
- Time Deposits - SLR 27%
- Certificates of Deposit - SLR 2%
- Current Accounts - FCY 2%
- Savings Deposits - FCY 10%
- Time Deposits - FCY 14%

#### Deposit Mix - 2009

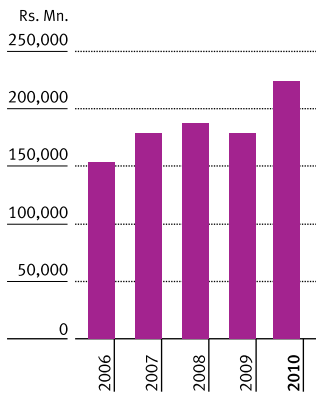


- Current Accounts - SLR 7%
- Savings Deposits - SLR 30%
- Time Deposits - SLR 32%
- Certificates of Deposit - SLR 2%
- Current Accounts - FCY 2%
- Savings Deposits - FCY 10%
- Time Deposits - FCY 17%

## FINANCIAL REVIEW

Reversing the trend experienced in 2009, net advances of the Bank recorded a substantial increase of Rs. 45.1 Bn. or 26.2% mainly due to the improved macroeconomic conditions in the country. Most importantly, the Bank was able to reduce its Non-Performing Advances (NPA) portfolio by Rs. 2.7 Bn. in absolute terms when compared to the last year. As a result, the net non-performing advances ratio of the Bank improved to 4.22% by December 31, 2010 from 6.84% recorded at end of the previous year.

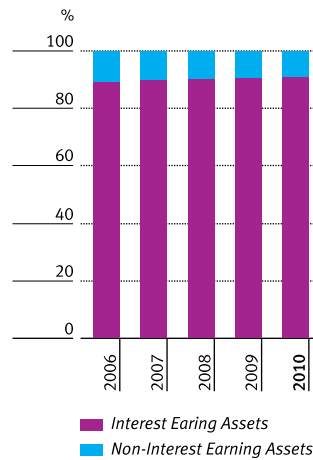
### Gross Loans and Advances



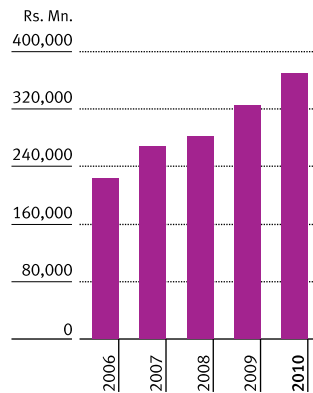
The total of the Bank's interest earning assets rose to Rs. 337.3 Bn. at the end of the year, an increase of Rs. 45.3 Bn. or 15.5%. Similarly, total interest-bearing liabilities increased by Rs. 35.4 Bn. or 13.7%, to reach Rs. 293.5 Bn. at the end of the year.

Further, the Bank's total assets too increased to Rs. 370.1 Bn., a significant increase of 14.8% or Rs. 47.7 Bn. during the year under review.

### Asset Mix



### Total Assets

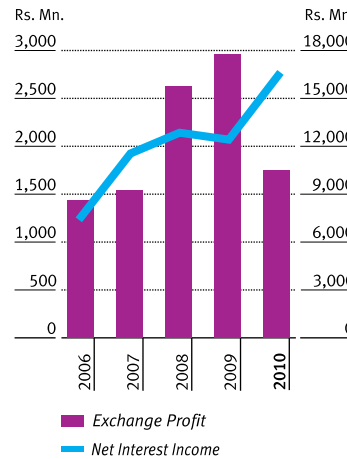


Over the last 5 years, the Bank achieved a Compound Annual Growth Rate (CAGR) of 15.3%, 13.0% and 15.5% in deposits, net advances and total assets respectively.

### Income from Fund-based Operations

The Bank's net interest income for the year was Rs. 16,411.4 Mn., and reflected an increase of Rs. 4,001.0 Mn. or 32.2% over the previous year. This was mainly due to the reduction of 22.0% in interest expenses which was partly set-off by the drop of 3.3% recorded in interest income. Despite the substantial growth in volumes, both interest income and interest expense recorded drops due to the relatively low interest rate regime that prevailed during the year. However, the reduction in NPAs had a favourable effect on the interest income of the Bank.

### Net Interest Income and Exchange Profit

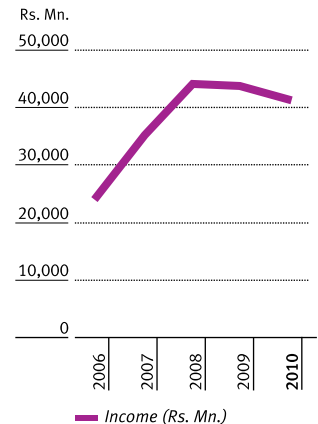


### Income from Fee-based Operations

Foreign exchange income reduced by 41.2% due to relatively low volatility in foreign exchange rates resulting in a dearth of arbitrage opportunities during the year. In addition, the appreciation of the Rupee against the US Dollar had a negative impact on the exchange profit of the Bank. Fees and commissions grew by a substantial 27.3% due to increases recorded in almost all categories of commission income. Furthermore, the relaxation of duty on vehicles and guarantee commission on account of IPOs contributed favourably to those categories of income.

The Bank recorded a growth of 14.7% in total operating income over last year to reach Rs. 23,193.1 Mn. for the year.

### Income

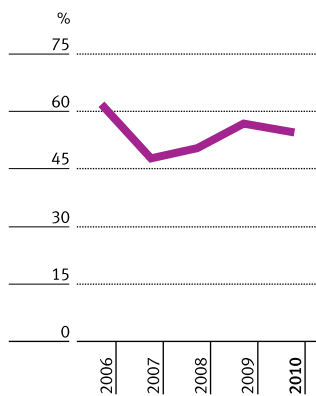


## FINANCIAL REVIEW

### Operating Expenses and Cost Income Ratio

The Bank's operating expenses recorded an increase of Rs. 1,182.7 Mn. in line with the rate of inflation that prevailed. However, the Bank was able to restrict its overhead expenses, mainly due to prudent cost management measures despite the aggressive branch expansion programme carried out during the year. The operating cost does not include loan loss provisions made during the year.

#### Cost/Income Ratio



The Bank's cost income ratio reduced from 56.86% to 54.69%, recording a substantial improvement during the year. This was mainly attributable to the higher growth recorded in total income compared to the overhead expenses of the Bank.

The Bank opened 17 new delivery points and installed 46 new ATMs as laid down in the Strategic Plan for 2010. Sustained improvements in staff and operational productivity in the past few years, helped the Bank to keep its staff intake at an optimum level.

### Loan Loss Provisions

Provisions for loan losses decreased substantially due to the improved macroeconomic conditions that prevailed in the country. Taking cognisance of this fact, the Central Bank reduced the general provisioning requirement on performing and overdue loans and advances from 1% to 0.50% over a period of 5 quarters commencing from the fourth quarter of 2010. Nevertheless, the Bank made additional general provisions on the increased volumes of loans and advances during the year.

Total specific provision was maintained at the same level as in 2009 despite the stringent provisioning policies adopted by the Bank. These policies are described in detail in Note L 6.2.1 in the Section on Accounting Policies on page 220.

Due to the substantial drop recorded in non-performing advances, net provision cover and open credit-exposure ratios improved to 34.1% and 18.6% respectively by end 2010 from 28.5% and 28.7% respectively at end 2009.

### Group Performance

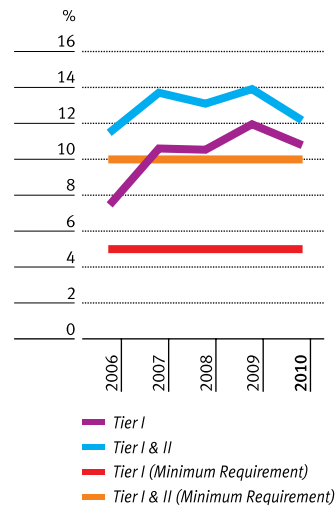
The Commercial Bank Group made a pre-tax profit of Rs. 9,300.5 Mn. in 2010, compared to Rs. 7,129.8 Mn. in 2009. This represented an increase of Rs. 2,170.0 Mn. or 30.4%. The post-tax profit of the Group reached Rs. 5,510.0 Mn. in 2010, representing a substantial growth of Rs. 1,317.0 Mn. or 31.4% compared to Rs. 4,193.0 Mn. recorded in the previous year. This performance was facilitated by a relatively modest growth in corporate tax when compared to the growth in pre-tax group profit.

### Key Investor Information

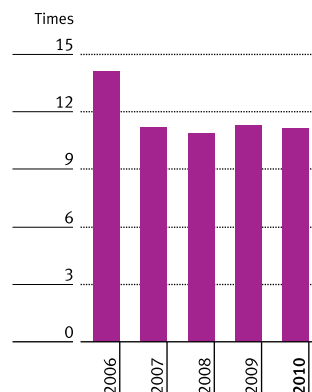
#### Shareholders' Funds, Free Capital and Capital-Adequacy Ratio (CAR)

The Tier I and Tier I & II Capital-Adequacy Ratios stood at 10.9% and 12.3% respectively as at December 31, 2010, recording drops of 1.1% and 1.7% compared to the end of 2009. This was mainly attributable to shifting of Treasury Bills and Bonds to Loans and Advances. In computing Capital Adequacy Ratios (CAR), Treasury Bills and Bonds are zero risk weighted as opposed to Loans and Advances which are largely unrated; thus attracting 100% risk weightage in CAR computation.

#### Capital Adequacy Ratio

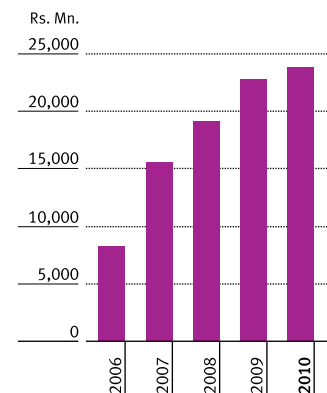


#### Total Assets to Shareholders' Funds



Due to the prudent policies adopted over time, the Bank was able to build up shareholders' funds and free capital, which stands at Rs. 33.3 Bn. and Rs. 23.8 Bn. respectively as at December 31, 2010. These are the highest among local private banks. The proposed scrip dividend as part of the final dividend will have a favourable impact on the Bank's capital adequacy ratios.

#### Free Capital



The recent Government Budget proposals are expected to have a welcome normalising effect on the high tax regime presently applicable to the banking industry and would augur well for capital adequacy ratios of banks.

#### Return on Assets (ROA) and Return on Equity (ROE)

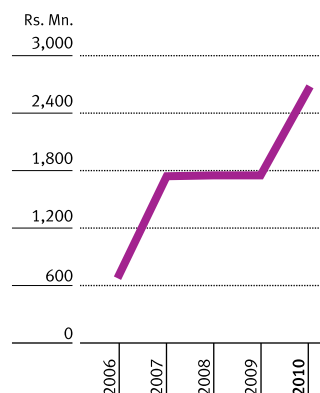
Due to the substantial growth recorded in the post-tax profit, the ROA and ROE of the Bank increased to 1.6% and 17.9% respectively for the year 2010 from 1.4% and 15.8% from the levels recorded for the previous year. The Bank is hopeful of recording growths in these key investor ratios owing to the improved macroeconomic environment in the country.

## FINANCIAL REVIEW

### Dividends

The Directors have recommended a final dividend of Rs. 4.00 per share for both voting and non-voting ordinary shares of which, Rs. 2.00 will be paid in the form of cash dividend and the balance Rs. 2.00 in the form of a scrip dividend upon the approval of shareholders at the AGM. These, together with the two interim dividends already paid (amounting to Rs. 3.00 per share), add up to a total dividend of Rs. 7.00 per share for the year under review, equivalent to the dividend per share paid in 2009.

### Gross Dividends Paid



Accordingly the total dividend for the year would be Rs. 2,642.2 Mn. and this would amount to a payout ratio of 47.8% which is well above the minimum dividend payout ratio of 25%, stipulated in the Deemed Dividend Tax Rule.

### Market Capitalisation

Commercial Bank's market capitalisation of Rs. 91.8 Bn. as at December 31, 2010 was the highest among all listed banks and financial institutions in Sri Lanka. It ranks fourth among all companies listed on the Colombo Stock Exchange (CSE) at the end of 2010, compared to the fifth place it occupied at the end of 2009.

Notwithstanding the increase recorded in number of shares consequent to the 1 for 2 share split issue instituted by the Bank during the second quarter 2010, share prices of the Bank increased to Rs. 259.90 and Rs. 162.00 for voting and non-voting ordinary shares respectively as at December 31, 2010 from Rs. 189.50 and Rs. 124.75 at the end of the last year.

The results explained below exceeded many of the ambitious targets set by the Bank at the beginning of the year.

The key targets and achievements for 2010 are tabulated below:

Key Objectives	2010 Actual	2010 Budget	2009 Actual
Total Revenue (Rs. Mn.)	41,521.53	41,908.40	43,740.93
Pre-Tax Profit (Rs. Mn.)	9,317.39	8,288.30	7,191.84
Post-Tax Profit (Rs. Mn.)	5,523.29	4,738.90	4,304.99
<b>Ratios</b>			
Return on Average Shareholders' Funds (%)	17.87	15.80	15.83
Return on Average Assets (%)	1.60	1.41	1.43
Earnings per Share (Rs.)	14.67	19.00	11.49*
Cost/Income Ratio (%)	54.69	56.78	56.86
Non-Performing Advances Ratio (%)	4.22	6.07	6.84
Capital Adequacy - Tier I (%)	10.87	11.26	11.90
- Tier I & II (%)	12.27	13.13	13.91
Deposits (Rs. Mn.)	259,778.90	260,436.40	234,744.70
Advances (Rs. Mn.)	224,020.10	217,363.00	178,891.20

\*Restated.

The income of the Bank is derived from four main lines of business. The contribution in terms of profit and business volume made by each of its four main divisions - Corporate Banking, Personal Banking, Treasury and International Operations - is summarised below:

	2010		2009	
	Rs. Mn.	%	Rs. Mn.	%
<b>Profit before Tax</b>				
- Corporate Banking	2,618.9	28.11	1,480.3	20.58
- Personal Banking	3,858.9	41.42	3,455.9	48.05
- Treasury	1,344.2	14.43	1,240.2	17.24
- International Operations	1,495.4	16.04	1,015.4	14.13
<b>Total</b>	<b>9,317.4</b>	<b>100.00</b>	<b>7,191.8</b>	<b>100.00</b>
<b>Loans and Advances (Gross)</b>				
- Corporate Banking	80,144.5	35.78	64,048.8	35.80
- Personal Banking	118,874.6	53.06	91,903.6	51.37
- International Operations	25,001.0	11.16	22,938.8	12.83
<b>Total</b>	<b>224,020.1</b>	<b>100.00</b>	<b>178,891.2</b>	<b>100.00</b>
<b>Deposits</b>				
- Corporate Banking	30,366.0	11.69	27,407.7	11.67
- Personal Banking	204,958.8	78.90	181,660.8	77.38
- International Operations	24,454.0	9.41	25,676.2	10.95
<b>Total</b>	<b>259,778.8</b>	<b>100.00</b>	<b>234,744.7</b>	<b>100.00</b>

## PERFORMANCE BY DIVISION

### ➔ Personal Banking

Personal Banking division is responsible for the successful operation of the island-wide network of delivery channels, which caters mainly to the needs of personal customers and small & medium enterprises.

Island-wide network of delivery points was administratively categorised into 12 regions based on the location of each point. Regional offices make an important contribution to the excellent performance of this division by decentralising and expediting the process of decision making relating to credit and operations of branches. The operations of the 365-day banking, holiday banking, Saturday banking and priority banking come under this division. The Card Centre which issues 'CAT' ATM Cards and Credit and Debit Cards under franchises from Master Card International and Visa also comes under this division.

#### Division Overview

##### Core Competencies

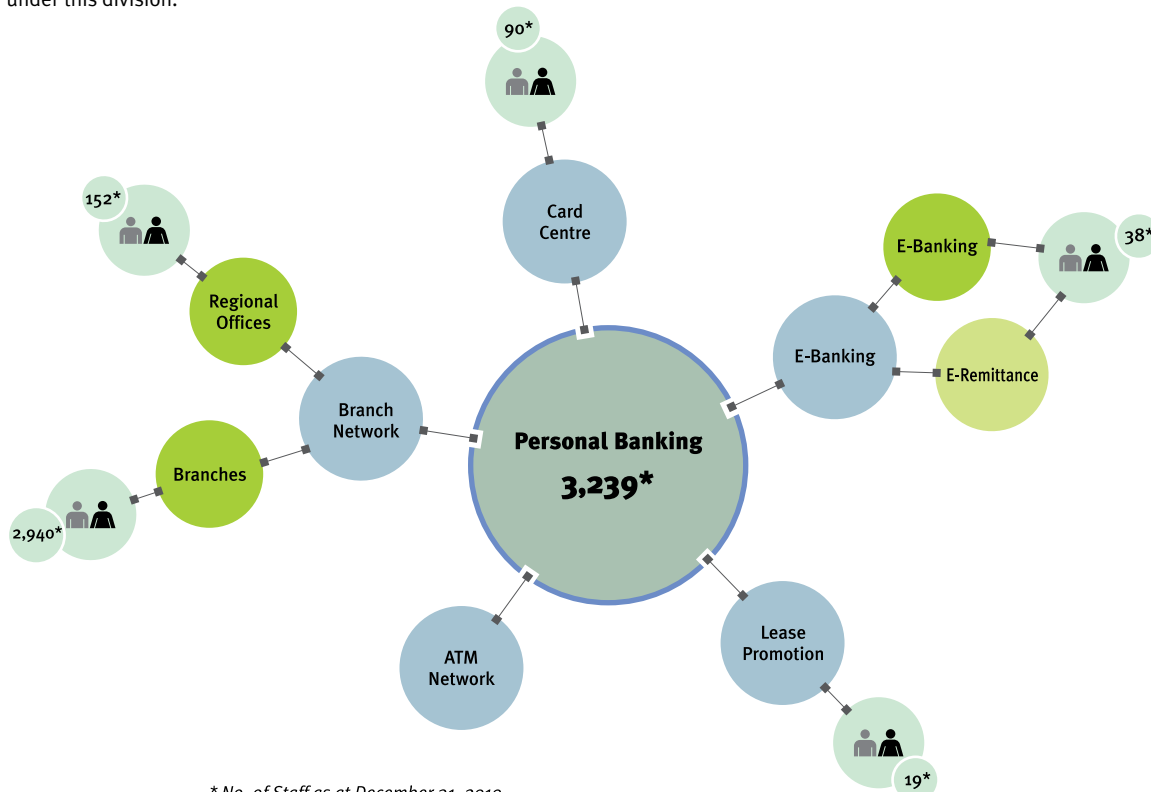
- ComNet links the Bank's branches and ATMs, the single largest ATM network of any Sri Lankan bank
- Wide portfolio of innovative products
- 365-day service
- Visa, MasterCard, debit and travel card products
- Speedy decision-making
- State-of-the-art technology
- All-island branch network
- Target-oriented work culture
- Low cost/income ratio
- Recognised as best bank in the country

##### Products/Services

- Current accounts
- Savings (passbook and statement) and fixed deposit accounts
- Credit cards
- Shopping debit cards
- Minors' accounts
- 'Teen saver' accounts
- High-interest savings accounts
- Certificates of deposit
- Tiered savings accounts
- Paymaster
- Housing loans - Fixed and Floating rates, Privilege, Foreign currency
- Personal loans with top-up facility
- Pawning and factoring
- Leasing
- Development loans
- Agricultural and Microfinance
- Senior citizens' deposit accounts
- Foreign currency savings accounts
- Utility bill payment via ATM or internet
- Mobile-phone reload
- SMS banking
- Bancassurance

#### Revenue Drivers

The Personal Banking division consists of several divisions of the Bank. These divisions which are administratively integrated to the Personal Banking Division are given below with their staff numbers as at December 31, 2010.



\* No. of Staff as at December 31, 2010

## PERFORMANCE BY DIVISION

### Personal Banking

#### Achievements in Figures

The contribution of the Personal Banking Division to the Bank's performance can be summarised as follows:

	Actual 2010 Rs. Mn.	Budget 2010 Rs. Mn.	Actual 2009 Rs. Mn.	Achievement (Actual over Budget) (%)
Deposits as at December 31	204,958.8	201,112.8	181,660.8	101.9
Advances as at December 31 (Gross)	118,874.6	113,547.9	91,903.6	104.6
Profit before Tax	3,858.9	3,304.4	3,455.9	118.3
Cost Income Ratio (%)	57.5	60.8	59.3	
NPA Ratio (%) as at December 31	7.3	10.3	10.4	

Personal Banking division made an excellent contribution to the performance of the Bank during the year. It exceeded most of the targets set at the beginning of the year.



- Senior Management Team - Personal Banking**
- Nugent Kapuwatte  
Head of Lease Promotion/Personal loans
  - Risijaya Srikantha  
Senior Regional Manager - Colombo North
  - Niran De Costa  
Senior Regional Manager - Colombo Inner
  - Lakshman Perera  
Head of Card Centre
  - Selva Rajasooriyar  
Senior Regional Manager - North Eastern
  - Roshan Perera  
Senior Regional Manager - Colombo South
  - Ivan Fernando  
Regional Manager - Colombo Metro
  - Leel Rodrigo  
Regional Manager - North Central - Eastern Region
  - Ajith Naranpanawe  
Regional Manager - Central Region
  - Chanura Wijetilleke  
Regional Manager Sabaragamuwa
  - Priyantha de Silva  
Chief Manager - Branch Credit Monitoring Department
  - Saman Kalansuriya  
Chief Manager - Leasing & Factoring
  - Siva Sivakumar  
Chief Manager - Wellawatte Branch
  - Chirath Manukulasuriya  
Regional Manager - Southern
  - Delakshan Hettiarachchi  
Chief Manager - Development Credit Department
  - Thusitha Suraweera  
Chief Manager - Card Center

## PERFORMANCE BY DIVISION

### Personal Banking

A synopsis of main areas of operations of the Personal Banking Division and their key achievements during the year under review are given below:

#### Enhanced Accessibility Through Expansion of Delivery Points

The traditional brick and mortar branches still continue to play an important role in the Sri Lankan banking industry. The Bank opened 15 delivery points concentrated mainly on the Northern and the Eastern Provinces, during the year. With the opening of these delivery points, the Bank expanded its customer network to 187 which consisted 157 branches, 05 customer service points, 25 minicom centres at the end of the year. In addition, customers enjoy the convenience of accessing the Bank with extended banking hours through 365 Day Banking Centres, Weekend Banking Centres and Supermarket Banking Centres.

The Bank has further developed many alternative delivery channels utilising state-of-the-art technology during the last few years. 'CAT' ATM network, ComBank Online, Mobile banking and SMS banking mainly cater to the customer base of the Personal Banking Division.

#### Future Outlook

We will continue to move on the path of expanding the delivery channels and thereby enhancing the accessibility specially on areas with low banking penetration after a careful scan of the environment.

#### Deposits Mobilisation

The year was one of record achievements on the deposit base. The Bank was able to garner a substantial volume of new deposits during the year. The intervention of the Central Bank on behalf of depositors in certain troubled financial institutions helped create greater confidence in the industry as a

whole. Commercial Bank particularly benefited from this, as depositors eschewed higher interest rates to seek out stable banks of good repute and long standing.

The Bank recorded a favourable shift in its deposits mix partly due to the low interest rate regime that prevailed during the year. More costly time deposits fell by 4.8% year-on-year, while low-cost savings and demand deposits rose by 23.0% and 28.7% respectively. Yet another factor in deposit growth was the expansion of the branch network. Branches in the North and the East of the country, in particular, made a substantial contribution. Competitive deposit rates also helped us to retain existing depositors over the course of the year. However, deposit growth slowed at some large urban branches.

#### Future Outlook

Interest rates are likely to remain unchanged for a major part of 2011. The demand for credit will grow, reducing the unusually high liquidity position the Bank currently enjoys. Hence, there will be a need for greater efforts in deposit mobilisation to meet lending requirements.

#### Automated Teller Machine Network

The strength of Commercial Bank's ATM network has been a winning strategy enabling greater customer convenience in this competitive environment. The Bank continued to expand its electronic delivery channels specifically through the enhanced penetration of ATMs. With the installation of 45 new ATMs during the year, the Bank counts a network of 400 ATMs which is regarded as the single largest ATM network in the country. This network covers all districts in the country and includes a total of 65 off-site ATMs. The Bank's ATMs cater not only to our ATM cardholders, but also to all Visa and Mastercard cardholders as well

as to ATM cardholders of other banks and financial institutions. Up-time of ATM network continued to be high, at over 99%.

The Bank's ATM network dispensed over Rs. 150.0 Bn. and recorded approximately 45.0 Mn. transactions during the year, which amounted to a 30% increase in value dispensed and a 10% increase in transactions compared to the last year.

#### Future Outlook

Due to the widespread network, the Bank's ATMs play a pivotal role in enhancing the visibility and thereby improving the image of the Bank.

#### Payment Cards

We believe that debit cards represent a major growth opportunity. Continuing the Bank's strategy in the previous year, our focus was on improving the usage of debit cards at the Point of Sale (POS). The debit card was re-branded and re-launched as the 'Shopping Debit Card' in order to identify the functionality of the card directly to the customer. Promotions were done to inculcate the habit of using the debit card at POS locations. POS volumes grew 70% over the previous year enabling the Bank to command a third of the market share in the country for debit card spend.

Credit card demand was low despite the general economic recovery, perhaps due to the high interest rates that prevailed. However, with reducing interest rates, the market is expected to have a better appetite for credit cards in the ensuing year.

During 2010, Commercial Bank also became the first and only Bank in Sri Lanka capable of issuing locally personalised chip based debit and credit cards. This was achieved with the establishment of the state of the art card personalisation facility at the Card Centre.

#### Future Outlook

Bank intends to aggressively expand the credit card portfolio and plans are also afoot to issue premium card products. Security features for internet based transactions for the cards are to be enhanced. This would enable the Bank to open internet shopping to 'Shopping Debit Cards'.

#### Housing Loans

The housing loan product of the Bank is specifically designed to cater to diverse needs of the community. Speedy processing, flexibility with respect to terms and repayment periods of up to 20 years, are main features of the housing loan product of the Bank. In order to formalise and speed up the process, a Home Loan Unit was formed in May 2010.

Two new products, Privilege and Foreign Currency housing loans were introduced during the year. The Bank recorded a healthy growth of over 20% on year to year basis on its housing loan portfolio with a very low NPA ratio.

#### Future Outlook

The housing-loan market in Sri Lanka is one with considerable potential. Given the very low level of credit default among low-income groups, housing-finance should be an attractive business for banks.

#### Leasing

Domestic leasing volumes declined during 2009 and early 2010 due to changing tax rules. The second half of 2010 saw a remarkable recovery, a result of greater economic stability and lower duty on vehicle imports.

The Bank's leasing portfolio recorded an increase of 38% during the year. Further, it recorded a drop in NPAs in absolute terms during the year to record an infection ratio of 2.8% at the end of 2010.

## PERFORMANCE BY DIVISION

### Personal Banking

Vehicle leasing dominated in the Bank's portfolio due to high demand in this sector and a lively second hand market. Plant and machinery lease volumes were comparatively low because of risks associated with repossession and adverse tax attributes.

#### Future outlook

Leasing sector still has great potential for growth since it has been perceived as a useful financing tool for assisting Small and Medium Entrepreneurs (SME). With a view to stimulating investment in plant and machinery, the Government has proposed to increase the capital allowances as per the recent budget proposals. Increased economic activity will also create a high demand for leasing in 2011.

#### Personal Loans

New marketing strategies implemented with island-wide staff participation enabled the Bank to achieve unprecedented growth in the personal loans portfolio. A record 44,418 new loans amounting to Rs. 14.6 Bn. were granted, driving the year-end portfolio up to Rs. 17.1 Bn., which was an increase of 87% as against the previous year.

Despite the net growth in personal loans, non-performing loans increased only marginally and thereby reducing the NPA ratio to 2.9% by the end of the year.

#### Future Outlook

The Bank sees a great potential for growth in this line of business due to the improved macroeconomic conditions in the country, a growing middle income segment, and greater disposable incomes.

#### Pawning

This is a highly competitive product category in which all local banks are

active. It is a rapidly growing segment in the market although margins are consistently under pressure. The Bank accrues a two way gain on pawning advances, as it does not attract any risk weight in the capital adequacy computation in addition to the interest earned. The Bank rolled out pawn broking services to 75 branches. The pawning portfolio of the Bank reached Rs. 2.148 Bn. at the year end. A dedicated pawning unit has been set up to monitor the progress of this product.

#### Future Outlook

The Bank expects a significant growth in pawning facilities and intends to roll out the facility to 50 more branches in the ensuing year.

#### Development Credit

In common with many other Sri Lankan financial institutions, Commercial Bank draws on foreign and domestic development funds to offer credit at concessionary rates to small- and medium-sized industries, agricultural enterprises and microenterprises. Traditionally, NPA ratios are low in this line of business.

In the year under review, loans to SMEs, agricultural enterprises and micro-enterprises saw a remarkable growth, more than doubling in the relatively small microfinance segment.

#### Industrial Loans

Currently, the Bank draws on five sources of funding as well as its own capital resources to offer seven lines of industrial-development credit.

The general decrease in market rates created an increase in credit demand island-wide, helping drive business in the segment. In particular, advances under the KfW line of credit performed relatively well. The Small and Medium Enterprises Regional Development Programme (SMERDP) line of credit,

on the other hand, performed modestly due to inbuilt constraints on eligibility. The Bank's own *Diribala* credit line is targeted at SMEs which require longer repayment periods and those ineligible for funding under other refinance schemes. Performance was satisfactory with a substantial sum of new advances being disbursed. The rate of interest was revised several times during the year to make the product more attractive to customers.

#### Future Outlook

A major campaign to promote development-lending products was launched during the year under review. This will intensify in the ensuing year, as we canvass new borrowers through suppliers of industrial inputs and other external entities. Also in the pipeline is a new credit line, the World Bank-funded Small and Medium Enterprise Development Fund.

#### Agriculture and Micro-finance Loans

The Bank offers eight separate lines of credit in this area, one of them self-funded.

As with SME finance, many of these schemes (with the exception of the Bank's own micro-finance scheme) are refinanced by the Central Bank or other sources and carry various eligibility limitations. Since the amounts lent under this scheme are presently small, the Bank sees its activity in this area mainly as brand-building.

#### Future Outlook

The microfinance and agriculture segments are likely to show rapid growth over the next few years, and the groundwork laid now will see the Bank well placed to capitalise on the opportunity. The Bank now operates six Agriculture and Micro-finance Units and plans to open another eight units in the future.

#### Online Banking

The online-banking customer base grew by 36% over the previous year. Similarly, the Bank was able to record a growth of over 50% in the number of online transactions due to convenience of the product and also due to wide range of services offered via this platform. During the year, many new services and features were introduced. Among them are access to Treasury investments, stockbroker services online and Mobitel dealer payments via Com e-Load.

#### Future Outlook

The Bank will introduce new security enhancements, online banking for corporate banking and the launch of a new generation mobile banking platform that will allow transactions to be carried out in English, Sinhala or Tamil.

#### Paymaster

ComBank Paymaster is an online payment system by means of which a large corporate client base makes cash, drafts and account transfer payments. This product performed well during the year under review and gained a substantial number of new customers as well.

This platform was extended to handle statutory payments such as payments to the ETF Board during the year. In addition, several promotional campaigns were conducted to enhance the awareness among potential clients during the year.

#### Future Outlook

Plans are in place to strengthen the system to make it viable for all statutory payments, while aiming for market leadership among industrial clients, with full payroll capability in the medium term.

# ***Business Booming***



# *in Bangladesh*

## *State-of-the-art Sri Lankan Banking makes it Big, in Bangladesh*

*Commercial Bank has been operating in Bangladesh for the past 6 years. Over this period, we've offered a unique portfolio of products and services embodying customised solutions for our corporate and personal banking clientele and superior service quality standards to an ever-widening customer base.*

*by end 2010, to 7 branches, 2 booths, 2 specialised OBU sections in Dhaka (Dhanmondi) and Chittagong (CEPZ) and 6 SME centres in Bangsal Road (Dhaka), Progati Sharani (Dhaka), Shantinagar (Dhaka), Tongi (Dhaka), Jubilee Road (Chittagong) and CDA Avenue (Chittagong).*

*We have also widened our footprint in many regions in the country, progressing*



PERFORMANCE BY DIVISION

➔ *Corporate Banking*

The Corporate Banking Unit comprises the Bank's Foreign Branch, Offshore Banking Centre (OBC) and Corporate Finance Unit (CFU). The Foreign Branch has over the years achieved a reputation for expertise in trade finance operations and caters to a clientele in diverse fields of business activity. Its customers are medium-sized and large Sri Lankan corporate businesses, blue-chip companies and multinationals operating in Sri Lanka. The Corporate Banking Division administratively overlooks the Bank's operations in Bangladesh which is more fully described in the Section of international operations on pages 33 to 35.

The Bank has a well established and trusted network of correspondents covering every part of the world. This long standing relationship has provided a distinct advantage to the customers of the

Bank in their international business with counterparties globally.

**Division Overview**

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>• In-house legal expertise</li> <li>• Cost-effective operations</li> <li>• Broad spectrum of investment-banking products</li> <li>• Diverse client-business portfolio</li> <li>• Lower NPL Ratio</li> <li>• Risk-sharing partnership with IFC on certain loan projects</li> <li>• Settlement bank for Colombo Stock Exchange</li> <li>• State-of-the-art technology</li> <li>• Established, reputable correspondent banks</li> <li>• Target-oriented work culture</li> <li>• Recognised as 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>• Securitization</li> <li>• Structuring, managing and underwriting of IPOs and private-equity placements</li> <li>• Company valuation, restructuring and rehabilitation</li> <li>• Investment advice and evaluation</li> <li>• Corporate debt structuring</li> <li>• Working-capital financing</li> <li>• Leasing</li> <li>• Domestic and international factoring</li> <li>• Offshore banking facilities</li> <li>• Internet banking</li> <li>• Bullion trading</li> <li>• Payment solutions for corporate clients</li> <li>• Islamic banking</li> <li>• Margin Trading</li> </ul>



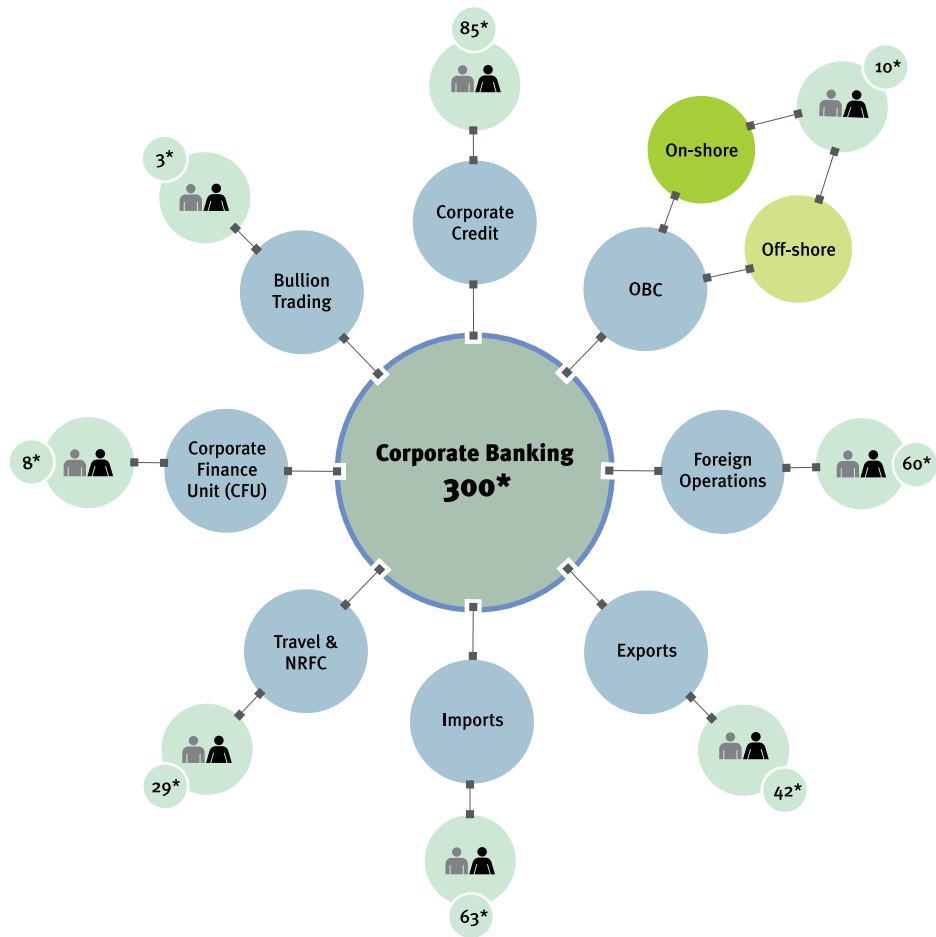
- Senior Management Team - Corporate Banking**
1. C.M. Abeysekera  
Head of Corporate Banking III
  2. Naveen Sooriyarachchi  
Head of Corporate Finance
  3. Duminda Kurukulasuriya  
Head of Imports
  4. Anura Ratnayake  
Head of Operations - Foreign Branch
  5. Colvin Karunaratne  
Chief Manager - Exports
  6. Ranjan Ediriweera  
Chief Manager - Corporate Banking II
  7. B.A.H.S. Preena  
Chief Manager - Corporate Banking
  8. G.R. Genevieve Liyanage  
Chief Manager - Offshore Banking Centre

## PERFORMANCE BY DIVISION

### Corporate Banking

#### Revenue Drivers

Corporate Banking division in its endeavour to reach the desired level of performance is supported by several profit centres of the Bank. Those centres which are administratively integrated to the Corporate Banking Division with their staff numbers as at December 31, 2010 are given below:



\* No. of Staff as at December 31, 2010

## PERFORMANCE BY DIVISION

### Corporate Banking

#### Achievements in Figures

The contribution of the Corporate Banking division to the Bank's performance can be summarised as follows:

	Actual 2010 Rs. Mn.	Budget 2010 Rs. Mn.	Actual 2009 Rs. Mn.	Achievement (Actual over Budget) (%)
Advances as at December 31 (Gross)	80,144.5	78,801.1	64,048.8	101.7
Profit before Tax	2,618.9	2,623.0	1,480.3	99.8
Import turnover	226,569.9	91,979.8	126,059.8	246.3
Export turnover	142,911.0	129,218.5	128,770.1	110.6
Cost Income Ratio (%)	31.7	29.8	37.9	
NPA Ratio (%) as at December 31	2.7	4.4	4.6	

Corporate Banking Division recorded satisfactory results amidst shrinking of interest margins during the year. It also exceeded most of the targets set at beginning of the year while substantially improving the performance over 2009.

#### Corporate Banking

With the end of Sri Lanka's long civil conflict, reconstruction in the North and East of the country and major national-infrastructure projects undertaken by the Government gave impetus to the formerly stagnant economy. The end of the war has also brought hopes of a revival in tourism. These developments encouraged large corporate entities to expand their operations, with welcome consequences for the loan book of the Corporate Banking Unit. Also, lower inflation resulted in the reduction of interest rates from the double-digit rates that had prevailed for many years to single digits; this, too, had a positive effect on credit demand.

An improvement in the country's foreign reserves brought about a relaxation of exchange controls, which had been tightened during the war. Reduction of import duty on vehicles

and electrical items during the year resulted in a significant increase in imports, especially imports of vehicles.

The Foreign Branch saw growth in advances and profits above budgeted targets in 2010.

#### Margin Trading

The most significant of the year's achievements in corporate banking was the introduction of margin trading, initially for high net worth customers and subsequently offered to a broader base. The product was introduced at a time when the stock market was especially buoyant, resulting in phenomenal growth in new facility approvals and disbursements.

#### Management of Equity Funds

The equity exposure of the Bank was restructured in 2010 by liquidation of two existing equity funds and the institution of two new funds with different objectives. A fund with Rs. 200.0 Mn. was outsourced to a leading Sri Lankan fund manager; the second fund, which has an investment allocation of Rs. 100.0 Mn. is managed internally by an investment committee,

with decisions implemented by the Corporate Finance Unit (CFU). This fund has a shorter-term focus relative to the longer term focus of the outsourced fund. Both recorded excellent performance in 2010.

#### Wind and Hydro Power Projects

Another noteworthy achievement was the leading role played by the CFU in the development of commercial wind-power projects in Sri Lanka. It also continued to finance mini-hydro power and other renewable energy projects, some in collaboration with the International Finance Corporation. Of particular interest was the syndication of debt financing for a Sri Lankan company setting up a mini-hydro project in Uganda, our first instance of exposure to that country.

#### Securitisation

During the year under review, the CFU also structured and invested in many securitisation transactions. Commercial Bank was the largest single investor in the first ever securitisation of credit card receivables carried out in the country.

#### Bullion Trading

The Bank resumed full operations in Bullion Trading in May after a lapse of nearly 16 months due to the heavy 'Nation-Building Tax' imposed on gold trading. Since the withdrawal of this tax, business has been extremely good and the projected negative growth trend for the year was also reversed. This positive result was due in part to the continuing rise in gold prices throughout 2010 and partly to the fall in returns from traditional investments.

#### Future Outlook

Now larger and with enhanced capabilities and expertise, the Corporate Banking Division looks forward to the future with confidence. Among our near-term objectives are expansion of offshore lending in the South Asian Region, leveraging opportunities in post-war development work and the active pursuit of investment opportunities in listed equities.

Margin trading is expected to be a key element of our capital-markets business mix in future years. The possibility of the stock market overheating presents a potential risk to growth prospects for both the Bank and the industry, as is the possibility of rising commodity prices affecting global growth.

We continued to leverage our strengths, such as the reputation of the Bank and of our supplier, ScotiaMocatta, while doing our best to deal with the ongoing problem of competition from unauthorised operators and occasional delays in gold supply. Prospects for this segment appears very good provided taxes on gold imports and trading remain moderate.

PERFORMANCE BY DIVISION

➔ *Treasury and Back Office*

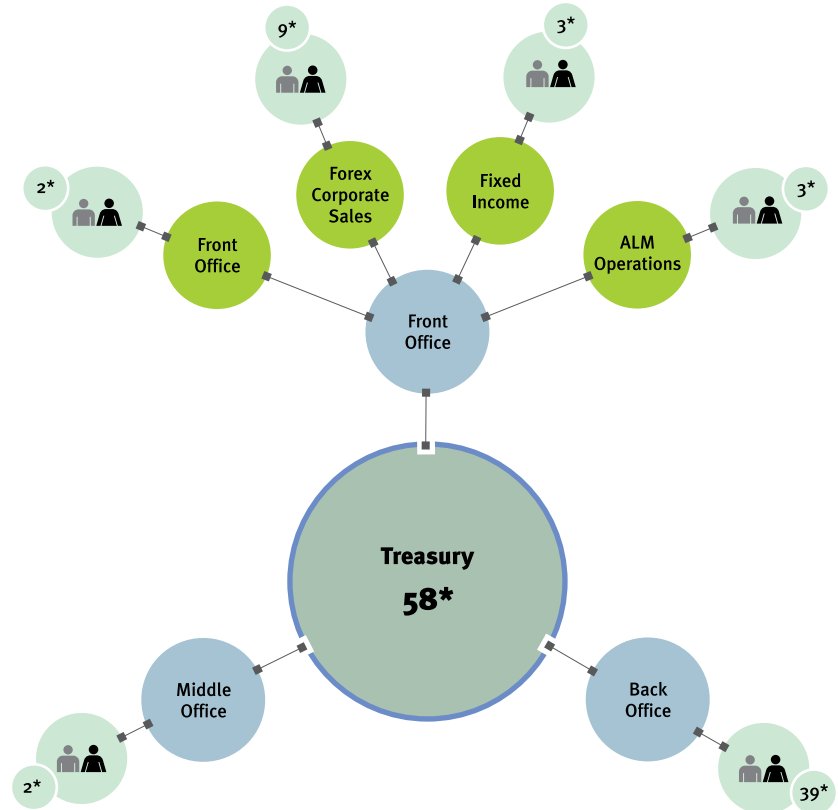
Treasury is entrusted with managing the interest rate risk, liquidity risk and the foreign exchange risk of the Bank. Treasury carries out the interbank operations of the Bank for management of above risks and also as part of its proprietary trading business. In addition, Assets and Liabilities Management (ALM) function is operationalised by Treasury. Treasury also provides support to retail and corporate banking areas in providing its funding requirements and managing the foreign and local currency flows arising out of their business. The operations of Treasury are segregated under Forex and Corporate Sales, Fixed Income Securities and ALM operations.

**Division Overview**

Core Competencies	Products/Services
<ul style="list-style-type: none"> <li>Innovative, customised Treasury products</li> <li>Fully-customised Treasury software application</li> <li>Competitive rates on the strength of FX resources</li> <li>Foreign-currency funds from international operations</li> <li>Local currency funds from well-established branch network</li> <li>Well-trained Treasury team</li> <li>State-of-the-art technology</li> <li>Established and reputable correspondent banks</li> <li>Target-oriented work culture</li> <li>Recognised as best bank in the country</li> </ul>	<ul style="list-style-type: none"> <li>Foreign exchange dealing</li> <li>Forward interest rate swaps and futures trading</li> <li>Currency and interest rate swaps</li> <li>Forward rate agreements</li> <li>Caps</li> <li>Floors and collars</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>Fixed Income Securities trading</li> </ul>

**Revenue Drivers**

Treasury in its endeavour to reach desired level of performance is supported by several divisions of the Bank. Those divisions which are administratively integrated to the Treasury are given below with their staff numbers as at December 31, 2010.



\* No. of Staffs as at December 31, 2010

## PERFORMANCE BY DIVISION

### Treasury and Back Office

#### Achievements in Figures

The contribution of the Treasury can be summarised as follows:

	Actual 2010 Rs. Mn.	Budget 2010 Rs. Mn.	Actual 2009 Rs. Mn.	Achievement Actual over Budget (%)
Interest income	13,190.1	9,968.8	12,165.4	132.3
Foreign exchange profit	1,355.4	1,285.8	2,253.3	105.4
Profit before tax	1,344.2	1,317.1	1,240.2	102.1
Interest earning assets as at December 31	118,278.2	101,409.3	104,104.4	116.6
Cost Income Ratio (%)	29.3	30.6	41.5	

Treasury recorded satisfactory results despite recording a drop in foreign exchange income compared to the last year. It also exceeded all key targets set at the beginning of the year.

The post-war resurgence of Sri Lanka's economy and concurrent decline in interest rates benefited Treasury resulting in improved net interest margins from the Bank's Government Securities portfolio.

Margins on both interest rate and exchange rate based products tightened substantially as increased competition in the banking sector forced the Bank repeatedly to review its product pricing. Treasury was able to provide effective support to the management of the Bank's assets and liabilities by providing timely and relevant input to the decision making process.

A quality investment portfolio delivered regular, tax efficient returns on investment while permitting effective management of liquidity. Volumes handled by Treasury increased substantially due to excess liquidity in the market.

Aggressive investment in tax efficient foreign currency bonds, Sri Lanka Development Bonds (SLDBs) and Sri Lanka Sovereign Bonds (SLSBs), delivered sufficient profits to negate the effect of high cost of foreign currency deposits.

The LKR:US\$ exchange rate which was at Rs. 114.40, decreased by 2.8% to reach Rs. 111.20 at the end of the year. This relative stability in exchange rate demanded very efficient management of foreign exchange to meet the budgeted exchange income target for the year.

Operational initiatives which concluded during the year included streamlining Funds Transfer Pricing system as a business management tool, the implementation of IT solutions to deliver efficiency in fixed income operations, and new internet based delivery channels for retail investors. Treasury also undertook a system review to identify business needs for the next five years and began evaluating proposals for upgrading the Treasury infrastructure.

Efforts were made to build competency and operational efficiency in derivatives dealing. The Bank registered as a derivatives dealer with Central Bank of Sri Lanka and developed a derivatives policy, operating procedures, documentation requirements and compliance measures to meet the strict requirements imposed in the aftermath of legal issues surrounding commodity linked derivatives deals in 2008.

An ALCO sub-committee comprising corporate and senior management representatives was formed to assist ALCO in driving business strategy. Treasury worked towards strengthening the Bank's regulatory compliance and formulated policies governing, ALM liquidity and contingency management and forex risk management and is now in the process of obtaining the requisite approvals.

Additional steps were also taken to improve the Treasury risk management framework. All counterparty and operational limits were reviewed and modified to suit current conditions. Reporting lines were strengthened and the Bank acquired additional resource capabilities to effectively account for value and to manage its foreign-exchange risks.



1



2

#### Senior Management Team - Treasury and Back Office

- Hilary Fernando  
Head of Treasury Processing
- Asela Wijesiriwardena  
Chief Dealer - Assets & Liability  
Management

PERFORMANCE BY DIVISION

➔ *International Operations*

Activities discussed under this section encompass Bangladesh Operations, E-remittance business of the E-banking unit and offshore Operations (Maldivian Operations) of the offshore Banking Centre.

**Bangladesh Economy**

During the year 2010, Bangladesh was assigned its first sovereign rating by Moody's Investors Service of "Ba3" same as Philippines and Vietnam after withstanding external shocks and political unrest to achieve economic stability. The year 2010 was a period which showed mixed performance for Bangladesh. The political situation was stable despite several street protests that were called for by the main opposition. Despite natural disasters in recent years, the economy has managed to grow at around 6% p.a. over the past few years. Further, Bangladesh's economy is expected to grow 6.7% in 2010/11, compared with targeted growth of 6.0% in the year ended June 30, 2010. The results of 2010 were largely driven by internal demand, underpinned by robust growth in agriculture and service sectors, and modest growth in industry.

Inflation in the country for 2010 is estimated to be 8.0% and expected to reach 8.25% in 2011. In order to contain inflationary build up, Bangladesh Bank (Central Bank) raised its policy rates twice during the year. Cash Reserve Requirement (CRR) and Statutory Reserve Requirement (SRR) were raised by 100 basis points (50 basis points each in May and December) and Policy Rates (Repo/Rev Repo) by 100 basis points in August 2010.

The domestic money market remained flush with liquidity, with sharp decline in credit to public sector and soaring remittance inflows. Interest rates on bank deposits were thus at low levels in 1st half of financial year 2010.

The fiscal deficit is targeted at 5% of Gross Domestic Product for 2010/11, compared with the deficit of 4.5% of GDP in 2009/10. Both imports and exports are projected to grow at double digit rates in FY 2011, with workers' remittance inflows settling down around lower double digit trend level.

The Bangladesh Bank continued to focus on strengthening the financial system and improving the functioning of its various segments. Pursuing its commitment towards broadening and deepening of financial inclusion, Bangladesh Bank paid special attention to ensure adequate capital flows to productive and environment- friendly economic activities including agriculture, SMEs, renewable energy and effluent treatment projects, supported with refinance lines. These activities stimulate incremental output of goods and services on the supply side, and incremental income and purchasing power on the demand side, thus contributing to the country's progress towards poverty reduction with inclusive growth.

**Division Overview**

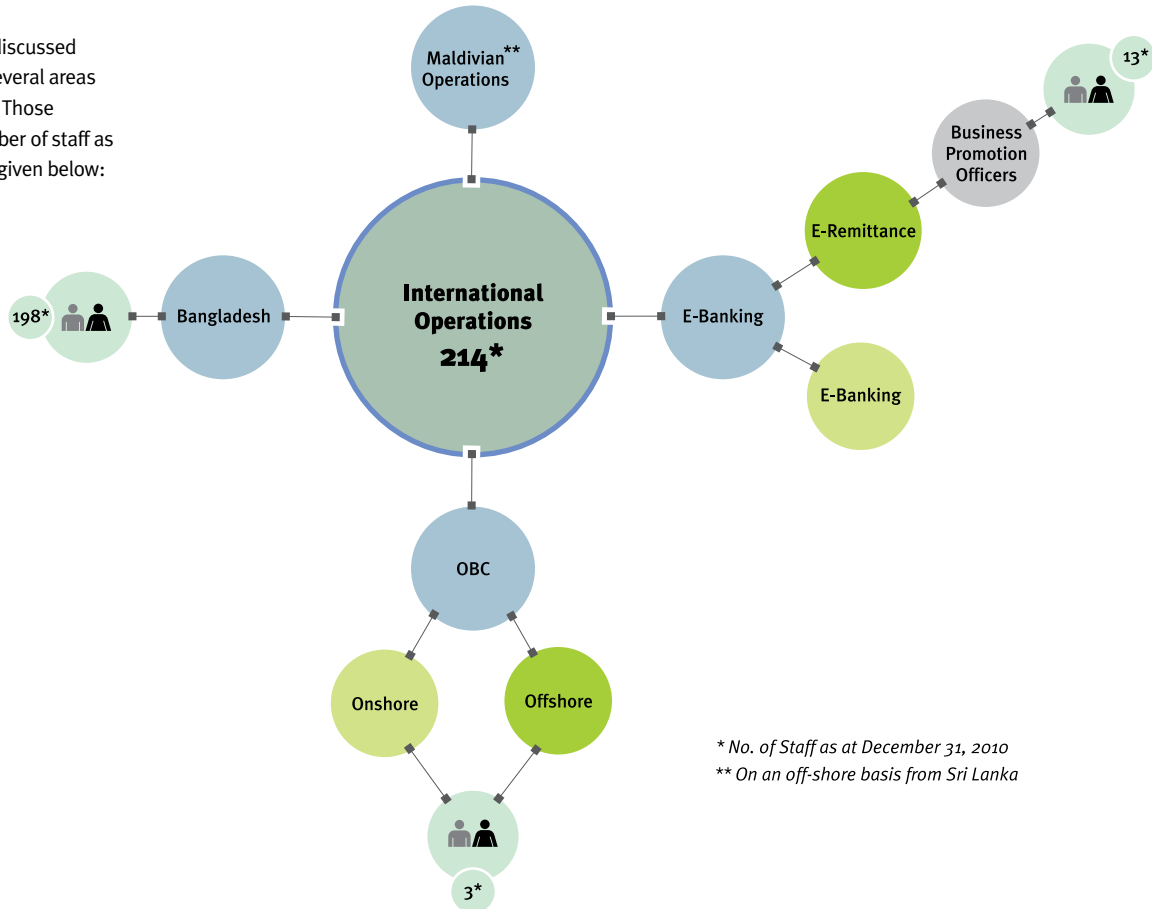
Core Competencies	Products/Services
<b>Bangladesh Operations</b>	
<ul style="list-style-type: none"> <li>Strong international presence in corporate banking</li> <li>24*7 call centre</li> <li>AA+ rating by Credit Rating Information Services Limited, Bangladesh (CRISL)</li> <li>ST1 (short term high safety and liquidity) rating by CRISL</li> <li>Network of Branches &amp; ATMs</li> <li>Dedicated centres to cater SMEs</li> </ul>	<ul style="list-style-type: none"> <li>Current, savings, FD, margin and money market accounts</li> <li>Bonus savings accounts</li> <li>Dream Planner savings accounts</li> <li>Dot Com teen saver accounts</li> <li><i>Shamriddhi</i> 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><i>Prodriddhi</i> loans</li> </ul>
<b>Maldivian Operations</b>	
<ul style="list-style-type: none"> <li>Well-established, longstanding relationships with Maldivian customers</li> </ul>	<ul style="list-style-type: none"> <li>Project financing development</li> <li>Lender in syndicated facilities</li> </ul>
<b>Remittances</b>	
<ul style="list-style-type: none"> <li>Strong, global agent network</li> <li>Placement of business promotion officers in 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>	<ul style="list-style-type: none"> <li>Combank e-Exchange web-based money transfer facility</li> </ul>

## PERFORMANCE BY DIVISION

### International Operations

#### Revenue Drivers

International Operations discussed in this section comprise several areas of operations of the Bank. Those operations with their number of staff as at December 31, 2010 are given below:



\* No. of Staff as at December 31, 2010  
\*\* On an off-shore basis from Sri Lanka

#### Achievements in Figures

The contribution of the International Operations can be summarised as follows:

	Actual 2010 Rs. Mn.	Budget 2010 Rs. Mn.	Actual 2009 Rs. Mn.	Achievement Actual over Budget (%)
Deposits as at December 31	24,454.0	27,685.7	25,676.2	88.3
Advances as at December 31 (Gross)	25,001.0	20,357.1	22,938.8	122.8
Profit before Tax	1,495.4	1,043.9	1,015.4	143.3
Cost Income Ratio (%)	37.9	43.4	44.1	
NPA Ratio (%) as at December 31	0.2	0.8	0.2	

#### Bangladesh Operations

Bangladesh operations has recorded an exceptional performance during the year, resulting in a substantial improvement in profitability ratios. Remittances canvassed through Commercial Bank had also recorded a satisfactory growth during the year.

Credit Rating Information & Services Ltd. (CRISL) conferred an AA+(long term) rating on Bangladesh Operations for the third consecutive year. This rating denotes high safety and credit quality among other attributes. We were also rated ST1 for short term safety and liquidity; this is the highest rating, signifying high assurance of timely payments and liquidity.

The branch network was strengthened with the opening of our fifth and sixth SME centres at CDA Avenue, Chittagong and Tongi, Dhaka.

Promotional activities during the year included the launch of the Eid Loan product and the formation of a fully-fledged SME financing unit. The Bank participated in many CSR activities and donated around BDT 1.5 Mn. (Rs. 2.3 Mn.) to various selected causes.

The Chittagong and Gulshan Booth premises were refurbished to make them comparable to other branches in service quality and ambience.

## PERFORMANCE BY DIVISION

### Management Committee - Bangladesh Operations



1



2



3



4



5



6



7



8



9



10



11

### Maldivian Operations

The easing of the global financial crisis also encouraged a revival in the Maldivian tourism industry, permitting the Bank to resume lending to existing Maldivian clients on a selective basis.

### e-Exchange

ComBank e-Exchange is a web-based money transfer system for Sri Lankans working abroad, allowing them to make remittances through over 50 direct agents in 12 countries. In operation since 2003, e-Exchange assures Sri Lankans overseas a safe and efficient way to send money home.

The year under review saw e-Exchange enter new markets and expand its reach in existing ones such as Saudi Arabia, Lebanon and Malaysia. Additional representatives were placed to support our steadily-expanding agent network and to market e-Exchange and the Bank's other products among Sri Lankans in these countries. The e-Exchange recorded a growth of around 14% in remittances from the Middle East, a territory that accounts for 60% of Sri Lankans working overseas.

To improve service to beneficiaries, and in particular to reduce turnaround time on collections, dedicated remittance counters were setup at 45 branches across Sri Lanka. The Bank conducted training sessions for prospective migrant workers in collaboration with the Sri Lanka Bureau of Foreign Employment. One of our leading partners in overseas remittances, MoneyGram, selected us as their Agent of the Year for corridor collaboration.

### Future Outlook

Plans are afoot to introduce mobile remittances in Sri Lanka and the launch of operations from our own exchange house in Italy under the brand name Commex.

### Management Committee - Bangladesh

- |   |   |
|---|---|
| 1. S. Prabagar<br>Country Manager   | 7. Mahmood Rashid<br>Assistant General Manager -<br>Internal Control and Compliance |
| 2. D. Das Gupta<br>Senior General Manager   | 8. Binoy Gopal Roy<br>Assistant General Manager -<br>Finance and Accounts           |
| 3. Dilan Rajapakse<br>Chief Operating Officer   | 9. Atahar Uddin Ahmed<br>Assistant General Manager -<br>Credit Administration       |
| 4. S. Kutubuddin Ahmed<br>General Manager - Risk, Compliance and<br>Corporate Affairs | 10. Mostafa Anowar Sohel<br>Assistant General Manager -<br>Human Resources          |
| 5. Golam Mortuza<br>Deputy General Manager -<br>International Trade                   | 11. Reaz Wahid<br>Assistant General Manager -<br>International Trade                |
| 6. A.K. Nandy<br>Deputy General Manager - Chittagong                                  |   |

## PERFORMANCE BY DIVISION

### ➔ Support Services

In addition to the customer touch points of the Bank that were discussed earlier, there are a number of divisions providing support services to make the Bank's operations efficient. These divisions are shown in the diagram on page 38.

Of these divisions, the initiatives undertaken by the Information Technology and Marketing divisions are detailed below:

#### Information Technology

During 2010, the Information Technology division actively supported banking operations and provided infrastructure for new initiatives while continuing to achieve global benchmarks.

In January, Information Technology along with e-Banking and the Card Centre achieved the prestigious international ISO/IEC 27001:2005 information-security certification. Commercial Bank remains the only Sri Lankan bank with this demanding certification, which confers a competitive advantage when dealing with overseas entities and multinational corporations. The achievement was recognised by the apex information-security body, Information Systems Audit & Control Association (ISACA), which gave the Bank a Bronze Award for organisational IT security and compliance. Continuing to raise the information security benchmark, IT supported the development and launch of chip cards by the Card Centre.

Margin trading and pawning, the two stellar products of the year, received strong IT support for product development and rollout. Through a review of product costing, lower-cost but robust infrastructure was provided to improve the profitability of pawning.

The world-class MIGS Internet Payment Gateway was formally launched with several customers coming on board and many more in the sales pipeline.

A data warehouse was commissioned, with reporting software that allows customer segmentation, up- and cross-selling and channel usage analysis. Product managers, Marketing and Priority Banking have all begun using this feature.

Channel bill payments processing was streamlined to enable real-time processing. Turnaround time for reviewing and processing corporate loan facilities was significantly reduced with the implementation of a new workflow and document management system. Customer convenience was increased through e-Exchange cash automation at branches and online Treasury Bills access for ComBank Online customers. A Customer Contact Centre was launched leveraging existing technology, with new services gradually being introduced to allow channel migration. The end of the year saw the installation of the Bank's four hundredth ATM.

E-Statements were launched in Sri Lanka and Bangladesh adding to customer convenience, reducing cost and contributing towards 'Green' IT. Financial reporting was enhanced with implementation of the Oracle EBS system for the Bank and its subsidiaries.

A productivity gain of an average of 3 hours per branch per day was achieved through the Covering Sanction project in conjunction with the recently established Central Credit Monitoring unit.

In Bangladesh, a much-anticipated intranet was launched.

#### Future Outlook

The plan for 2011 includes implementation of systems such as a trilingual menu-driven mobile banking system, an anti-money-laundering system, a loan origination system and other improvements.

#### Marketing

##### First Things First - Understanding the Customer

Putting the customer at the core, the Bank embarked on an exercise to understand formally what our customers need, want and desire from us. An elaborate research exercise partnered with the best market research agencies was conducted.

##### Our Brand Equity

The Bank is interested in having a formal measure of the brand equity, its drivers and its score relative to competition. We are pleased to note that the Bank had the best brand equity amongst our peer group. We also gained mathematically validated insights into the drivers of brand equity. These factors have equipped us to better understand our customer requirements and focus our activities in meeting them.

#### Our Customer Satisfaction

The Bank formally measured our customer satisfaction as per an international methodology that allowed us to benchmark ourselves to an international and national peer group. As expected we were pleased to see the results of the study that put us ahead of our peer group. We also clearly understood the drivers of customer satisfaction and were able to use the formal knowledge to drive various change management programmes through the Bank. Various aspects of service delivery were incorporated into our process excellence framework and product design.

#### Consolidating the Bank Brand

We continued to build our attributes of strength like safety, stability, excellence through the continuous adaptation of our historic 'Best Bank' campaign. This has been critical and core to our continued ownership of the critical attributes that a top banking brand requires.

We have progressively started phasing out product brands. The product brands have been replaced by a 'Product nomenclature' that effectively conveys the functional aspect of a product. E.g. 'Housing Loans from Commercial Bank' from the erstwhile 'Nivahana Loans'. The nomenclature lends itself very well to usage across the 3 dominant languages of the country. In essence we now largely follow 'Commercial Bank' and product descriptor as a combination. We will thus focus on the brand equity of the Bank rather than the product.

## PERFORMANCE BY DIVISION

### Support Services



- Senior Management Team - Support Services**
1. Palitha Perera  
Head of Operations
  2. Mrs. Sarojini Dunuwille  
Head of Legal
  3. Sanath Manatunga  
Head of Credit Risk
  4. Prasanna Indrajith  
Head of Finance
  5. Mrs. R.R. Dunuwille  
Company Secretary
  6. Vajira Thotagammana  
Chief Manager - IT Operations
  7. Sivam Yoganandasivam  
Chief Manager - IT R&D
  8. Amitha Munasinghe  
Chief Manager - Information Systems Audit and Business Continuity Planning
  9. S. Shanmugarajah  
Chief Manager - ICBS Unit
  10. M.Z. Careem  
Chief Manager - Inspection
  11. Stanley Fernando  
Chief Manager - AML Compliance
  12. Esala Silva  
Chief Manager - Central Cash & Clearing
  13. Bindu Perera  
Chief Manager - Premises and Engineering



## Support Services

### Media

Media played an important role in our marketing strategy for the year. We undertook a fresh look at our media processes and rationalised them. This helped us drive down media costs. We were able to undertake many media innovations that added to the overall media benefits that we got. An emphasis on media planning helped us to enhance the effectiveness of our media buys.

### Recognising the Impending Shift in Consumption and Driving the Market

The Bank was able to foresee the spurt in pent-up consumer demand and low inflation after years of war. It will drive retail consumer demand and will fuel the need for retail loan products. Nevertheless, the retail consumption in the country is very price sensitive across product categories. The Bank took the lead to drive down retail lending rates in the sector, resulting in a major contribution being accrued to the Personal Banking division of the Bank.



\* No. of Staff as at December 31, 2010

## Support Services

### Product Leadership

A highly empowered team of 'Product Managers' was formed along with a Product Development Committee. The formality in managing products brought forth many benefits. The Bank was able to be very efficient on our 'Time to Market', having the ability to adapt our products to the changing market quickly and having an ability to change pricing quickly. Further, the Bank was able to follow a more segmented approach in our products.

### Alternate Channels

The Bank is very focused on promoting the alternate channels of delivery. These channels greatly add to customer convenience and reduce costs for the Bank at the same time. The re-launched website of the Bank quickly became a favourite online destination in financial services.

We ran several promotions to drive acquisition and usage of our Internet banking platform. We were able to significantly increase the active user base of Internet banking. There was a large and significant increase in the volume and value of the transactions on the Internet banking platform.

### Debit and Credit Cards

Attractive consumer promotions were held on a periodic basis to promote the usage of Debit and Credit cards. These promotions were very well received by the consumers. We saw a good improvement in the POS usage of the Cards during the year. This also served as a means of driving new consumer acquisitions.

Several promotional campaigns were carried out targeting the remittances to the country. A combination of advertising and on ground promotions in our branches enabled us to garner the required deposit base.

### Future Outlook

Sri Lanka is at a cusp of a transformation in its economic landscape. Such fundamental and large changes will mean that the banking sector which is at the heart of economy will itself change in terms of size and structure. Our Bank is equipped and ready to lead this change. Keeping the customer at the core of what we do, we will always maintain leadership in the sector.

In addition to Information Technology and Marketing Departments as described above, Human Resources function plays a vital supporting role in achieving the objectives of the Bank. Information on Our Human Asset including a broad spectrum of activities conducted during the year appears in the section on 'Policy & Performance in Labour Practices and Decent Work Dimension' on pages 72 to 79 of the Sustainability Supplement.

When the activities of the Bank are carried out as enumerated above, the Bank accumulates risk. However, the Bank's comprehensive risk management infrastructure manages such risks as detailed in the Risk Management Report on Pages 153 to 169.

## SUBSIDIARIES OF COMMERCIAL BANK

### **Commercial Development Company PLC (CDC)**

The Company was formed in 1980, for the construction of the head office building of Commercial Bank. It is a listed company quoted on the Main Board of the Colombo Stock Exchange. CDC operates as the main provider of utility services to Commercial Bank. The main sources of income of the Company are building rent, vehicle hire charges and maintenance income. The Bank presently holds 94.55% stake in CDC.

CDC has achieved a revenue growth of 14.67% in 2010 compared to 2009. The Company has recorded a 65% growth in post-tax profits mainly due to the reversal of cumulative deferred tax provision resulting from the reduction in income tax rate to 28% effective from January 2011.

#### **Future Outlook**

The Company expects to venture into areas of construction of new branches and renting them out to Commercial Bank and increasing the volumes of utility services provided.

### **ONEzero Company Ltd.**

The Company was incorporated in 2003 as a fully-owned subsidiary of Commercial Bank, with the intention of providing Information and Communication Technology (ICT) related products and services to corporate customers. Product portfolio of the Company consists of ICT solutions, equipment, software and their maintenance to our clients partnering with world's leading IT brands. Team of the Company consists of specialised software and network engineers, creative designers, IT technical staff and consultants with knowledge and experience in providing customised solutions using latest ICT.

The Company recorded a turnover of Rs. 177.6 Mn. in the year 2010, a growth of 31% compared to the previous year. It recorded a post-tax profit of Rs. 4.5 Mn. for 2010.

#### **Future Outlook**

Future plans of the Company includes providing professional 'Total IT Solutions' servicing a much wider audience and build imperative partnerships with world renowned IT companies.

### **Commex Sri Lanka S.R.L.**

Having seen the potential in Remittance Business from Italy, Commercial Bank initially tied up with an exchange house in Italy. Many Sri Lankans who relied on various informal channels to remit money to Sri Lanka gradually started utilising our e-Exchange money transfer system. Seeing the future prospects in this line of business, the Bank formed a fully-owned subsidiary by the name Commex Sri Lanka S.R.L. in Italy.

#### **Future Outlook**

Considering the high number of Sri Lankan population in Italy, the Bank is confident of capturing a relatively high market share in remittances therefrom.

## ASSOCIATES OF COMMERCIAL BANK

### **Equity Investments Lanka Ltd. (EQUILL)**

EQUILL is a venture capital company set up in August 1990 under the sponsorship of the Commercial Bank of Ceylon PLC. EQUILL provides financing to local entrepreneurs and businesses in the small and medium scale industries. The Bank presently holds 22.92% stake in the Company.

The principal activity of EQUILL continued to be project financing in the form of equity, quasi equity and other corporate debt instruments for new and existing ventures in Sri Lanka, with a high growth potential. The Company also engages in monitoring performance and providing management services such as accounting and other advisory services to those companies in which venture capital investments have been made.

In the year under review, the Company recorded a post-tax profit of Rs. 35.8 Mn. compared to Rs. 11.2 Mn. recorded in the previous year.

### **Future Outlook**

The long-term nature of investments and the lack of collateral security in the venture capital industry have made the investments highly risky. The Company is always actively seeking new investments but intends investing on a more selective basis in order to maximise returns and to avoid being exposed to unnecessary risks and thereby provisioning for bad debts and diminution in value of investments.

### **Commercial Insurance Brokers (Pvt) Ltd. (CIBL)**

The Company was incorporated in 1987 styled Commercial Insurance Services (Pvt) Ltd. The name of the Company was subsequently changed to Commercial Insurance Brokers (Pvt) Ltd. for better identification of our activity as an Insurance Broker. The Bank presently has an indirect investment in the Company of 18.91% through its subsidiary, Commercial Development Company PLC.

The Company provides insurance, portfolio and risk management services offering appropriate insurance products and services at competitive insurance premiums. The Company has a knowledgeable and experienced team exceeding 100 people, along with an island-wide branch network equipped with infrastructure facilities.

The Company recorded a post-tax profit of Rs. 12.4 Mn. , a growth of 44% when compared to the last year.

### **Future Outlook**

The plans of the Company are geared to accomplish its Vision and Mission appropriately defined to achieve leadership in its undertakings whilst maintaining integrity and ethics.

## THE FUTURE

The immediate outlook for the local economic environment appears to be encouraging. The Bank is well positioned to capitalise on the opportunities emerging in the market due to the positive macroeconomic environment in the country.

The Banking industry operates basically on public confidence. The industry is governed by a set of regulations which necessitates changes or amendments due to the sophistication of the financial products and services it offers. The following regulatory changes which will come into effect in the ensuing year will have a significant impact to the operations of the banking industry.

### FUTURE REGULATORY CHANGES

New NPA guidelines stipulate the classification of the entire portfolio as NPA upon the classification of one or more facility/ies which exceeds 30% of the total credit facilities extended to such borrower.

Sri Lanka Accounting Standards - LKAS 32 on "Financial Instruments: Presentation", LKAS 39 on "Financial Instruments: Recognition and Measurement" and SLFRS 7 on "Financial Instruments: Disclosures" now scheduled to be implemented from January 01, 2012. These standards would bring significant changes in terms of measurement, recognition and disclosure requirement specially to the banking industry in Sri Lanka. With the introduction of these new standards on Financial Instruments, the existing provisioning method based on the expected loss model will be changed to an incurred loss model where the provisioning is based on existence of actual evidence of impairment.

Further, the banking sector should be geared to cope up with the challenges in moving into advanced approaches under Pillar 1 of Basel II in the future.

### CORPORATE PLAN AND THE BUDGET

The Corporate Plan and the Budget is a medium term plan, being prepared annually covering a period of 5 years on a rolling basis. This year, the Bank prepared the plan for the period covering the years 2011-2015. The strategic direction of the Bank is critically reviewed by the management as well as by the Board at the time of preparing and approving the Corporate Plan and the Budget. In keeping with the Vision and Mission statement of the Bank, the strategic direction has been clearly identified and laid down in the Corporate Plan. It detailed out the SWOT analysis of the main business segments and supporting units of the Bank. It also spells out the Goals, Objectives and Strategies of the Personal Banking division, Corporate Banking division, Treasury, Bangladesh Operations, Human Resources, Information Technology and Marketing.

The Corporate Plan and the Budget incorporates highly ambitious targets for the plan period. Undoubtedly, the Corporate Plan and the Budget has immensely contributed in building up the target driven culture across the Bank and guided the Bank to its present level. It has further helped the Bank to record superior results year on year while maintaining the status as the Benchmark private sector Bank of the country today.

Respective divisional and product strategies, which were included in the Corporate Plan have been discussed under the caption *future outlook* detailed above. The Corporate Plan has also enumerated the following major operational initiatives, to be undertaken by the Bank for the plan period.

- Increase the diversity of the revenue streams beyond traditional sources of income.
- Aggressively penetrate the market with new products through cross and up-selling.
- Educate customers on the advantages of the products and product attributes, to be carried out under Bank's integrated marketing communication plan.
- Improve the operational efficiency by identifying processes that can be automated, improved, eliminated and/or combined with other processes.
- Customer channel migration from high cost physical distribution channels to low cost automated channels.
- Convert the present 'Information Centre' to a fully-fledged 24\*7 'Call Centre' with trilingual facilities.
- Make strategic alliances by partnering with other organisations to cater to identified market segments.
- Introduce new foreign currency accounts to make use of opportunities created through the relaxation of exchange control regulations.



## *Sustainability Supplement*

Commercial Bank was the first company in Sri Lanka to publish a triple bottom line report. That was some 10 years ago. Beginning last year, we have adopted the Global Reporting Initiative guidelines. This year, we have published a B level report. The value of our human resources using the Lev and Schwartz model plus Economic Value Added (EVA) are featured. These stand at Rs. 50 Bn. and Rs. 3 Bn. respectively. The latter is indicative of the wealth that the Bank has created.

## A MESSAGE FROM THE CHAIRMAN

Dear Stakeholder,

It is with great pleasure that I place before you the Sustainability Supplement of the Commercial Bank for the year 2010. We produced our inaugural Sustainability Supplement last year based on the Global Reporting Initiative (GRI) G3 framework for sustainability reporting with a self-declaration at 'C' level of application. In our second attempt, we are presenting you a Report which is at a GRI Disclosure Level B and obtained an Independent Assurance Report from Ernst & Young, Chartered Accountants which is presented on page 88.

The incalculable value of imbuing enterprise with the purest concepts of sustainability is becoming more emphatically manifest with each passing year. As many countries still struggle to extricate themselves from economic downturn, climate change is rampant and world weather patterns have gone haywire. The chasm between 'haves' and 'have nots' across the globe is widening leading to dislocation of many social structures with grave repercussions for many communities. The situation is exacerbated by an inequitable spread and 'ownership' of resources, where those who have, have in abundance, whilst those without have no hope for subsistence.

As a world community, we ignore these signposts at our own peril.

Whilst we may draw some comfort from the fact that from the point of economies across our region of the world, we have not been as badly hit by the global downturn as other regions, an inconsistent approach to environmental protection and social issues is insidiously eroding 'two legs' of the sustainability tripod - and today we can see the devastating results in climate change, uncharacteristically severe weather patterns worldwide, plus the evils of global warming, ozone depletion and the whole sorry catalogue of 'sins' that are laying waste the planet.

The Commercial Bank can but persevere in a consistent and well-founded ethos that ensures we invest all our effort and enterprise with an uncompromising approach to building sustainable growth, value and returns for all stakeholders.

As adherents to the United Nations Global Compact framework governing proper sustainable practices as well as adopting the GRI reporting framework on the subject, we have ensured that the Bank's enterprise is conducted in compliance with sustainability best practice.

Sri Lanka has begun a phase of development across the country, which holds much promise in terms of a hospitable business climate and growth of key national economic and business indices. This is an encouraging climate for the Bank and one we are leveraging for sustainable growth - not just for the Bank but for all stakeholders.

The material presented in this supplement details the well founded sustainability policies and practices that pervade every facet of our enterprise and this, I believe equips the Bank admirably to approach the era of development unfolding in our country with success and responsibility.

Care has been taken to report in a transparent manner on the activities of the Bank, so as to give a true and fair picture of our enterprise. The Managing Director's Review, which appears on pages 08 to 11 presents a detailed account of key events, achievements, failures, challenges and the future outlook of the Bank together with the strategic approach. In addition, the Management Discussion and Analysis, which appears on pages 13 to 42 discusses the risks and uncertainties and the manner in which the key divisions of the Bank responded to the predetermined targets.

I'm sure you'll find this Sustainability Supplement an edifying read.



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

Colombo  
February 15, 2011

## OUR PROFILE

### OUR FOOTPRINT

#### (GRI Indicator 2.1, 2.4 & 2.5)\*

The Commercial Bank of Ceylon PLC, which commenced its operations with a single branch way back in the 1920s, is the largest indigenous private sector bank in Sri Lanka today, in terms of assets, deposits, loan book and profits. The Bank with its Head Office based in Colombo has also been able to mark its presence in 7 countries by placing Business Promotion Officers in Kuwait, UAE, Qatar, Oman, Saudi Arabia and Jordan and having Banking Operations in Bangladesh. The Bank is continuously exploring opportunities to venture into other overseas markets with a view to making our presence globally more visible.

Our business focuses on conventional banking and we continue to expand our services as we find new opportunities to meet our customers' needs while maintaining satisfactory profitability. Our capital strength allows us to adjust our business volumes and activities to fit the competitive market environment in the countries where we operate. Our mission encompasses building customer relationships and financial partnerships based on the core values inbuilt in the Bank's Code of Ethics - honesty, integrity, fairness, responsible citizenship and accountability.

The historical landmarks appear on page 281.

### LEGAL FORM AND OUR EQUITY PARTNERS (2.6)

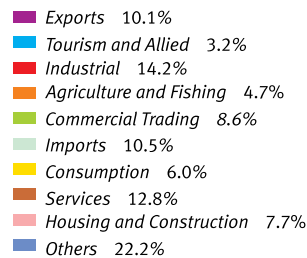
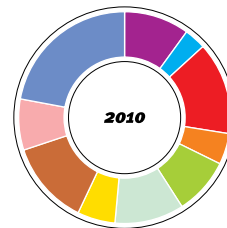
Detailed corporate information of the Bank including legal form appears on the inner back cover whilst information on share ownership is found in the Section on 'Investor Relations' on pages 177 to 181.

### OUR PRESENCE AND CHANGES TO SIZE AND OWNERSHIP STRUCTURE (2.7 & 2.9)

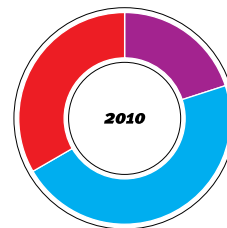
The Bank continued its growth momentum by adding 15 more delivery points and 45 ATMs in Sri Lanka during 2010, strengthening its presence outside the Western Province by bringing more convenience and giving our hand to people in other parts of the country to benefit from state-of-the-art technology. In this connection, it is pertinent to mention that seven out of fifteen delivery points were opened in Northern and Eastern Provinces as a gratitude to people who were deprived of banking facilities due to the three-decade long civil war, which ended in early 2009. The number of delivery points in Sri Lanka and in Bangladesh at end 2010 stood at 187 and 17 respectively, while the number of ATMs in Bangladesh stood at 14 and it reached the milestone of 400 ATMs in Sri Lanka.

The Bank continued to address the needs of all types of customers and the sectoral breakdown of the loan book at end 2010 is depicted below:

#### Sectoral Classification of Loans and Advances



#### Branch Openings in Sri Lanka



\* This denotes GRI Indicator Number given in the GRI Compliance Index on pages 89 to 93. Throughout the Sustainability Supplement, this Indicator Number/s is/are stated next to the headings which are cross referred to the GRI Compliance Index.

## OUR PROFILE

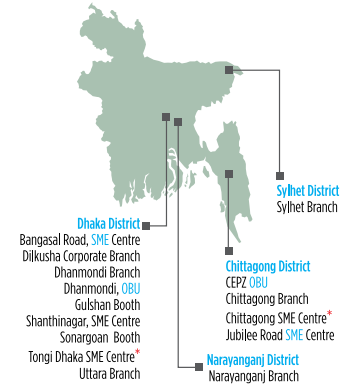
The details of the branch network and outlets in Sri Lanka and Bangladesh and the banking hours in Sri Lanka are given below:

### BANKING HOURS

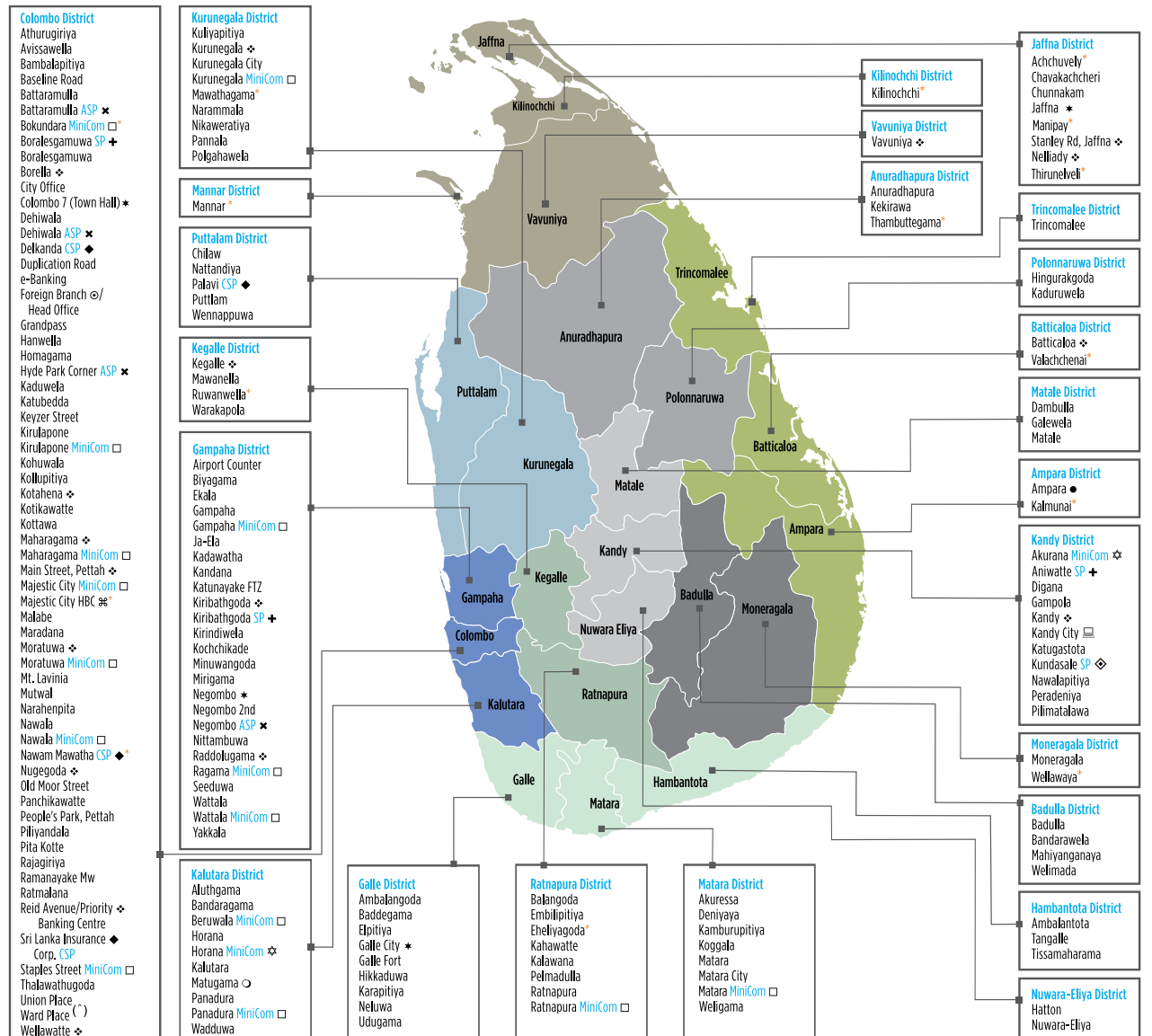
Abb/Suffix	●	*	☐	✦	○	⊙	( )	CSP ◆	MiniCom ☆	MiniCom ☐	ASP ✖	HBC ⌘	SP ◇	SP +	
Description	Branches							Customer Service Points	Banking Centres at Cargills Food City Supermarkets	Banking Centres at Arpico Supercentres	Holiday Banking Centre	Service Points			
Weekdays	9 to 3	9 to 3	9 to 3	10 to 7	9 to 3	9 to 3	9 to 4	10 to 5	9 to 3	9.30 to 7	10 to 7.30	10 to 7.30	10 to 7.30	9.30 to 7	10 to 7.30
Saturday	-	9 to 3	9 to 1.30	10 to 7	9 to 1.30	-	-	10 to 5	-	9.30 to 7	10 to 7.30	10 to 7.30	10 to 7.30	9.30 to 7	10 to 7.30
Sunday	-	9 to 3	9 to 1.30	10 to 7	-	9 to 1.30	-	-	-	9.30 to 7	10 to 7.30	10 to 7.30	10 to 7.30	9.30 to 7	10 to 7.30
Bank Holidays	-	9 to 3	9 to 1.30	10 to 7	-	-	-	-	-	9.30 to 7	10 to 7.30	10 to 7.30	10 to 7.30	9.30 to 7	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 2010 / SME Small & Medium Enterprises / OBU Offshore Banking Unit



\* Opened in 2010

## OUR PROFILE

A significant aspect of change during our reporting period involved the disposal of a part of its ownership of Commercial Bank by DFCC. As a result, DFCC's holding of Commercial Bank's ordinary voting shares reduced from 28.76% at end 2009 to 14.96% as at December 31, 2010. In addition, the Bank redeemed debentures totalling to Rs. 1,309 Bn. in October 2010, which were issued in 2005 with a maturing period of 5 years.

### SYNOPSIS OF SCALE (2.8)

As at end 2010, the Bank had 204 delivery points, 414 ATMs with a staff strength of 4,321 including Bangladesh. The compounded annual growth rates of the Bank's assets, deposits, loan book and profit after tax, which hover around 20% over the past decade is an ample testimony on the customer confidence and stability of the Bank.

The total assets of the Bank as at end 2010 amounted to Rs. 370,060 Bn. while its total equity and debt amounted to Rs. 33,302 Bn. and Rs. 2,127 Bn. Its total income and profit after tax for 2010 amounted to Rs. 41,522 Bn. and Rs. 5,523 Bn., respectively. We serve over 2 Mn. customers in the retail, corporate, institutional and public sectors.

The contribution to total assets and to the bottom line by the Sri Lankan and the International operations is given in Note 39.2 to the Financial Statements that appear on page 274. As at end 2010, the staff strength of the Bank's Sri Lankan operation stood at 4,123 while it was 198 for the Bangladesh operation.

A more descriptive summary of the Bank's income, profits, assets, business volumes, debt and equity

together with key performance ratios is found in the Section on 'Decade at a Glance' on pages 188 to 189.

The Bank's performance in 2010 compared to 2009 is given in the Section on 'Financial Highlights' on page 02.

### OUR BRANDS, PRODUCTS, SERVICES AND OPERATIONAL STRUCTURE (2.2 & 2.3)

The Bank's operational structure 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. Governance Structure of the Bank is found in the Section on 'Corporate Governance' on page 98.

Given below is a summary of the products and services we offer and the delivery channels utilised to bring them to the customers:

	Personal Banking	Corporate Banking	Treasury	International Operations
Products	Please refer to the Section on 'Personal Banking' in the Management Discussion & Analysis on page 22.	Please refer to the Section on 'Corporate Banking' in the Management Discussion & Analysis Report on page 28.	Please refer to the Section on 'Treasury and Back Office' in the Management Discussion & Analysis on page 31.	Please refer to the Section on 'International Operations' in the Management Discussion & Analysis on page 33.
Delivery Channels	Branch network, ATM Network, Internet Banking, Holiday Banking Centres, Card Centre Priority Banking, 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

## OUR PROFILE

### OUR BRANDS



In addition to the four business divisions, Commercial Bank Group consists of three subsidiaries, namely, Commercial Development Company PLC, ONEzero Company Ltd. and Commex Sri Lanka S.R.L. together with two associates namely, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd. Details of Corporate Profiles, Directorates and Financial Information of these affiliates are presented in the Section on 'Group Structure' on page 190.

The Bank as a policy does not outsource key functions involving the use of its strategic capabilities, leading to sustainable competitive advantage. However, it continuously explores the feasibility 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.

The contribution from these support services is also important; nevertheless it does not restrict in achieving the overall objective of the Bank since all critical functions are carried out by the permanent employees of the Bank.

Further, those listed functions are outsourced to companies specialised in these various fields, thus enabling them to efficiently manage such functions.

## OUR PROFILE

### AWARDS AND ACCOLADES 2001 TO 2010 (2.10)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
● Ratings by Fitch Ratings Lanka Ltd. Senior Debt	AA (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (sri)	AA+ (sri)	SL AA +	SL AA +	SL AA +
● Awards by The Global Finance Magazine (USA) Best Bank in Sri Lanka	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner	Winner
● Awards by The Banker Magazine (UK) Bank of The Year in Sri Lanka			Winner	Winner		Winner	Winner	Winner	Winner	Winner
● Award for Excellence by Euro Money Magazine (UK) Best Bank in Sri Lanka (1st Bank in Sri Lanka to win this award)				Winner						
● Award for Excellence by Trade Finance Magazine (UK) Best Local Trade Bank		Winner								
● Awards by Finance Asia Best Bank in Sri Lanka	Winner	Winner								
● Awards by Ministry of Labour Relations and Manpower together with ILO Office in Sri Lanka National Decent Work Award		Gold								
● Bracken Award by The Banker Magazine (UK) Sri Lanka's Bank of The Year				Winner						
● Annual Report Awards by The Institute of Chartered Accountants of Sri Lanka Overall	Joint 1st R. up			Joint Winner	1st R. up	Winner	Winner	Winner	Winner	Winner
Banking Sector	1st R. up		Joint 1st R. up	Winner	Winner	Winner	Winner	Winner	Winner	Winner
Corporate Governance Disclosure	2nd R. up		Joint 1st R. up				Winner	Joint 1st R. up	Winner	Winner
Corporate Social Responsibility	2nd R. up							Joint 1st R. up	Joint 2nd R. up	
Management Commentary	1st R. up		2nd R. up	Joint 1st R. up						
● Annual Report Awards by the South Asian Federation of Accountants (SAFA) Overall				Joint Winner	1st R. up	2nd R. up	Winner			
Financial/Banking Sector	Joint 2nd R. up		Joint 1st R. up	Winner	Winner	Winner	Winner	Winner	Winner	Winner
Corporate Governance Disclosure	2nd R. up					Winner				
● National Business Excellence Awards by the National Chamber of Commerce of Sri Lanka Overall	Winner			N/A	Winner					
Large Scale Investments	N/A			Winner	N/A	N/A				
Extra Large Sector	Winner			N/A	Winner	2nd R. up				
Banking Sector	Winner			N/A	Winner	Winner				
Excellence in Performance Management Practices	Winner									
Block Buster Performance	N/A			N/A	Winner	N/A				
Business and Financial Sustainability				N/A	Winner	Winner				
● Human Resource Management (HRM) Awards National/Overall/Gold		Winner		Winner					Winner	
Overall (Large Sector)						Winner				
Most Innovative HR Practice (Large Sector)						Winner				
● National Best Quality Software Awards by The British Computer Society (Sri Lanka Section) Financial Sector (Com e-Load Product)					Silver					
Financial Sector (Com Bank Online Product)					Merit					
● Awards by the Association of HR Professionals HR Awards 2010 - Super 10	Gold									
Award for Talent Supply	Winner									
<b>BANK'S ACHIEVEMENTS IN BANGLADESH OPERATIONS</b>										
● Credit Ratings by Credit Rating Information Services Ltd.	AA+	AA+	AA+	AA	AA	AA	AA			
● 'A Class Bank' by CAMELS Rating Best Foreign Bank	A	A	A	A	A	A	A			
● Partex Business Awards by Robintex Financial Mirror Best Foreign Bank		Winner	Winner	Winner	Winner	Winner				
● Arthakantha Business Awards for Outstanding Achievements Best Foreign Bank (Banking Sector)		Winner				Winner	Winner			
● Financial News Services (FNS) Business Awards Best Performing Foreign Bank						Winner				
● The Industry-Business Awards by The Industry Magazine Best Foreign Bank				Winner			Winner			
● Institute of Cost and Management Accountants of Bangladesh National Best Corporate Award		2nd R. up		2nd R. up						
● Desher Kagoj Business Award Best Foreign Bank				Winner						
● Banker's Forum CSR Awards by Banker's Forum	Winner									

## OUR PROFILE

### THE PARAMETERS OF THIS SUPPLEMENT (3.1, 3.2, 3.3, 3.4 & 3.13)

This Sustainability Supplement covers the calendar year ended December 31, 2010. The Bank engaged Ernst & Young, Chartered Accountants to seek an independent assurance statement on this Sustainability Report for the first time and their Independent Assurance Report is found on page 88. The Bank does not have any relationship with Ernst & Young, other than their function as the Statutory Auditor for the Bank. The Bank expects to continue with the practice of seeking independent external assurance for its sustainability report in future.

As reported earlier, our maiden Report published in the last year's Annual Report, covered the calendar year ended December 31, 2009. It is the Bank's intention to publish a Sustainability Supplement on an annual basis.

We would be happy to answer any inquiry and/or provide clarification of any material contained in this Supplement. For this purpose, your point of contact at the Bank would be -

The Central Accounts Department, Commercial Bank of Ceylon PLC, 'Commercial House', 21, Bristol Street, Colombo 01, Sri Lanka.  
Our e-mail address: [email@combank.net](mailto:email@combank.net)

### Report Boundary and Content (3.5, 3.6, 3.7 & 3.8)

The Bank adopted the decision tree recommended for boundary setting as suggested in the GRI Guidelines. Accordingly, the following operations of the Commercial Bank Group have been excluded from the scope of this Report on the basis that we are of the view that these operations are not significant to report on as the banking operation in Sri Lanka does not depend on the cash flows of the said operations:

- The Bank's operations in Bangladesh
- The operations of three subsidiaries, namely, Commercial Development Company PLC, ONEzero Company Ltd. and Commex Sri Lanka S.R.L.

The operations of the Bank's associates namely, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd. too are scoped out from the boundary of the report as the Bank does not have control over the operations of these entities.

However, in the event that the operations of the excluded entities/ operations become material, we would take steps to include them within the boundary of the Report.

We expect that this Sustainability Supplement will serve the needs of all our stakeholders. Our engagements with stakeholders are more fully described in the Section on 'Stakeholder Engagement' on pages 53 to 55.

### DATA MEASUREMENT TECHNIQUES AND BASES OF CALCULATIONS (3.9, 3.10 & 3.11)

Financial data presented herein have been extracted from the Audited Financial Statements where applicable.

Accounting policies used in preparation of the Financial Statements including the basis of preparation and significant assumptions used are given in pages 212 to 228. Man hours in respect of training provided for the employees of the Bank are computed based on the scheduled time for each training session.

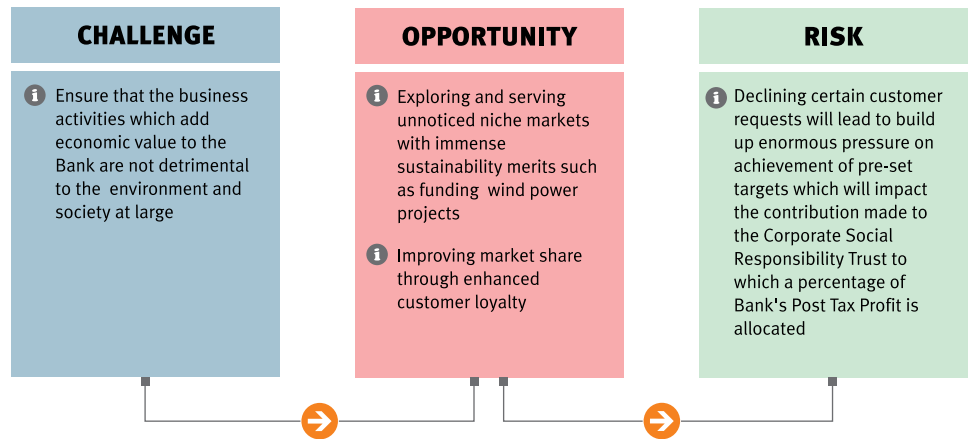
There were no changes in scope, boundary or measurement methods used from the previous report issued in 2009.

*Information presented in this Supplement in respect of prior periods have not been restated.*

### IMPACTS, RISKS AND OPPORTUNITIES (1.2)

A major impact the Bank can exert on society and the environment is through its support for the business activities of its clients. Our decision making process in choosing which project to support and whom to support is a key element in ensuring that we make the strongest contribution to sustainable development.

The diagram below portrays the Bank's findings (focus) with respect to challenges, opportunities and risks of its business to sustainability.



## OUR PROFILE

Incidentally, the Bank has in place a ‘Social and Environmental Policy’ to ensure that effective social and environmental practices influence the activities, produce and services of the clients to whom we grant financial support. All projects are evaluated against the said policy, which is more-fully described on page 66.

Please refer the pages tabulated below for further information on key risks, impact and opportunities of the Bank.

Information type	Section	Page reference
Targeted performance Vs realised performance (Overall)	Financial Goals and Achievements*	02
Targeted performance Vs realised performance (Divisional)	Performance by Division in the ‘Management Discussion & Analysis’	22 - 35
Governance mechanism for identification of risks and opportunities	Organisation Structure relating to the Risk Management and related activities	153
Mechanism for identification and management of risks and opportunities	Risk Management Report	153 - 169

\* These goals set the medium-term targets of the Bank in its strategic journey to sustain the unique position as the benchmark private-sector bank in Sri Lanka.

### GOVERNANCE, COMMITMENTS AND ENGAGEMENT (4.1, 4.2, 4.3 & 4.4)

The Bank’s systems of governance and management are designed to assist in conducting business responsibly, particularly with regard to environmental, social and economic issues. Our management and control is based on the current principles of corporate governance, as prescribed by legislation and the relevant regulations, and by other codes of best practices. Its strategy and daily operations are deployed within the framework of corporate governance principles, which govern issues such as the structure of its

Board of Directors, compliance with legal and regulatory provisions, respect for and protection of shareholders’ interests, the reliability of information disseminated, and the systematic assessment and management of corporate risks.

The Chairman of the Board of Directors, the highest governance body of the Bank, is an Independent Non-Executive Director. The Bank’s Board of Directors consists of 9 members as at December 31, 2010

drawn from different industries with wide industry and financial expertise. Their profiles are found on pages 146 to 147 while their executive/ non-executive status and/or status of independence is given in the Section on ‘Annual Report of the Board of Directors on page 197. Please also refer to our Corporate Governance Report for the Governance Structure of the Bank on page 98, and Reports of the Board Sub-Committees appearing on pages 135 to 140 for composition, charter and functions.

The Bank also provides many avenues for input from shareholders and employees alike, to contribute

to and strengthen the governance regime inter-alia the following:

#### Communications with Shareholders

- Ensuring our Annual General Meeting is held within the statutory due dates in order to obtain the views of shareholders.
- The Bank encourages communication with shareholders. The Company Secretary of the Bank responds to individual letters received from shareholders. Further, the Company Secretary takes appropriate steps to edify all shareholders of the new regulatory developments and requirements as a social obligation.

#### Communications with Employees

- The Board of Directors conducts dialogue with all members of the Corporate Management on the matters pertaining to overall strategic direction of the Bank which includes the corporate plan and annual budget.
- The Corporate Management together with the members of the Board, brief all executive officers in the manager grade and above of the Bank’s targets for the forthcoming year and performance against targets for the previous year at the Managers’ Conference, an event held annually to nurture the concept of ‘One Bank – One Family’. All participants are given opportunity to discuss matters of their interest and seek clarifications during the open forum sessions either on one-to-one basis or through question cards.
- Continuous dialogue is maintained with the two employees’ unions of the Bank with the objective of obtaining their views on matters pertaining to good governance.

- As an integral component of our ‘bottom up’ approach to management of the activities of the Bank, quarterly meetings are held at regional level with the participation of Regional and Branch Managers (who directly interact with customers), in order to tap into and benefit from their ideas and views, and to discuss any improvements to existing processes and procedures. Such matters are then brought to the notice of the highest governing body through the Regional Managers.
- As reported last year, cross functional teams of middle-level managers were identified and encouraged to bring their innovative ideas to the table, in terms of enhancing the standards of performance of the Bank. This process has been very successful, with a wide variety of innovative and plausible ideas emerging. The management is currently evaluating the feasibility of the ideas with a view to implementation.

#### Performance Based Compensation (4.5 & 4.10)

Stemming from its Corporate Plan, the Bank fosters a target-driven culture where the degree to which individuals achieve or surpass their goals including related targets on social and environmental performance directly links to their levels of compensation and reward.

Criteria for determining performance-based compensation for the members of the highest governance body, Key Management Personnel and other executives are found in the Board Human Resources and Remuneration Committee Report appearing on pages 137 to 138. Details with regard to compensation

## OUR PROFILE

packages including Defined Benefit Plans and Defined Contribution Plans are disclosed in Notes M 9 and M 10 to the Financial Statements on pages 224 to 226.

### **Avoiding Conflict of Interest and Eligibility of Board Members (4.6 & 4.7)**

As reported elsewhere under the Section on 'Corporate Governance' on page 117, the Directors do not participate in decision making on matters in which they have an interest and thus conflicts of interests with the activities of the Bank are avoided. Directors' presence at any forum where conflict of interest is likely to arise is disregarded in counting the quorum for such issues.

In determining the suitability, aptitude and qualifications of members in the realm of the Bank's highest governance echelons, the Board Nomination Committee plays a pivotal evaluatory role. Functions of the Board Nomination Committee among other things include setting criteria such as qualifications, experience and key attributes required for the members of the highest governing body. The report of this Committee appears on page 139.

### **Fundamental Frameworks - Our Mission, Vision and More... (4.8)**

Flowing from its Mission and Vision statements and inculcated to its Corporate Plan, Codes of Conduct and Ethics and its Social and Environmental Management System (SEMS), which are more-fully described in pages 42, 101 and 66. The Bank promotes a target (performance) driven culture in the enactment of its enterprise, which in itself is guided along the path of sustainability.

Thus in every possible area of endeavour, the Bank identifies and assesses the economic, social and environmental impacts any of its actions may exert. It is then possible for the Bank to make informed decisions in respect of avoidance of risk or where avoidance is not possible, mitigation takes place. In this respect, the Bank's endeavours are also bolstered by the activities of its Integrated Risk Management Department.

In an overall sense therefore, the Bank's fundamental frameworks as described help to promote heightened consciousness and fully sustainable growth through emancipated business practices.

Helping all employees of the Bank to embrace this culture, they become signatories to a special Oath of Secrecy and Code of Conduct, which they must adhere to, for the duration of their employment with the Bank.

The Vision and Mission of the Bank are found on page 05 as well as in the Bank's Website: 'www.combank.net'.

### **Overseeing Economic, Social and Environmental Performance (4.9)**

The Bank has several measures in place that help its Board of Directors, identify and manage sustainable business initiatives effectively.

Here are some of them -

- 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.
- Social and Environmental Management System (SEMS) makes the Social and Environmental Co-ordinator and his team responsible to the Board of Directors for overseeing the organisation's identification and management of economic, environmental and social performance issues, including relevant risks and opportunities, and ensuring compliance with internal circulars and regulatory requirements.
- A Quarterly Board Paper is submitted to the Board Integrated Risk Management Committee on compliance in respect of the operations of the Bank. The content of this paper is validated by the Internal Audit Department of the Bank. A Quarterly Board Paper is submitted to the Board of Directors, flagging key economic indicators that could hold potentially negative as well as positive impacts for the Bank.
- The Bank takes a very pro-active stance in identifying possible bad debt provisions on loans and advances even before these are classified as Non-Performing Loans. This is done on an on going basis.
- The Assets and Liability Management Committee (ALCO) of the Bank supports the Board of Directors to maximise the yield on its assets and liabilities taking timely actions in re-pricing them.

### **Commitments to External Initiatives (4.11, 4.12 & 4.13)**

In regard to the Bank's approach to risk management in operational planning and properly securing its business development, we have a series of initiatives and have sought accreditation that places the Bank in a position of strength.

Here are some of them -

- The Bank understands that the development of any socially responsible strategy necessarily requires corporate governance that goes beyond legal requirements, guaranteeing independent decision making, ethical behaviour, transparency, adequate risk management and long-term business planning in order to ensure an ethical, legal and compliant organisation at every level, whilst ensuring that no illegal or unethical businesses are undertaken in any shape or form.
- All critical processes and procedures of the Bank are well-documented to ensure smooth functioning and to avoid multiple interpretations.
- In 2009, the Bank obtained ISO 27001 certification on information security functionalities, thus becoming the 1st Sri Lankan bank to obtain this international certification. This certification will provide an edge over competitors as it enhances the customer confidence and recognition on the Bank's Information Security functionalities.
- Providing guidance on compliance in accordance with the Anti-Money Laundering Guidelines

## OUR PROFILE

- Setting up a dedicated unit to ensure the Business Continuity Plans are regularly reviewed, tested and updated

The Bank espouses many external measures of best practice in the field of sustainability. A summary of these appears below:

- The Bank is a signatory to United Nations Global Compact Principles.
- The Bank ensures due compliance with the codes of best practices in corporate governance, issued jointly by The Institute of Chartered Accountants of Sri Lanka & the Securities & Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka and required disclosures are made in its Annual Report.
- Adopting a 'Whistle Blower's Charter' within the Bank taking account of the guidelines issued by the International Chamber of Commerce.

- The Bank is in full compliance with guidelines and performance standards required by the International Finance Corporation as per its 'Social and Environmental Management System', more-fully described in page 66.

- The Bank continued to be in full compliance with the Central Bank's requirements on Single Borrower limit, Capital Adequacy Ratios, Classification of Non-performing Advances and provisioning, Liquid Assets Ratio among many.

The Bank remains a strong constituent of several key external associations via its ongoing memberships therein. We have membership in -

- 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 (4-14, 4-15, 4-16 & 4-17)

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

Understanding our corporate social responsibility begins with open dialogue with our stakeholders. We at Commercial Bank have taken steps to strengthen this dialogue by enabling closer connections

with shareholders, customers, suppliers, employees and the public at large. For example, our periodic customer satisfaction surveys pay much attention to dialogue with customers and ensure that we deal appropriately with conditions that adversely affect customer satisfaction. Our periodic press releases ensure that we address the information requirements of the public at large. We also get involved at various investor forums to have dialogue with institutional investors and fund managers. All these initiatives help us in our aspiration to get closer to stakeholders adequately, on a timely basis.

The stakeholder groups engaged and the subject matter of such engagement fall within the ambit of the Board of Directors. The stakeholder groups identified on this basis together with matters raised, frequency and methods of engagement by the Bank appear in the table below.

Stakeholder	Topics Discussed/Matters Raised during Engagement	Methods/Frequency of Response
<ul style="list-style-type: none"> <li>• Central Bank of Sri Lanka</li> <li>• Shareholders</li> <li>• Debenture holders</li> <li>• Beneficiaries of the Employee Share Option Plan (ESOP) of the Bank</li> <li>• Rating Agencies</li> <li>• Financial Analysts</li> <li>• Prospective Investors and their Fund Managers</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic Direction</li> <li>• Plans to raise capital to improve Capital Adequacy Ratio</li> <li>• Plans to upgrade credit rating</li> <li>• Plans to improve cost to income ratio</li> <li>• Plans to inject new capital</li> <li>• Duration of Assets and Liabilities</li> <li>• Maturity mismatches and plans to bridge the gaps</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>• Privilege cards to shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Reports</li> <li>• Annual General Meeting</li> <li>• Interim/Quarterly Financial Statements</li> <li>• Press conferences and media releases</li> <li>• Dividend announcements</li> <li>• Corporate website: www.combank.net</li> <li>• One-to-one discussions</li> <li>• Road shows organised by the Colombo Stock Exchange</li> <li>• Periodic presentation by the members of the corporate management</li> </ul>

## OUR PROFILE

Stakeholder	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 quick time and with due care, etc.</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> <li>Customer Satisfaction Surveys</li> <li>Call Center</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>Recruitment Policy</li> <li>Developing road map for implementation of new Accounting Standards</li> </ul>	<ul style="list-style-type: none"> <li>Annually: Relationship building exercises with two Trade Unions/Executive Associations Special events such as Quiz Competition, Children's Party, Art Competition, Sports Competitions, etc.</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>Ad hoc meetings held with the employees and unions when need arises</li> <li>Internal Circulars and Bulletins</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 and other regulatory requirements</li> <li>Discussions with policy makers on industry specific tax matters</li> </ul>	<ul style="list-style-type: none"> <li>Intranet</li> <li>Formal and informal interaction with the Sri Lanka Banks' Association</li> <li>Industry specific communication</li> </ul>
<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>

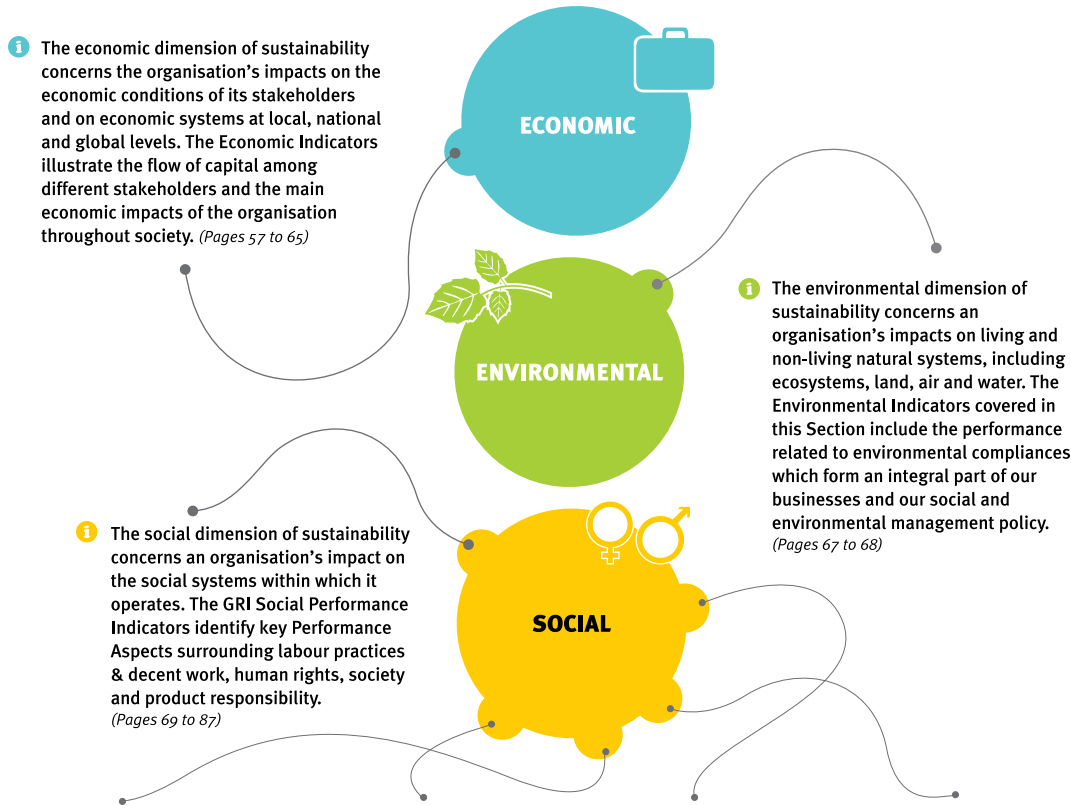
## OUR PROFILE

Stakeholder	Topics Discussed/Matters Raised during Engagement	Methods/Frequency of Response
<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>Channelling 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> <li>Requests for community development activities</li> </ul>
<ul style="list-style-type: none"> <li>Central Bank of Sri Lanka</li> <li>Department of Inland Revenue</li> <li>Ministry of Finance</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> <li>Sri Lanka Accounting and Auditing Standard Monitoring Board</li> <li>International Finance corporation</li> </ul>	<ul style="list-style-type: none"> <li>Financial services sector specific regulations issued by the Central Bank of Sri Lanka</li> <li>Other Government regulations including taxes</li> <li>Compliance with the Codes of Best Practices for corporate governance issued by The Institute of Chartered Accountants of Sri Lanka and Securities &amp; 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> <li>Compliance with Sri Lanka Accounting Standards, Company Law, etc.</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> <li>General public</li> </ul>	<ul style="list-style-type: none"> <li>Interim and annual results</li> <li>Launching of new products and services</li> <li>Branch openings and re-locations</li> <li>Microfinancing and SME development</li> <li>Corporate Social Responsibility initiatives</li> <li>Staff recruitments</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> <li>Interim/Quarterly Financial Statement</li> <li>Annual Report</li> </ul>

Furthermore, any party who has a particular interest in the activities of the Bank is free to communicate through the Investor Feedback Form annexed to the Annual Report and via the Bank's official e-mail address - email@combank.net

**MANAGEMENT APPROACH AND PERFORMANCE INDICATORS**

This section of our sustainability supplement includes the performance indicators of the tripple bottom line reporting approach organised by the categories, namely, Economic, Environmental, Labour Practices & Decent Work, Human Rights, Society and Product Responsibility. A snapshot of these categories is demonstrated below:



Labour Practices & Decent Work	Human Rights	Society	Product Responsibility
<p>The specific aspects under the category of Labour Practices &amp; Decent Work are based on internationally recognised universal standards, such as principles of the United Nations Global Compact, Universal Declaration of Human Rights and the conventions of the International Labour Organisation. (Pages 72 to 79)</p>	<p>Human Rights dimension requires organisations to report on the extent to which human rights are considered in the process of the accomplishment of their goals to pushing ahead the organisation towards its strategic intent. In addition, the indicators cover employee and security awareness on human rights as well as non-discrimination, freedom of association, child labour, indigenous rights and forced and compulsory labour. (Pages 80 to 81)</p>	<p>Society performance dimension focuses on the impacts organisations have on the communities in which they operate, and disclosing how the risks that may arise from interactions with other social institutions are managed and mediated. Information is sought on the risks associated with bribery and corruption, undue influence in public policy-making and monopoly practices. (Pages 82 to 84)</p>	<p>Product Responsibility performance category addresses the aspects of a reporting organisation's products and services that directly affect customers, namely, health and safety, information and labelling, marketing and privacy. (Pages 85 to 87)</p>

## POLICY AND PERFORMANCE IN THE ECONOMIC DIMENSION



Being mindful of its responsibility towards all stakeholders, the Bank recognises that its enterprise can have an impact upon the economies of these same stakeholders. Thus, whilst we operate in a very competitive industry, we exert great care to ensure that our enterprise is an enabling one.

Our economic policy has been developed with due attention to these factors whilst ensuring sustainable performance and growth.

### 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 a positive response to the question of ‘Will it add value to the stakeholders?’, which is our litmus test.

### Goals, Performance and More

We believe that the economic performance is fundamental to any organisation to nurture sustainable development. Since, such performance encompasses one of the three aspects of triple bottom line reporting, we at Commercial Bank are very much mindful of it. In this regard, we consider the comprehensive Corporate Plan and Budget prepared annually to be a fundamental pre-requisite which sets direction and focus for all business units of the Bank in the form of challenging targets which are aligned centrally, focusing on the maximisation of stakeholder value. The Corporate Plan and Budget cover a period of 5 years on a rolling basis, set the right direction to push the bar ahead. In addition, management accounts are prepared on a monthly

basis and variances are identified, analysed and reported on, for the information of the Board, together with explanatory notes for variances and action plans to improve performance. The performance driven culture under which each individual's objectives are set, is designed to align with the goals and overall strategy of the Bank. In this endeavour, the Bank's corporate value system drives initiatives to achieve organisation-wide economic goals.

The Strategic Business Units of the Bank consist of Corporate Banking, Personal Banking, Treasury and International Operations. The performance of these Strategic Business Units is discussed in detail in the Management Discussion & Analysis appearing on pages 22 to 35. 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 stem from core strategies are communicated to appropriate levels in a timely manner. In this connection, the Vision and Mission statements of the Bank provide the guiding principles that are embedded in our core strategies. Increased presence in regional markets as demanded by our vision preserved the current leading position of the Bank whilst providing much more potential for future growth. In our strategic road map to capitalise on opportunities available, compliance with all laws and regulations and payment of all dues within specified time frames of these statutory requirements are among the key priorities of the Bank.

## POLICY AND PERFORMANCE IN THE ECONOMIC DIMENSION

As reported earlier under 'Data Measurement Techniques and Bases of Calculations' on page 50, all financial data presented in this Sustainability Supplement have been extracted from the Audited Financial Statements of the Bank, which have been prepared in compliance with the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, the relevant provisions of the Companies Act No. 07 of 2007 and directions embodied within the Banking Act issued by the Central Bank of Sri Lanka.

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

	Page/s
'Financial Goals and Achievements'	02
'Financial Highlights and Operating Highlights'	02 & 03
'Letter from the Chairman'	04
'Managing Directors Review'	08 to 11
'Management Discussion & Analysis'	13 to 42
'Investor Relations Supplement'	172 to 190
'Risk Management'	153 to 169

The economic performance indicators reported below facilitate to understand the manner in which the economic performance of the Bank impacts on its stakeholders.

### KEY PERFORMANCE INDICATORS - ECONOMIC

#### Economic Value Added (EVA) (EC1)

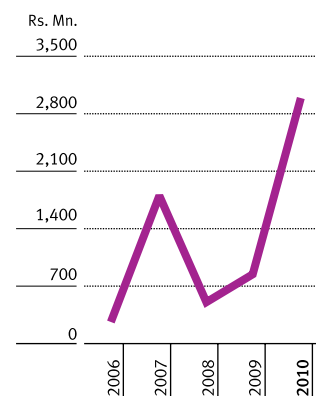
EVA, a measure of profitability which takes into consideration, the cost of total invested equity, provides an accurate indication of true economic value generated by the Bank as opposed to accounting profits. The EVA created over the last five years is tabulated below:

	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000	2006 Rs. '000
<b>Invested Equity</b>					
Shareholders' Funds	33,302,052	28,498,980	25,891,229	22,936,037	14,842,841
Add: Cumulative Loan Loss Provision	4,899,629	5,014,604	4,954,774	3,557,301	2,536,465
	<b>38,201,681</b>	<b>33,513,584</b>	<b>30,846,003</b>	<b>26,493,338</b>	<b>17,379,306</b>
<b>Earnings</b>					
Profit after Taxation and Dividends on Preference Shares	5,523,293	4,304,989	4,227,688	3,991,065	1,815,210
Add: Loan Losses and Provisions	1,192,138	1,533,698	2,278,212	1,777,476	655,070
Less: Loan Losses Written-Off	(6,039)	(23,412)	(5,141)	(1,836)	(7,698)
	<b>6,709,392</b>	<b>5,815,275</b>	<b>6,500,759</b>	<b>5,766,705</b>	<b>2,462,582</b>
Cost of Equity based on 12 months Weighted Average					
Treasury Bill Rate plus 2% for the Risk Premium	10.49%	15.45%	20.92%	18.07%	12.91%
Cost of Average Equity	3,761,466	4,971,778	5,997,695	3,963,893	2,158,128
<b>Economic Value Added</b>	<b>2,947,926</b>	<b>843,497</b>	<b>503,064</b>	<b>1,802,812</b>	<b>304,454</b>

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

*In EVA terms, we have created Rs. 2,947.926 Mn. during the year 2010 and more than Rs. 6.4 Bn. over the past five years.*

**Economic Value Added**



## POLICY AND PERFORMANCE IN THE ECONOMIC DIMENSION

### Sources and Distribution of Income

The following table portrays 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:

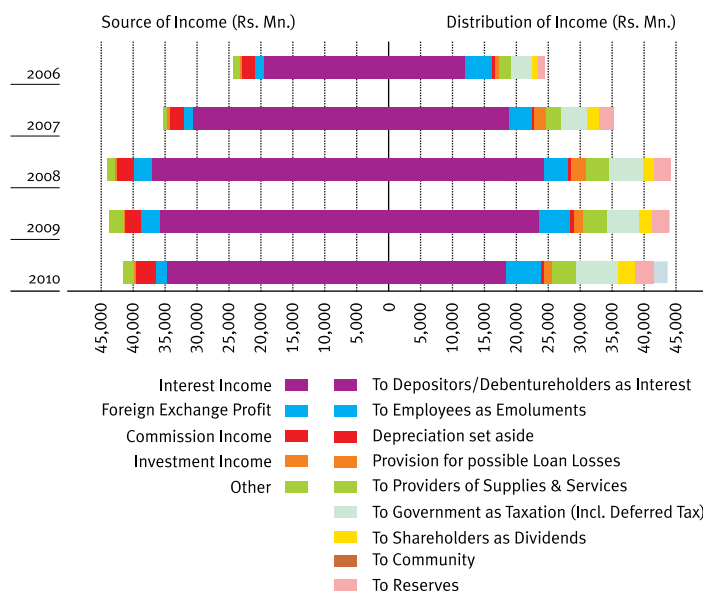
*For the year ended December 31,*

	2010 Rs. Mn.	2009 Rs. Mn.	2008 Rs. Mn.	2007 Rs. Mn.	2006 Rs. Mn.
<b>Source of Income</b>					
Interest Income	34,740	35,925	37,188	30,503	19,532
Foreign Exchange Profit	1,741	2,962	2,633	1,545	1,439
Commission Income	3,220	2,530	2,715	2,383	2,011
Investment Income	207	219	359	310	305
Other	1,614	2,105	1,220	482	1,182
	<b>41,522</b>	<b>43,741</b>	<b>44,115</b>	<b>35,223</b>	<b>24,469</b>

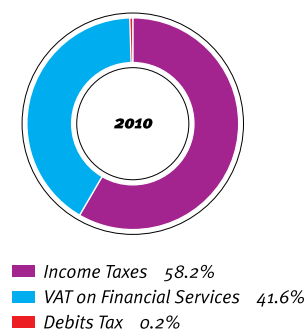
### Distribution of Income

To Depositors/Debtentureholders as Interest	18,328	23,515	24,336	18,951	11,955
To Employees as Emoluments	5,588	5,081	3,926	3,539	4,374
Depreciation set aside	537	506	421	411	376
Provision for Possible Loan Losses	1,192	1,534	2,278	1,777	655
To Providers of Supplies & Services	3,779	3,619	3,511	2,252	1,905
To Government as Taxation (Incl. Deferred Tax)	6,515	5,159	5,352	4,159	3,178
- Income Tax	3,794	2,887	3,252	2,601	2,201
- Value Added Tax on Financial Services	2,709	2,264	2,091	1,552	971
- Debits Tax	12	8	9	6	6
To Shareholders as Dividends	2,642	1,749	1,786	1,856	911
To Community	58	22	23	30	14
To Reserves	2,881	2,556	2,482	2,248	1,101
	<b>41,522</b>	<b>43,741</b>	<b>44,115</b>	<b>35,223</b>	<b>24,469</b>

**Sources and Distribution of Income 2006-2010**



**Contribution to Government**



# ***Lending our Muscle Power to SME and Microfinance Sectors***





## *Lending Financial Support where it's Needed Most*



*The Bank is committed to the development of SMEs and those who benefit from micro financing.*

*We provide Development Loans to micro entrepreneurs and SMEs just as we do to large corporates. These loans are granted mostly to manufacturing and service-oriented businesses to invest in fixed assets and for permanent working capital requirements. However,*

*Development Loans are also granted to wholesale and retail traders for investment in fixed assets. As a Bank with more than three decades of experience in development lending, Commercial Bank possesses the expertise to deliver tailor-made solutions to meet the exact requirements of these entrepreneurs.*

## POLICY AND PERFORMANCE IN THE ECONOMIC DIMENSION

### Value Addition and Distribution

The data tabulated below shows how wealth was generated and 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 its operations.

### Value Addition

	2010		2009	
	Rs. '000	%	Rs. '000	%
<b>Value Added</b>				
Income from Banking Services	40,808,758		42,736,346	
Cost of Services	(21,647,881)		(26,436,480)	
Value Added by Banking Services	19,160,877	102.56	16,299,866	103.35
Non-Banking Income	712,773	3.82	1,004,587	6.37
Loan Losses and Provisions	(1,192,138)	(6.38)	(1,533,698)	(9.72)
	18,681,512	100.00	15,770,755	100.00

### Distribution of Value Added

#### To Employees

Salaries and Other Benefits	5,587,579	29.90	5,080,531	32.22
-----------------------------	-----------	-------	-----------	-------

#### To Providers of Capital

Dividends to Shareholders	2,642,249		1,749,336	
Interest to Debentureholders	374,319		625,759	
	3,016,568	16.15	2,375,095	15.06

#### To Government

Income Tax	3,865,242		2,796,005	
Financial VAT	2,708,918		2,264,116	
Debits Tax	12,176		8,257	
	6,586,336	35.26	5,068,378	32.14

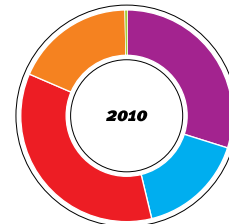
#### To Expansion and Growth

Retained Profit	2,881,044		2,555,653	
Depreciation	622,837		577,808	
Deferred Taxation	(71,142)		90,848	
	3,432,739	18.38	3,224,309	20.44

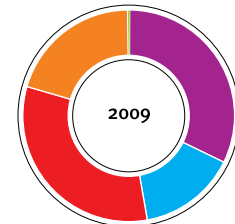
#### To Community Investments

Donations	58,290		22,442	
	58,290	0.31	22,442	0.14
	18,681,512	100.00	15,770,755	100.00

### Distribution of Value Added



To Employees	29.9%
To Providers of Capital	16.1%
To Government	35.3%
To Expansion and Growth	18.4%
To Community	0.3%



To Employees	32.2%
To Providers of Capital	15.1%
To Government	32.1%
To Expansion and Growth	20.4%
To Community	0.2%

The donations shown under community investments include the contribution made by the Bank to its Corporate Social Responsibility Trust (CSR Trust) amounting to Rs. 55 Mn. (Rs. 20.8 Mn. in 2009). A summary of the activities carried out by CSR Trust is given in the forthcoming sections of this Sustainability Supplement.

### Financial Implications and other Risks and Opportunities due to Climate Change (EC2)

Although the Bank is not directly exposed to risks arising from climate changes, any adverse climate conditions could have an impact on the Bank's operations and may result in financial losses to the Bank as it provides financial accommodation to customers engaged in industries/sectors such as agriculture, fisheries and exports, which businesses are highly vulnerable to climate change. The adverse climate changes referred to above could result from the activities of the Bank's clients or actions of others. To mitigate the impact of losses arising from lending, the Bank has set up internal limits for various sectors. A summary of 'Significant Concentration of Credit Risk by Industry' is given in Note 20.6 to the Financial Statements on page 248.

The Bank has pursued a climate change strategy that includes the following commitments.

- Developing products and services that support emissions reductions and helping customers to reduce their environmental impact. Towards achieving this objective, the Bank has to date provided financial assistance to its customers covering areas such as wind power generation projects.
- Encouraging customers to benefit from energy audits to improve the efficiency of their operations which result in emitting lower CO<sub>2</sub> to the environment. In this process, the Bank provides financial accommodation to fund the initial capital outlay of customers.
- The Bank's designated Social and Environmental Co-ordinator who attends various forums involving climate change initiative ensures knowledge acquired is disseminated to the stakeholders, viz-staff and the customers.
- The Bank as a policy only uses energy saving bulbs at all its delivery points and at Head Office. Further, the Bank uses only ISO certified paints when refurbishing its premises.

## POLICY AND PERFORMANCE IN THE ECONOMIC DIMENSION

### Defined Benefit Plans and Defined Contribution Plans (EC3)

The Bank operates/makes contributions to three types of Defined Benefit Plans and three types of Defined Contribution plans for its employees -

#### Defined Benefit Plans

The details of the Defined Benefit Plans are given below:

- An unfunded pension scheme for employees who retired before January 1, 1992 and for those employees who did not have a remaining future service period of 10 years as of that date.

- A funded pension scheme for those employees who did not accept the restructured pension scheme in 2006.
- A retirement gratuity scheme as required by statute.

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 Standard No. 16 (Revised 2006) on 'Employee Benefits' for these valuations. As the Bank is obliged to make good any shortfall on these funds, the Bank duly made arrangements to make provisions/contributions that rose from the actuarial valuations.

More details in this regard are given in 'Note M 9' under the Accounting Policies on Defined Benefit Plans on page 224 and under Notes 8, 31 and 38 to the Financial Statements on pages 231, 261 and 271.

#### Defined Contribution Plans

The details of the Bank's Defined Contribution Plans are as follows:

- A funded Pension Scheme for those employees who accepted the restructured pension scheme in 2006
- Contributions to Employees' Provident Fund (EPF)
- Contributions to Employees' Trust Fund (ETF)

More details in this regard are given in 'Note M 10' under the Accounting Policies for Defined Contribution Plans on page 226 and under Note 8 to the Financial Statements on pages 231.

The assets of all funded schemes are adequate to cover their corresponding liabilities. All employees who join the Bank after January 1, 2002 and are in the permanent cadre of the Bank are eligible to receive gratuity, EPF and ETF only.

#### Financial Assistance from Government (EC 4)

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

Name of the Scheme	Terms and the Donor	Sectors Eligible	No. of Loans Granted as at December 31, 2010	Cumulative Amount of Loans outstanding as at December 31, 2010 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)	8,800	4,405
Govi Sahanaya Scheme (Forward Sales Contract System)	6% interest Subsidy from the Government of Sri Lanka	Agriculture (Cinnamon cultivation)	578	2,683
Agro Livestock Development Loan Scheme	5% - 8% interest Subsidy from the Government of Sri Lanka	Diary farming and crop cultivation	504	62
Krushi Navodaya Programme	8% interest Subsidy from the Government of Sri Lanka	Agriculture	1,443	133
<b>Refinance Schemes</b>				
Kapruka Ayojana Coconut Development Credit Scheme	100% Refinanced by the Government of Sri Lanka	Coconut cultivation and development	208	100
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.	243	1,715
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

## POLICY AND PERFORMANCE IN THE ECONOMIC DIMENSION

Name of the Scheme	Terms and the Donor	Sectors Eligible	No. of Loans Granted as at December 31, 2010	Cumulative Amount of Loans outstanding as at December 31, 2010 Rs. Mn.
Post-Tsunami Recovery Loan Schemes A & B	100% refinanced by the European Investment Bank	Private Sector Enterprises directly and indirectly affected by tsunami	45	1,019
Environmentally Friendly Solutions Fund (E-FRIENDS I) (E FRIENDS I REV)	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	319	2,803
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	247	945
SMILE III	70% refinanced by the Japan Bank for International Cooperation	Construction of Buildings, Purchase of Fixed Assets, Permanent Working Capital Requirements etc.	1,694	6,820
Construction Sector Development Project Credit Scheme	100% refinanced by the Agence Française de Développement (AFD)	Reconstruction relating to post-tsunami	29	223
SREAP Revolving Fund	95% refinanced by the Asian Development Bank	Investments in Fixed Assets	51	37
SAUBAGYA Credit Line	100% refinanced by the Central Bank of Sri Lanka	For Micro Small and Medium Enterprises (MSMEs) other than agriculture (cultivation) Agro livestock, Tea & Fisheries up to a maximum of Rs. 500,000/-.  For disaster affected MSMEs up to a maximum of Rs. 20,000,000/-. Loans for disaster affected enterprises will be considered only to assist the affected MSMEs for resumption of operations of such enterprises.	301	81
KFW Credit Line for North & East	Rs 3,000,000 subjected to maximum of 80% of the proposed project	Purchase of fixed assets Permanent Working capital requirement	128	309
Awakening North	90% Refinanced by the Central Bank of Sri Lanka	Agriculture and micro-finance activities in selected areas	304	55
Resumption of Economic Activities in Eastern Province	100% Refinanced by the Central Bank of Sri Lanka	Agriculture and micro-finance activities in selected areas	24	5
Smallholder Plantation Entrepreneurship Development Programme	80% Refinanced by the Central Bank of Sri Lanka	Agriculture and micro-finance activities in selected areas	52	4

## POLICY AND PERFORMANCE IN THE ECONOMIC DIMENSION

### **The Compensation and Benefit Strategy of the Bank (EC 5)**

The wage policy and regime adopted by 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.

The transparency required of such a sensitive issue is maintained by the Bank fully. The Bank seeks to present meaningful and compelling communication regarding salaries and benefits highlighting the Bank's areas of priority to employees with the intention of motivating them and catalysing behavioural changes where necessary, for mutual benefit. The Bank also provides clear and unambiguous information to all employees explaining the different components of their compensation and how their pay is determined. This includes sharing information on an

employee's variable pay opportunity as well as the salary band, salary structure and merit guidelines, where applicable.

### **Policy, Practice and Proportion of Spending on Locally-Based Suppliers**

The Bank follows a procedure whereby all requirements, whether capital or otherwise, are incorporated in the Budget prepared based on input from branches and Head Office departments, 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. Quotations/tenders are called for, evaluated and purchases made. The process is centrally driven to enjoy economies of scale and other similar advantages.

### **Recruitment Methodology (EC 7)**

As already discussed, this Sustainability Supplement scoped in only the Bank's Sri Lankan operations. All recruitments to corporate management and senior management are made from citizens of Sri Lanka. The staff members in Executive Grade 4 and 5 and are considered as senior management while members of the corporate management consist of staff members promoted from the aforesaid grades or hired from outside.

The next few paragraphs describe the general procedure followed by the Bank when recruiting staff.

Our intake is at two entry levels, where employees join either as Banking Trainees or as Management Trainees. Mid career recruitment takes place only in relation to specialised job positions.

Recruitment is from a centralised location – our Head Office situated in Colombo. Applicants from all over the country visit Colombo for the examinations and/or interviews.

With regard to entry level positions however, the Bank has begun its recruitment search on a regional basis and during 2010, we conducted examinations and interviews in the North and East, particularly in the Jaffna Peninsula, to recruit staff to cater for Branch expansion in those areas.

In relation to placement of employees at various locations of operation, the Bank considers their home town and the distance required to travel by an employee as a consequence thereof before effecting placements/transfers. 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 individual and the experience he/she carries in the required field of work. Hence, these types of recruitments are carried out independent of any geographical concern.

### **Programmes of Public Benefit and their Impacts**

During the year under review, the Bank enhanced its microfinance operations with the objective of improving access to formal financial channels for communities in rural and sparsely populated areas of the country.

Activities such as animal husbandry, post-harvest processing of agricultural products, construction of polytunnels and greenhouses, cultivation of fruits, exotic vegetables, rice milling, purchasing of farm machinery, garment industry, footwear industry, retail businesses and more were financed by the Bank as a part of its microfinancing effort.

**OUR SOCIAL AND ENVIRONMENTAL MANAGEMENT FOOTPRINT**

With the cornerstone of our strategic intent being keeping with the best working standards, we at Commercial Bank decided to build and implement a Social and Environmental Management System (SEMS).

SEMS reviews and manages the social and environmental issues and risks associated with the Bank's investments in a comprehensive manner. The Bank's credit policy encompasses a Social and Environmental Policy, which sustains our position while aiming to be the best both locally and regionally.

As previously discussed, the designated officer, 'Social and Environmental Co-ordinator' supported by his team is responsible for the management and administration of the SEMS.

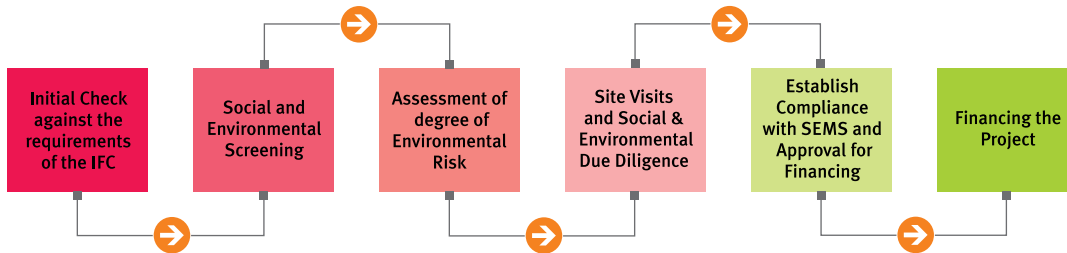
**HOW WE IMPLEMENT "SEMS" AT COMMERCIAL BANK**

SEMS supports the Bank to ensure that effective social and environmental management practices are adopted in all activities undertaken and such activities are consistent with the Applicable Requirements of the International Finance Corporation (IFC).

Effective implementation of SEMS at the Bank is carried out in two phases - initial project approval phase and subsequent project review phase, as illustrated below.

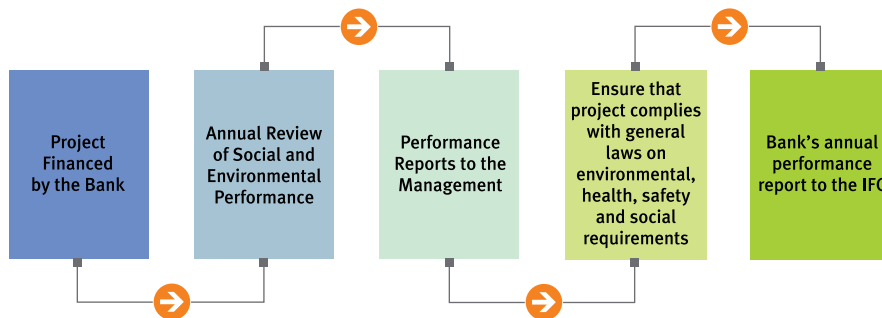
**Phase I : Initial Project Approval**

This phase requires the Bank to carry out rigorous social and environmental evaluation, prior to approving a new facility or renewing an existing facility. Hence, projects are financed only when they are expected to be designed, built, operated and maintained in the manner consistent with the requirements of the SEMS.



**Phase II: Subsequent Project Review**

This phase endorses that the Bank makes best efforts to ensure that all projects are operated in compliance with the requirements of the SEMS.



The Social and Environmental Co-ordinator keeps the management informed through his Annual Performance Report, which is prepared based on the reports of clients, information gathered from due diligence and supervision. The Bank's Annual Environmental Performance Report to International Finance Corporation, one of the major shareholders of the Bank ensures that finances extended by the Bank are complied with the requirements of the said body.

## POLICY AND PERFORMANCE IN THE ENVIRONMENTAL DIMENSION



The main thrust of our strategy and action in the context of ensuring environmental sustainability is to channel our financial services to projects which are environmentally sound.

### Our Policy

We are especially focused on 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

Our goals are -

- To ensure that all projects are reviewed against the stipulated criteria as per SEMS to ensure that all projects financed are designed, built, operated and maintained in compliance with the provisions of SEMS
- Compliance with environmental standards and provisos may not generate direct financial benefits to our clients, though society is benefited. Our goal is to educate clients on the long term benefits that will accrue to us all by complying with measures that enhance environmental sustainability and thus the well-being of their businesses.

### 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 sustainability issues of the Bank's operations and ensures that resources are made available for efficient management of such issues.

The Head of Corporate Finance signs off on the Bank's Annual Environmental Performance Report.

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

### Training and Awareness

The Bank constantly imbues its Social and Environmental Co-ordinator with updated learning, both local and international, on environmental related issues, their impact and management, with a view to enhancing capabilities in ensuring the Bank's enterprise remains fully sustainable.

Our endeavour is to cascade this learning to the wider employee base.

## POLICY AND PERFORMANCE IN THE ENVIRONMENTAL DIMENSION

### Monitoring and Follow Up

Procedures relating to monitoring, corrective and preventive actions are briefly explained in the Section on 'Phase II: Subsequent Project Review' on page 66.

We as signatory to UNGC, ensure the Bank's compliance with the laid-down Environmental Principles.

### Key Performance Indicators - Environmental

#### Material

The Bank's Paper Management System (PMS) ensures that waste paper within the organisation is recycled and reused wherever possible. Due emphasis is paid when instructing staff on the importance of the reuse of used envelopes and paper.

This is augmented by awareness programmes within the organisation with a view to creating a paperless office and reducing excessive printing of documents and e-mails, etc.

#### Energy

Energy conservation and environmentally friendly measures pervade all the Bank's own building projects.

We are using variable air volume units in temperature control and ventilation systems incorporating energy saving features among others.

We also save energy by controlling the air conditioning facilities at our Head Office, limiting usage to normal working hours.

### Water

The Bank's water management initiative attempts to reduce water usage at our Head Office. Our main source being ground water, we are able to save on draw off from the National Water Supply System.

### Emissions, Effluents and Waste

The Bank implements a garbage disposal system to ensure that waste is sorted to facilitate recycling of paper, polythene and organic waste. In this regard, staff are required to segregate waste material as 'Paper', 'Polythene' and 'Bio- degradable Waste' and store these materials in separate, colour-coded garbage disposal bins.

### 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 is instructed to revisit the compliance of these certifications during the annual credit review of such project loans.

### Protecting Ecosystems

As the Bank expands its presence, we ensure that only approved tracts of land are acquired ensuring that our activities do not upset the equilibrium of the eco-sphere and its attendant bio-diversity.

### Advocacy

The Bank, through its provision of loans for environmentally compliant projects, encourages its customers to adopt energy efficient methods in their own businesses.

Advocacy of this nature is further augmented by the training programmes the Bank offers through its E-Friends refinance scheme.

### Compliance (EN 28)

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.

The following Reports included in the Annual Report provides assurance in this regard:

	Page
Annual Report of the Board of Directors	201
Statement of Directors' Responsibility	202
Managing Director's and Chief Financial Officer's Responsibility Statement	203

However, there are pending legal actions initiated against the Bank of which none of them are related to environmental related matters. The Bank did not make any provision for some of these actions filed against the Bank in instances where the Bank is of the view that the possibility of occurrence of a claim is remote as advised by our lawyers. The complete disclosure on 'Litigations against the Bank' is given on Note 37 to the Financial Statements on page 270.

## OUR APPROACH TO SOCIAL PERFORMANCE

At present, the industrial community may not always derive direct benefit from engaging in environmentally friendly projects or management practices, which often can increase their cost base as opposed to a non-compliant operation.

Thus we can see that both from a regulatory as well as an educatory perspective, there remains much to be done to proliferate environmentally friendly and sustainable best practices.

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

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

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

### 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.

# *Prime People Provide Profitability*

*Our skill base drives  
profitability into the future*





*The heart, mind and muscle of our enterprise are provided by our people...the Commercial Bank family.*

*We recognise completely, that a prime proposition such as that offered by the Bank must be driven by highly competent, motivated and innovative people.*

*It is the reason why we provided our 4,123-strong work force with over 100,000 hours of training, to help themselves realise their potential and pursue personal development and productivity, to our mutual advantage.*

*Our employees tend to stay long with us...in fact, the average service of our employees is 8.5 years...our attrition rate for 2009 and 2010 stood at 2.4%...and the Bank was one of 10 Gold Award winners at the HRM Awards ceremony conducted by The Association of Human Resource Professionals.*

## POLICY AND PERFORMANCE IN LABOUR PRACTICES AND DECENT WORK DIMENSION



The Bank's Human Capital Ethos place people at the centre. The Bank considers people as its most valuable asset and the manner in which it has managed its people has been a crucial contributor to its success. The Bank at all times, takes every possible endeavour to ensure a conducive working environment for its employees.

Dealing responsibly with the issues of work life balance of our employees requires a serious, holistic approach. The physical and mental well-being of our staff is important to us, especially considering the stressful effects of the performance driven culture. Effective counselling for needy employees plays a pivotal role in this respect. For us, at Commercial Bank, promoting the well-being of our employees is a long-term investment.

Towards achieving the objective of a healthy work force, the Bank has in place a comprehensive medical insurance scheme for all employees for indoor treatment in addition to re-imbursment of outdoor medical bills at the Bank's expense.

The Bank's recruitment and career development policies provide equal opportunities for all citizens in the country irrespective of their race, religion, caste or gender. All staff recruited are properly inducted through a comprehensive orientation programme prior to their placement and they are further provided with training based on standard training modules in addition to customised programmes as needed. Further, staff are given an opportunity to join an employee association of their choice. These employee associations bring the voice of their members before the management at various forums.

Our annual event calendar includes special gatherings, viz; Sports Tournaments, Children's Parties, Outward Bound Training, Quiz Programmes, Staff Conferences and other social events that nurture labour-management relations.

### Our Policy

Commercial Bank espouses the 'equal opportunity' approach which is applied without reserve across every aspect of operation, which then leads to a highly motivated employee base.

### 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 is passionate about what

they do. Thus our 'optimal team' initiates, directs and synergises their common creativity towards achieving continuous excellence and greater levels of customer convenience.

In this process, the Bank enacts the UNGC Principles on Labour Practice as a base from which we constantly explore further enhancement of our human capital.

### Organisational Responsibility

The Bank's HR function is headed by the Deputy General Manager - Human Resources, a member of Corporate Management. He is assisted by three senior managers on aspects related to Human Resource Management and Human Resource Development.

## POLICY AND PERFORMANCE IN LABOUR PRACTICES AND DECENT WORK DIMENSION

### 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 ahead effectively and with dignity. Towards this objective, the staff of the HR Department are regularly trained on current procedures relating to labour laws and regulations. They guide the other members of staff who need their assistance.

### Monitoring and Follow up

At the beginning of each calendar year, the Staff Development Centre (SDC) of the Bank carries out a training requirement analysis for staff at all levels on a need basis.

The SDC subsequently monitors the participation of nominees and obtains feedback, which is used for future improvements and identifying new training needs to cater to the changing needs of the business environment.

### KEY PERFORMANCE INDICATORS - LABOUR PRACTICES AND DECENT WORK

#### Information on Our Human Asset

#### Total by Employment Type, Contract and Region (LA 1)

The tables and graphs that follow profile the Bank's total work force by employment type, contract and region of service.

The table and graph below depict the growth in number of employees during 2010 in comparison with 2009, which show the increased efficiency and productivity of human capital of the Bank.

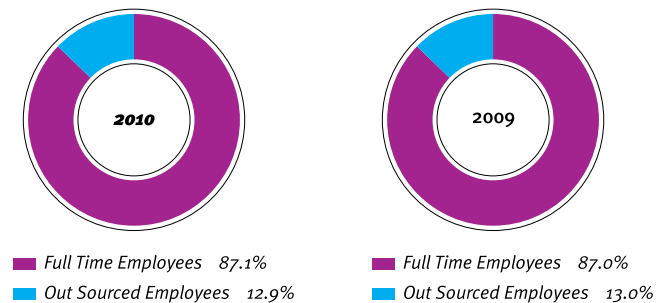
### Status of Employees - Full-time, Part-time & Outsourced

The Bank did not obtain the service of part-time employees during 2010 and 2009.

Percentage of full time employees Vs outsourced employees remained unchanged over the preceding year though the number grew reasonably as portrayed below:

Type of Employee	No. of Employees		Composition of Employees	
	2010	2009	2010	2009
Full-Time Employees	4,123	3,862	87.1%	87.0%
Outsourced Employees	611	577	12.9%	13.0%
<b>Total</b>	<b>4,734</b>	<b>4,439</b>	<b>100.0%</b>	<b>100.0%</b>

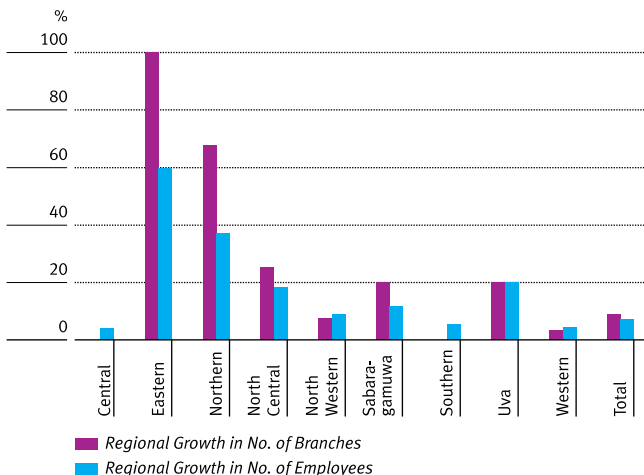
#### Composition of Employees by Type



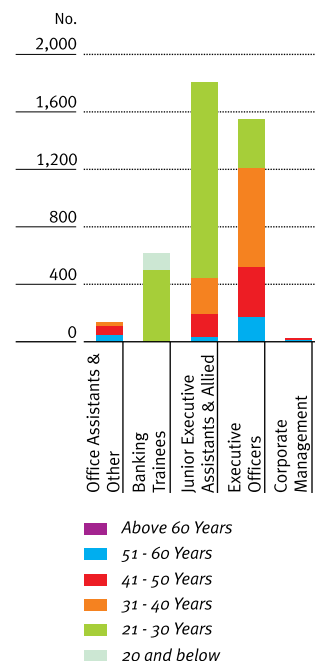
### Provincial and Branch-wise Breakdown of Human Capital

Province	2010		2009		Annual Regional Growth Percentage	
	No. of Branches	No. of Employees	No. of Branches	No. of Employees	No. of Branches	No. of Employees
Central	16	267	16	257	0.0	3.9
Eastern	6	83	3	52	100.0	59.6
Northern	10	148	6	108	67.7	37.0
North-Central	5	78	4	66	25.0	18.2
North-Western	14	220	13	202	7.7	8.9
Sabaragamuwa	12	153	10	137	20.0	11.7
Southern	20	307	20	291	0.0	5.5
Uva	6	72	5	60	20.0	20.0
Western	98	2,795	95	2,679	3.2	4.3
<b>Total</b>	<b>187</b>	<b>4,123</b>	<b>172</b>	<b>3,852</b>	<b>8.7</b>	<b>7.0</b>

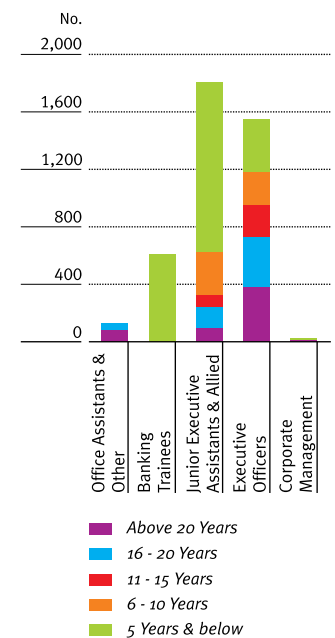
### Growth in No. of Branches & Employees 2009 vs 2010



### Age Analysis of Employees



### Service Analysis of Employees

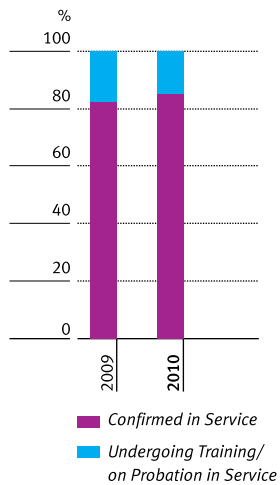


## POLICY AND PERFORMANCE IN LABOUR PRACTICES AND DECENT WORK DIMENSION

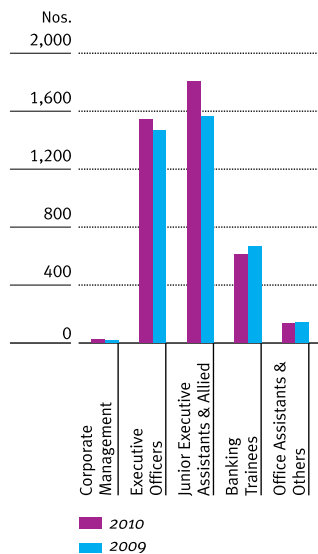
Status of Employees - Contract  
Employees confirmed in service in 2010 increased both in number and percentage terms attributable to the steady growth during the period under review.

Status of Full Time Employment	No. of Employees		Percentage of Employees by Type	
	2010	2009	2010	2009
Confirmed in Service	3,504	3,179	85.0	82.3
Undergoing Training/on Probation in Service	619	683	15.0	17.7
<b>Total</b>	<b>4,123</b>	<b>3862</b>	<b>100.0</b>	<b>100.0</b>

### Employment Status 2009 & 2010



### Employee Hierarchy by Category 2009 & 2010



### Employee Hierarchy by Category

Category	2010		2009	
	No. of Employees	Percentage	No. of Employees	Percentage
Corporate Management	24	0.6	21	0.5
Executive Officers	1,545	37.5	1,470	38.1
Junior Executive Assistants & Allied	1,808	43.9	1,563	40.5
Banking Trainees	611	14.8	668	17.3
Office Assistants & Others	135	3.2	140	3.6
<b>Total</b>	<b>4,123</b>	<b>100.0</b>	<b>3,862</b>	<b>100.0</b>

In 2010, corporate management comprised less than 1% of the total staff, reporting 24 in number, while Executive Officers including senior management and Junior Executive Officers accounted for 37%. The balance 62% represented junior executive assistants, banking trainees and office assistant grades. The number of employees of all grades, except banking trainees, increased over the previous year with the expansion of branch operations. The decrease in the number of banking trainees is due to the absorption of a group of trainees to the junior executive assistant grade in 2010.

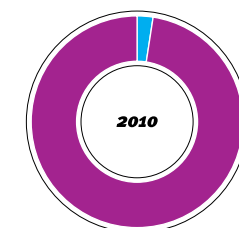
### Employee Attrition (LA 2)

There were 99 resignations from service during the year under review. Details of staff turnover by Age, Gender and Region of service are tabulated below:

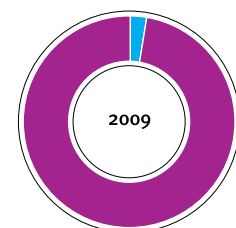
### Total number and percentage of employee attrition by age group

Age Group	No. of Employees Resigned		Percentage of Employee Attrition	
	2010	2009	2010	2009
51-60 years	10	6	0.2	0.2
41-50 years	9	8	0.2	0.2
31-40 years	22	16	0.5	0.4
21-30 years	55	60	1.3	1.6
20 years and below	3	1	0.1	0.0
<b>Total</b>	<b>99</b>	<b>91</b>	<b>2.4</b>	<b>2.4</b>

### Percentage of Staff Turnover



Percentage of Staff Retention 97.6%  
Percentage of Staff Turnover 2.4%



Percentage of Staff Retention 97.6%  
Percentage of Staff Turnover 2.4%

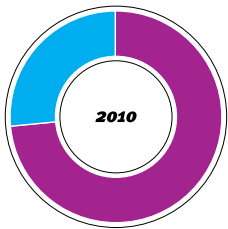
## POLICY AND PERFORMANCE IN LABOUR PRACTICES AND DECENT WORK DIMENSION

Employee attrition of the Sri Lankan Operation of the Bank remained stable at a mere 2.4% over the past two years amidst improved employment opportunities present in the country, depicting the loyalty and confidence, staff have in the Bank.

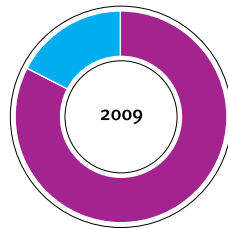
Gender-wise Employee Turnover is presented below:

Gender	Gender-Wise Resignations		Gender-Wise Percentage of Attrition	
	2010	2009	2010	2009
Male	73	75	73.7	82.4
Female	26	16	26.3	17.6
<b>Total</b>	<b>99</b>	<b>91</b>	<b>100.0</b>	<b>100.0</b>

### Gender-Wise Employee Attrition



Male 73.7%  
Female 26.3%



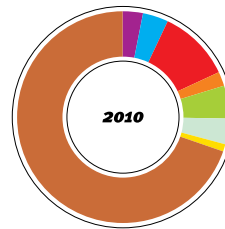
Male 82.4%  
Female 17.6%

Region-wise employee turnover depicted below indicates the highest employee turnover reported was from the Western Province for both years whilst the lowest employee turnover reported was from Southern Province in 2010 and Eastern Province in 2009. The reason for the Western Province

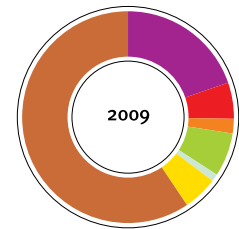
to record the highest attrition rate was due to higher percentage of our branches and employees being positioned in this province.

Province	No. of Employees Resigned		Percentage of Employees Resigned	
	2010	2009	2010	2009
Central	3	18	3.0	19.8
Eastern	4	0	4.0	0.0
Northern	11	5	11.1	5.5
North-Central	2	2	2.0	2.2
North-Western	5	6	5.1	6.6
Sabaragamuwa	4	1	4.1	1.1
Southern	1	5	1.0	5.5
Western	69	54	69.7	59.3
<b>Total</b>	<b>99</b>	<b>91</b>	<b>100.0</b>	<b>100.0</b>

### No. of Employees Resigned by Region



Central 3.0%  
Eastern 4.0%  
Northern 11.1%  
North Central 2.0%  
North Western 5.1%  
Sabaragamuwa 4.1%  
Southern 1.0%  
Western 69.7%



Central 19.8%  
Eastern 0.0%  
Northern 5.5%  
North Central 2.2%  
North Western 6.6%  
Sabaragamuwa 1.1%  
Southern 5.5%  
Western 59.3%

## POLICY AND PERFORMANCE IN LABOUR PRACTICES AND DECENT WORK DIMENSION

### Benefits to Full Time Staff (LA 3)

Full time employees in our confirmed cadre enjoy a wide range of benefits.

Some of these facilities are -

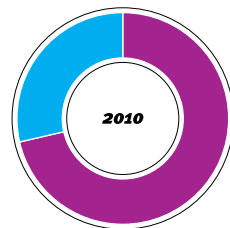
- Performance-related bonus and/or bonus under the collective bargaining agreement
- Fuel allowance for Executive cadre and transport allowances for non-executive cadre
- Staff quarters and holiday bungalows
- A Private Provident Fund administered by a Board of Trustees
- In addition to EPF, the employees who were entitled to a pension at the time of joining are now entitled to an alternate terminal benefit plan where they would receive a lump sum as terminal benefits.
- A comprehensive Death Gratuity Scheme.
- Personal Accident Insurance Cover
- A comprehensive Medical Scheme
- Special health insurance cover for critical illnesses
- Staff loan schemes (at concessionary interest rates)
- Professional association subscription/honorarium payments

### Labour/Management Relations Employees covered by Collective Bargaining Agreements (LA 4)

The following table illustrates that 2,946 or 71.45% of the total cadre are covered by Collective Agreements.

Name of Employee Association	No. of Employees	Percentage of Employees
Ceylon Bank Employees' Union	2,608	63.3
Commercial Bank Executive Association	338	8.2
<b>Total</b>	<b>2,946</b>	<b>71.5</b>

### Employees Covered by Unions



■ Covered by Unions 71.5%  
■ Not Covered by Unions 28.5%

Coverage of employee associations improved to 71.5% in 2010 from 61.8% in 2009.

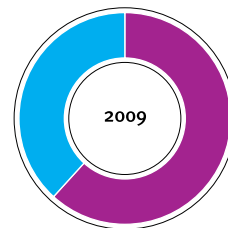
### Minimum Notice for Operational Change Implementation (LA 5)

There is no time frame specified under the Collective Agreements pertaining to advance notice on anticipated operational changes.

All change management issues have been implemented after consultation with Focus Groups and Employee Associations. This process helps establish mutual understanding and contributes to the transparency of the organisation.

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

The Bank's Security Department has made arrangements to identify staff from each business/service unit of the Bank and provides them with



■ Covered by Unions 61.8%  
■ Not covered by Unions 38.2%

comprehensive training as to how to act in an emergency such as fire, burglary, air raid, explosion, etc. In addition, fire drills are carried out annually at the Bank's Head Office and Union Place premises. Further, subsequent feedback session followed by formal e-mail communication is provided to all staff of the Bank on the lapses observed with recommended action plans to be adhered to in an emergency situation. In addition, the Intranet site of the Security Department of the Bank has laid down procedures to be followed in a situation of this nature. Staff at all levels have access to the intranet site of the Security Department. All buildings of the Bank are provided with smoke detectors and fire extinguishers together with operating and evacuating instructions. Further, the Bank takes every effort to ensure that the working environment of the Bank is conducive and free from hazardous substance.

### Illnesses, Injuries, Lost Days and Absenteeism (LA 7)

For the year 2010, the Bank recorded zero levels for injury rates, occupational diseases, lost days and work-related fatalities.

The Bank's absentee rate for the year stood at 0.04% and this was computed, based on calendar days. There were no work-related fatalities reported during 2010.

### Education and Risk Control on Health Issues

The Bank keeps track of such risk commencing from the point of intake, where extensive medical screening of employees occurs. Thereafter, a regular medical regime tracks and monitors staff health standards, including due compensatory consideration for those in high risk, high stress areas of employment.

In instances generating high levels of stress and trauma, 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 within Agreements with Employee Bodies (LA 9)

The Bank's ongoing Collective Agreements with employees comprehensively cover full details of agreed upon Medical Schemes and other Safety topics.

POLICY AND PERFORMANCE IN LABOUR PRACTICES AND DECENT WORK DIMENSION

**Career Development Review (LA 12)**

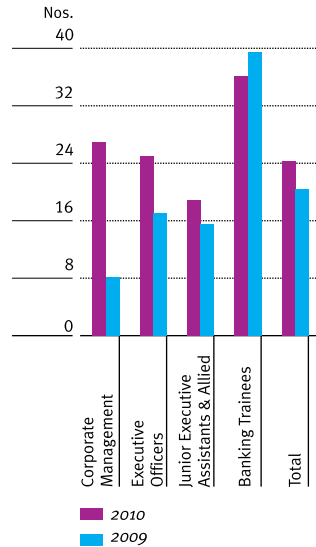
All employees of the Bank received formal performance and career development reviews during 2010. Annual performance reviews and the reviews conducted upon completion of probationary periods, help the Bank in identifying and enhancing the salient skills and developing them as needed.

**Training and Education**

**Average hours of training by employee category (LA 10)**

The Bank offers comprehensive training opportunities for staff at all grades to equip and improve themselves in the pursuit of mutual goals of self-improvement and productivity. The chart below provides details.

**Average Hours of Training per Employee**

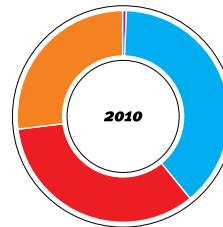


Employee Category	Average Hours of Training per Employee	
	2010	2009
Corporate Management	26.88	8.10
Executive Officers	24.99	17.15
Junior Executive Assistants and Allied	18.85	15.64
Banking Trainees	36.23	39.39
<b>Total</b>	<b>24.34</b>	<b>20.45</b>

Details of total training hours provided for employees of the Bank during the year are as follows.

Employee Category	Man Hours
Corporate Management	645
Executive Officers	38,613
Junior Executive Assistants & Allied	34,073
Banking Trainees	27,030
<b>Total</b>	<b>100,361</b>

**Training for Each Employee Category**



- Corporate Management 0.6%
- Executive Officers 38.5%
- Junior Executive Assistants & Allied 34.0%
- Banking Trainees 26.9%

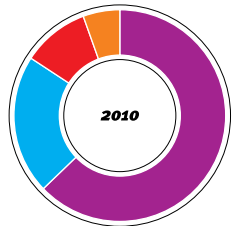
Evidencing our appetite to provide continuous training to ensure staff development, it is pertinent to mention that the Bank's employees have spent 100,361 hours of training in total on various knowledge building training and development sessions during the year, averaging to 24.34 hours of training per employee. By further reinforcing the learning culture, it is the Bank's intention to increase the number of hours of training for its employees in the future.

## POLICY AND PERFORMANCE IN LABOUR PRACTICES AND DECENT WORK DIMENSION

### Training to support continued employability (LA 11)

Training Category	No. of Programmes	Man Hours
Technical	223	75,365
Soft Skills	76	15,500
Overseas	36	1,793
Outsourced	20	7,703
<b>Total</b>	<b>355</b>	<b>100,361</b>

### Training Programmes by Types



- Technical 62.8%
- Soft Skills 21.4%
- Overseas 10.2%
- Outsourced 5.6%

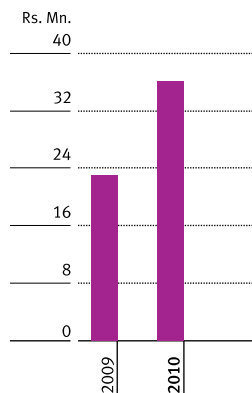
The above demonstrate the training hours segmented by training type such as technical knowhow, soft skill development, etc. These training programmes facilitate the performance driven culture of the Bank which demands an effective talent pipeline, a focal point for career enhancement of our employee asset.

### Our investment on training

To support the staff development process, we raised our expenditure on training by more than 50% during the year under review in comparison to the prior year. Our intensive efforts to improve customer experience across all business units also include

additional training in important aspects of the customer dialogue. The Bank intends to capitalise more on this long term investment to sustain its competitive edge.

### Comparison of Training Cost



### Developing the Learning Initiative

The Bank's Staff Development Centre (SDC) initiated diverse knowledge building initiatives throughout the year under review. Here are some of them:

### E-learning roll out

Having designed 15 e-learning programmes and completed the initial development phase of the system, the SDC began to roll out e-learning courses targeting mainly Banking Trainees (BTs) during the 4th quarter of 2010.

Selected programmes have been conducted for 117 such Trainees, making it a total of 468 man-hours for the year. All courses were conducted for groups of BTs in the training labs at SDC. New programmes and existing courses are being updated on an on going basis. Identified E-learning centres will be set up in the coming year (by region) to ensure greater accessibility to programmes on a regular basis for all staff, thereby ensuring that the e-learning scheme is meaningfully practised throughout the Bank.

### Cross selling programmes

A pilot project was conducted targeting 10 selected branches, to promote cross-selling skills amongst staff. This was accomplished through the concept of introducing a "Relationship Officer" to each branch and the conduct of selected training programmes.

Currently, the SDC's support consists of rolling out courses on product knowledge and selling skills, as well as focusing on customer service programmes for staff across the branch network.

In order to establish sustainability of the project and to monitor its impact on our business, a project steering committee is scheduled to be appointed in 2011 to drive this initiative.

### Introduction of structured credit-based training

Specialised credit modules are being developed to cover all staff involved in credit operations in both Personal and Corporate Banking. Such programmes have been designed as modules by a committee of resource persons and will be rolled out branch-wide from 2011 onwards.

### Competency analysis for Executive Officer grades

Having done a competency analysis for all BTs, Junior Executive Assistants and Junior Executive Officers in 2009, the SDC initiated a competency analysis for all Assistant Managers and Credit Officers serving at our branches. Twelve work-related competencies have been identified and staff skill levels have been assessed for each category. Suitable training programmes will follow soon.

### Leadership Development Programme (LDP)

The LDP designed by corporate consultants Hewitt Associates, was initiated at the beginning of 2010, for the members of our Cross Functional Teams (CFT). The programmes covered aspects of personal leadership development.

## POLICY AND PERFORMANCE IN LABOUR PRACTICES AND DECENT WORK DIMENSION

The programme will continue in 2011. A structured curriculum would be established thereafter and a formulated scheme would be introduced to build the general managerial skills of CFT / middle management levels.

### Roll out of lending guideline programmes

With the compilation of the Bank's Lending Guidelines, the SDC together with the Integrated Risk Management Unit rolled out a branch-wide programme targeting Credit Officers and Managers across the network to help introduce and foster familiarity with the new Guidelines.

### Articles from the Harvard Business Review (HBR) on the intranet

As part of a knowledge building initiative, the SDC posts selected HBR articles for reference on the Bank's intranet.

### Publishing of the internal newsletter

The quarterly newsletter "COMPULSE" continues to be published by the SDC as a knowledge management initiative.

### Learning Resource Enlargement

During the year under review, a significant effort was made to strengthen the Bank's libraries. Our 'Central Library' at Head Office offers a collection of 7,256 books on a wide range of topics whilst subscribing to 6 foreign Journals and 11 periodicals. At the end of 2010, 148 branch libraries were in operation.

### On-the-job Training

An on-the-job training system is being developed for staff in Personal Banking. Initial training opportunities will be made available for specialised areas.

### Improving the Resource Pool

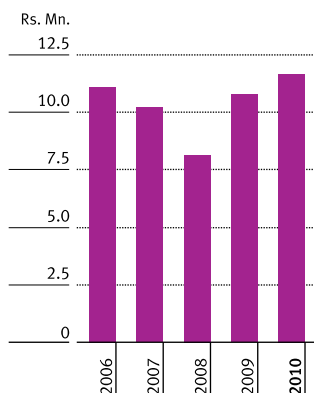
A comprehensive 'Train the Trainer programme' will be conducted to develop our internal training panel. The development of such resource persons would be tracked by the SDC.

### Diversity and Equal Opportunity

#### Ratio of basic salary of men to women by employee category (LA 14)

Category	Ratio of basic salary Men to Women
Corporate Management	1:0.58
Executive Officers	1:0.96
Junior Executive Assistants and Allied	1:1.11
Banking Trainees	1:1.02
Office Assistants and Others	No female office assistants are employed by the Bank

### Value of Human Capital per Employee - 2006 to 2010



### Human Resource Accounting

**The Value of Our Human capital is estimated to be Rs. 50.520 Bn.\***

The Lev and Schwartz model has been used to compute the value of the Bank's human capital as at December 31, 2010.

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 5% - 8% on average.	Total future remuneration of all the employees for each year is discounted to the present value at 10.49%, the 12 months weighted average Treasury Bill rate plus 2% for the risk premium.
--	---	--	--

\* This value was computed by the Bank, based on the above assumptions.

## POLICY AND PERFORMANCE IN HUMAN RIGHTS DIMENSION



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

- Freedom of association and the right to collective bargaining
- The elimination of all forms of compulsory labour;
- The effective abolition of child labour; and
- 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 our business and culture.

### Our Policy

Commercial Bank is committed to safeguarding the human rights of all employees and will not subscribe to or undertake any activity that could lead to the suppression of said human rights.

### Goals and Performance

The Bank enshrines human rights values and practices in all its operations. We shun aberrations such as forced/compulsory labour, discrimination and sexual harassment

and abide by best practice governing aspects such as minimum working age limits, working hours, health and safety in the work place and collective bargaining principles.

### Organisational Responsibility

Operational responsibility in respect of the Human Rights regime of the Bank is vested with the Deputy General Manager - Human Resources Management who is a member of the Corporate Management.

### Training and Awareness

The staff attached to our Human Resource Management Division undergoes periodic training on matters related to Human Rights who guide the other members of the staff when the need arises.

### Monitoring and Follow Up

The Bank has signed formal 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, the Bank's Internal Audit Department too undertakes periodic checks to ensure that the Bank follows the procedure laid down.

### Key Performance Indicators - Human Rights

#### Incidence of Discrimination (HR 4)

The Bank's strict adherence to Human Rights best practice as enshrined by the United Nations and the ILO and our own strong ethical grounding have ensured that to date the Bank has not recorded any incidents of discrimination.

## POLICY AND PERFORMANCE IN HUMAN RIGHTS DIMENSION

### **Safeguarding Rights - Freedom of Association/Collective Bargaining (HR 5)**

In furtherance of Convention No 98 of the International Labour Organisation on the 'right to organise and collective bargaining' and Principle 3 of the Global Compact which reads "Business should uphold freedom of association and the effective recognition of the right to Collective Bargaining", the Bank has afforded recognition to the two employee organisations established by the staff of the Bank and is engaging in Collective Bargaining with them. In doing so, the Bank also acknowledges that the 'right to organise' and the 'right to form and join a trade union' are fundamental rights granted to all citizens by the Constitution of Sri Lanka.

### **Child/Compulsory Labour (HR 6 & HR 7)**

At the Bank, all employees are voluntary and are engaged out of free will. The minimum age for employment is 18 years.

Going further, the Bank's outsourcing Agreement with labour contractors requires that the Agency providing services/personnel to the Bank shall not engage/supply persons who are under the age of 18 years and as a condition to doing business with the Bank, must not employ or supply underaged persons in their enterprise even in their business dealings with other external parties.

### **Security and Human Rights (HR 8)**

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 Manager - Security, periodically verifies the awareness of these security officers on the above practices to ensure that they are fully aware of the requirements.

In addition, during the year under review, 18% of our employees received training on security aspects, inclusive of IT security information.

## POLICY AND PERFORMANCE IN SOCIETY DIMENSION



The Bank accepts that it has responsibilities and commitments towards enabling and protecting the well-being and sustainable growth of all stakeholder groups that comprise society.

The Bank continues to be vigilant on risks related to corruption and anti-competitive behaviour. Further, it contributes to 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 set up its 'Commercial Bank Social

Responsibility Trust' (CSR Trust) 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 them 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.

### Goals and Performance

The goal of the Bank's CSR Trust 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 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 CSR Trust provides the required financial assistance for most of the CSR activities of the 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 Trust and in 2010, the Bank contributed Rs. 55.0 Mn. the highest since the inception of the Trust, making the total contributions to exceed Rs. 160.0 Mn.

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

### Organisational Responsibility

The Chairman of the Bank as the Head of the CSR Trust has overall responsibility for the Bank's commitments to society.

### 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/es or the Department/s. Once the project is completed, the originators submit a report of financials along with estimates, quotation and invoices

## POLICY AND PERFORMANCE IN SOCIETY DIMENSION

of the suppliers to the CSR Trust, which then reimburses the respective Branch/Department, having reviewed the relevant documentation.

### **Key Performance Indicators - Society** **The Effectiveness of our Community Oriented Programmes (SO 1)**

The Bank readily extended its support for a number of projects from all over the island, where the prime objective was to directly/indirectly benefit often impoverished segments of the population.

The enactment of these programmes was largely accomplished through the Bank's CSR Trust.

Here is a synopsis of our efforts in 2010:

#### **Education**

Through its CSR Trust, the Bank has extended substantial support in the field of education to a wide range of recipients such as schools, universities, vocational training centres and charitable establishments.

Here are some of our initiatives during the year under review.

Initiatives that targeted universities and undergraduates include the Bank's 'Sarasaviyata Nawa Saviyak' – which presents scholarships to needy undergraduates as an integral part of the Bank's drive to support the higher education of the future generation of the country. This is an annual bestowal to 25 recipients each year. Recipients were selected from the Medical faculties of the Universities of Peradeniya, Jaffna and Ruhuna and the Management faculties of the Universities of Colombo and Jayawardenapura.

Also, the Department of Geography of the University of Jaffna introduced a Geographical Information System (GIS) to facilitate more advanced studies in this area. They were short of the required complement of computers for this unit – a call to which the Bank readily responded with a commitment to fund 5 PCs with UPS systems.

In like manner, we assisted many schools and institutes this year too.

The J/Arunodhaya College, Jaffna, which is situated close to our Branch at Chunnakam has a distinguished record in athletics but was lacking required equipment. The Bank made arrangements to donate Pole Vaulting equipment and Exercise equipment to the school.

The Bank's CSR Trust rendered its assistance in the setting up of an IT Lab at the Godawanagoda Junior School, Tangalle and a Library Project at Maris Stella College, Negombo.

St Joseph's School for the Deaf, Ragama required assistance in setting up a proper Science Laboratory. Considering the yeoman service this institution makes in empowering the handicapped, our CSR Trust made a donation to meet a substantial portion of the expenses in this regard.

We also helped to upgrade the IT Centre and Junior School of the Udawela Village, Kuliypitiya.

The Gamini Dissanayake Foundation runs the Gamini Dissanayake Institute of Technical and Vocational Studies, which conducts study courses for children from underprivileged families.

The Institute proposed to introduce a Diploma in Pre-school Teacher Training in August 2010 with an initial intake of 200. We considered

it a worthy cause for assistance and thus made a donation towards its successful implementation.

We received a request from the John Paul II Centre for English and IT Educational Studies, to help upgrade their IT training facilities. The Centre lacked infrastructure and resorted to hiring computers, often old and outdated machines, from a nearby vendor. The Bank responded by donating 10 PCs with UPS systems and 1 Duplo Printer, which will set the Centre on course as desired.

One of our long running programmes via the CSR Trust has been that involving the Peter Weerasekera Children's Home. The Home required to engage the services of an IT Trainer and English teacher, to which the Bank responded by agreeing to fund this initiative within stipulated monetary limits.

#### **Healthcare**

The Bank donated a Defibrillator to the Marawila Base Hospital's Cardiology Unit and a CTG machine to the Kuliypitiya Base Hospital, plus an Air Conditioning unit to the Base Hospital, Chavakachcheri and 10 beds for the Intensive Care Unit of the Batticaloa Teaching Hospital.

The Jaffna Teaching Hospital is located almost directly opposite our branch office. With the return of peace, the hospital has undertaken a major project to repair and renovate the facilities which have fallen into disrepair.

The Japanese Government has extended assistance to help the Hospital construct new sections and renovate some existing Wards.

Under this programme, The Bank has donated substantial monetary

assistance to meet the cost of tiling the floor (5,200 sq. ft.) and the walls (4,100 sq. ft.) of Ward No. 09 which consists of 39 Beds.

The Kethumathie Maternity Hospital is the specialised Maternity and Baby Care Unit of the Panadura Base Hospital. It has been affected by the scarcity of specialised medical equipment. In response to this need, the Bank donated 3 Incubators and 2 Photo Therapy Units.

We also constructed a Rest Room at the Teaching Hospital, Kurunegala in answer to their need for a suitable waiting area for the families of expectant mothers, warded at their Maternity unit.

We have also donated a Racking System to the Teaching Hospital, Karapitiya, which will be instrumental in the Hospital's endeavours to adopt its own 5S regime.

The Bank came to the assistance of the Nuwara Eliya General Hospital by donating urgently needed equipment - a Suction Unit, a Pulse Oximeter and an Outdoor First Aid Tent.

#### **Social Upliftment**

The Bank answered the need for a mode of transport for the Sri Paramananda Children's and Elders Home in Nelliady, Jaffna by donating a three-wheeler.

#### **Village Development Programme**

In 2010, the Bank adopted a village in the Mathugama area called "Sandasirigama" as a candidate for our village development initiatives.

It is situated approximately 7 km from the Mathugama town and has a population of 104 families, a majority of whom are either estate employees or daily wage labourers.

## POLICY AND PERFORMANCE IN SOCIETY DIMENSION

This project was supervised jointly by the Development Credit Department and the Bank's Mathugama Branch, and to date they have been able to accomplish the following:

1. Upgrade the living standards of the village population, by arranging various educational/capacity building programmes for different categories. (eg. Housewives, school leavers, school children, etc.)
2. Develop infrastructure facilities in the village.
3. Improve the village economy by granting 43 loans for tea smallholders through the society of the village. A feature of the people's commitment has been the evidence of prompt repayment on their loans.

The only school in the village namely Galdeniyakanda Primary School has only 29 students and 4 teachers. It has been rated as one of 7 schools situated in the most difficult locations within the Mathugama Educational Zone. There is only one building in the

school which is barely adequate to accommodate the number of students at present.

The Trust has helped the school by refurbishing its furniture, setting up an IT training unit for both students and school leavers of the village, providing articles of clothing to those students in need of them and constructing a shrine room.

The village also runs a pre-school which presently has 12 students. Here too, the Bank stepped in to assist by renovating and refurbishing buildings and furniture, making structural additions for the school's security and providing school shoes for the students.

### Guarding against Reputational Risk (SO 3)

Being constantly vigilant to such a threat and manifesting a strong anti-corruption ethos is a key plus point for the Bank vis-à-vis society at large.

In this context, for the year under review, 25.71% of all staff were trained in the Bank's anti-corruption policies and procedures. Details of the training are given below:

Name of the Programme	No. of Participants	Man Hours
Orientation Programmes including Sessions on Know Your Customer	862	1,451
Management Development Programmes on ICBS Security and Information Systems Audit	38	76
Management Development Programmes on Anti-money Laundering	38	76
Management Development Programmes on Printout Audit	38	67
Workshop on Improving Processes of Inspection Department	34	816
Seminar on Counterfeit Detection	25	50
External Training Programmes	25	446
<b>Total</b>	<b>1,060</b>	<b>2,982</b>

### Public Policy (SO 6)

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

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

### Anti-Competitive Behaviour and Compliance (SO 7 & SO 8)

The Bank did not encounter any legal actions for anti-competitive behaviour, anti-trust and monopoly practices during 2010. Further, the Bank always obtains necessary local authority approvals and strictly adheres to the laid down rules and regulations on display materials, audio/video material, branding among other factors when conducting marketing/sales promotional activities.

The Bank has not been subject to any fines or sanctions as we have never been in breach of laws and regulations in this context.



Annual Blood Donation Campaign at the Bank's Head Office



Assisting St. Joseph's School for the Deaf to set up a science laboratory



Donation of a three-wheeler to Paramananda Children's and Elder's Home in Nelliady



Donation of a Defibrillator to the Cardiology Unit, Marawila Base Hospital

## POLICY AND PERFORMANCE IN PRODUCT RESPONSIBILITY DIMENSION



The Bank views Product Responsibility as a *sine qua non* for truly sustainable growth of both the Bank and society.

Thus, our products are adequately and clearly offered and explained, branded and defined and directed to sectors of the public, based on customer requirements and the Bank's own premise of exceeding customer expectations.

As reported earlier, the Bank always obtains necessary local authority approvals and strictly adheres to the laid down rules and regulations on display materials, audio/video material, branding among other factors when conducting marketing/sales promotional activities.

All of this is accomplished within the strictest of moral, ethical and legal bounds.

### Our Policy

The Bank takes due cognisance of product responsibility and exercises 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 an extensive portfolio of products and services covering a wide spectrum of banking needs of a diverse customer base. We have pioneered several products and services consequent to identifying unique needs of customers.

One of the key strategic drivers in this area is the objective of enhancing customer convenience while ensuring customer privacy and compliance with laws and regulations.

The Bank has an array of delivery channels capable of reaching far and wide, often catering to customers at their doorstep.

When marketing deposit products, the Bank takes utmost care in maintaining transparency with regard to interest rates and other covenants. The Bank also invests heavily in state-of-the-art technology towards enhancing customer convenience in the pathway to meeting our aspirations stated in the mission statement.

### Organisational Responsibility

The Chief Operating Officer (COO), who is also an Executive Director of the Bank, is in overall charge of Product and Service Responsibility.

He is assisted by two Senior Deputy General Managers who are in charge of the Corporate Banking and Personal Banking, the two broad arms of our banking portfolio.

An addition to this team was made with the recruitment of a Marketing Consultant to further hone our efforts.

### Training and Awareness

The Staff Development Centre of the Bank regularly trains front line staff to educate and raise awareness of product features and customer delightment. Training is also imparted on refinance schemes.

## POLICY AND PERFORMANCE IN PRODUCT RESPONSIBILITY DIMENSION

In addition, operational and administrative information are communicated to employees through internal circulars on a regular basis. The staff of the Bank is provided with access to such circulars displayed in the Bank's Intranet.

Further, awareness of the Bank's products is verified by way of internal examinations and interviews carried out when staff at the junior levels are being considered for promotion.

### 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 who return to normal repayment patterns; and reasonability of terms and conditions attached to our 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.

### Key Performance Indicators - Product Responsibility

#### Product/ Service Information and Labelling (PR 4)

The Bank ensures that when designing products and labels such as logos, advertisements and other material, we do not lay ourselves open to become embroiled in copyright issues or misleading the customer, by following competitor branding/advertising too closely.

The Bank also ensures that it registers all product logos with National Intellectual Property Authorities of Sri Lanka, in order to retain the rights of such properties with the Bank.

All product information needed by the customer to make an informed judgment regarding the purchase or utilisation of a Bank product or service is provided to the customers through advertisements, information leaflets, terms and conditions and any other relevant document.

The Bank also complies with the rulings of the Central Bank of Sri Lanka in this context.

The Bank has no violations or incidents of non-compliance with regulations/voluntary codes pertaining to product/service information and/or labelling.

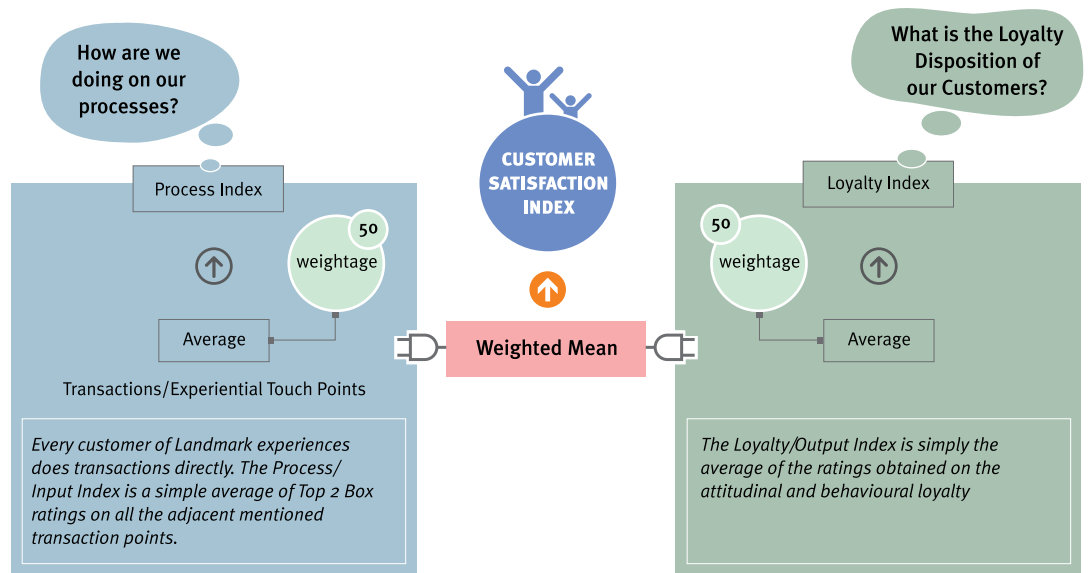
### Evaluating Customer Satisfaction (PR 5)

The Bank conducted a customer satisfaction survey during the year in order to achieve the under mentioned objectives.

- Understand the needs, requirements and expectations of the customers
- Assess the current satisfaction levels against the key expectations
- Determine the relative impact of each of these expectations on overall loyalty of the customer
- Provide strategic direction for improvement in critical areas and identify leverageable opportunities
- Provide a baseline to monitor future progress

For this purpose, interviews and questionnaires were used to gather information from both internal and external stakeholders including the business leaders of the Bank, branch managers and customers.

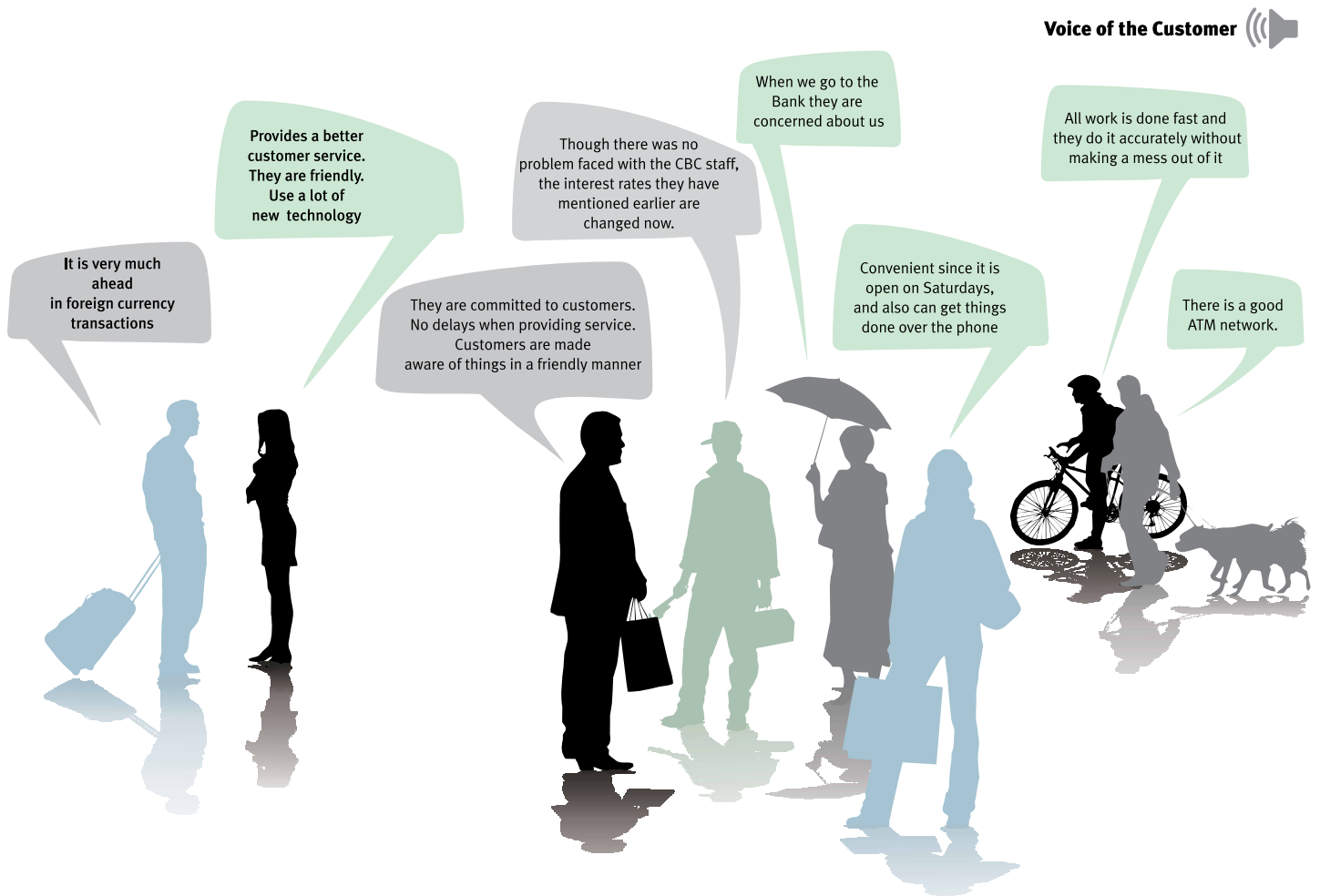
The Customer Satisfaction Index (CSI) which is the weighted mean of the Process Index and the Loyalty Index was finally computed for the Bank and for its competitors. The process used in ascertaining the CSI is depicted below.



## POLICY AND PERFORMANCE IN PRODUCT RESPONSIBILITY DIMENSION

Accordingly, the results of the survey conducted during the period under review show that the CSI of the Bank is more than 75% which is above its key competitors researched in the survey.

We always obtain necessary local authority approvals and strictly adhere to the laid down rules and regulations on display materials, audio/video material, branding etc. when conducting promotions.



### **Ensuring Responsible Marketing Communication Processes (PR 6 & PR 7)**

Commercial Bank is in full compliance with the guidelines offered by the Central Bank and other authorities governing the creation and placement of advertising. We ensure that all ethical standards of advertising are strictly followed to avoid over-promising and misleading customers.

The Bank has not experienced any instances of non-compliance with regulatory frameworks governing this subject and therefore has not been required to pay any fines in this regard.

## INDEPENDENT ASSURANCE STATEMENT



### 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 ASSURANCE REPORT TO THE MANAGEMENT OF COMMERCIAL BANK OF CEYLON PLC ON THE SUSTAINABILITY REPORT-2010

#### INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of Commercial Bank of Ceylon PLC ("Bank") engaged us to provide an independent assurance on the following elements of the Sustainability Report 2010("the Report")

- Reasonable assurance on the information on financial performance as specified on page 58, 59 and 62 of the Report.
- Limited assurance on other information presented in the Report

#### MANAGEMENTS' RESPONSIBILITY FOR THE REPORT

The management of the Bank is responsible for the preparation and presentation of the Report in accordance with the Bank's sustainability practices and policies some of which are derived from Global Reporting Initiatives (GRI-G3) Sustainability Reporting Guidelines. The GRI guidelines are publicly available at GRI's global website at "www.globalreporting.org". These responsibilities include among other things, identification of stakeholders and material issues, determining the sustainable performance criteria for reporting and establishing appropriate

processes and internal control systems to measure and report the sustainability performance criteria.

#### ERNST & YOUNG'S RESPONSIBILITY

Our responsibility is to perform a reasonable and limited assurance engagement and express conclusions based on the work performed in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("ICASL").

Reasonable assurance is a high level of assurance. However, reasonable assurance is not an absolute level of assurance because there are inherent limitations of an assurance engagement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

This Report is made solely to the Bank in accordance with our engagement letter dated February 01, 2011. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than

that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

#### KEY ASSURANCE PROCEDURES

##### Financial information

We reconciled the information on financial performance as reported on page 58, 59 and 62 of the Report with the audited financial statements of the Bank for the years ended December 31, 2006, 2007, 2008, 2009 and 2010.

##### Other information

We planned and performed following assurance procedures on other information presented in the Report:

- Interviewing relevant Bank's personnel to understand the process for collection, analysis, aggregation and presentation of information in the Report
- Review the systems used to generate, aggregate and report the information in the Report
- Interview with the senior management and relevant staff at corporate level and selected business unit level and obtain the evidence concerning the sustainability strategy and policies for material issues and implementation of those across the operation of the Bank

- Reviewing and validating the information contained in the Report
- Checking the calculations performed by the Bank on a sample basis through recalculation
- Reading the information presented in the Report to determine whether that information is in line with our overall knowledge of, and experience with, sustainability performance of the Bank.

#### CONCLUSIONS

Based on the procedures performed, as described above, we conclude that

- The information on financial performance as specified on page 58, 59 and 62 of the Report are properly derived from the audited financial statements of the Bank for the years ended December 31, 2006, 2007, 2008, 2009 and 2010.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from GRI (G3) Sustainability Reporting Guidelines.

*Ernst & Young*

#### Chartered Accountants

February 28, 2011  
Colombo

## GRI COMPLIANCE INDEX (3.12)

Index No.	Description	Status	Report Section	Page/s
<b>1.</b>	<b>Strategy &amp; Analysis</b>			
1.1	Statement from the most senior decision-maker of the Organisation	●	Sustainability Supplement	44
1.2	Description of Key Impacts, Risks & Opportunities	●	Sustainability Supplement	50-51
<b>2.</b>	<b>Organisational Profile</b>			
2.1	Name of the Organisation	●	Sustainability Supplement	45
2.2	Primary Brands, Products and/or Services	●	Sustainability Supplement	47-48
2.3	Operational Structure of the Organisation	●	Sustainability Supplement	47-48
2.4	Location of Organisation's Headquarters	●	Sustainability Supplement	45
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	45
2.6	Nature of ownership & legal form	●	Sustainability Supplement	45
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	●	Sustainability Supplement	45-47
2.8	Scale of the Reporting Organisation	●	Sustainability Supplement	47
2.9	Significant changes during the reporting period regarding size, structure or ownership	●	Sustainability Supplement	45-47
2.10	Awards received during the reporting period	●	Sustainability Supplement	49
<b>3</b>	<b>Report Parameters</b>			
3.1	Reporting period	●	Sustainability Supplement	50
3.2	Date of most recent previous report	●	Sustainability Supplement	50
3.3	Reporting cycle	●	Sustainability Supplement	50
3.4	Contact point for questions regarding the Report or its Contents	●	Sustainability Supplement	50
3.5	Defining Report Content	●	Sustainability Supplement	50
3.6	Boundary of the Report	●	Sustainability Supplement	50
3.7	Any specific limitations on the scope or boundary of the Report	△		
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	●	Sustainability Supplement	50
3.9	Data measurement techniques and the bases of calculations	●	Sustainability Supplement	50
3.10	Explanation of the effect of any re-statement of information provided in earlier reports	●	Sustainability Supplement	50
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	89-93
3.13	Policy and current practice with regard to seeking external assurance for the Report	●	Sustainability Supplement	50
<b>4</b>	<b>Governance, Commitments &amp; Engagement</b>			
4.1	Governance Structure of the Organisation	●	Sustainability Supplement	51
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	●	Sustainability Supplement	51
4.3	The number of members of the highest governance body that are independent and/or non-executive members	●	Sustainability Supplement Annual Report of the Board of Directors	51 197
4.4	Mechanisms for Shareholders and employees to provide recommendations or direction to the highest governance body	●	Sustainability Supplement	51
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the Organisation's performance	●	Sustainability Supplement	51-52

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

## GRI COMPLIANCE INDEX (3.12)

Index No.	Description	Status	Report Section	Page/s
4.6	Processes in place for the highest governing body to ensure conflicts of interests are avoided	●	Sustainability Supplement	52
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	●	Sustainability Supplement	52
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	52
4.9	Procedures of the highest governance body for overseeing the Organisation's identification and management of economic, environmental, and social performance.	●	Sustainability Supplement	52
4.10	Processes for evaluating the highest governance body's own performance	●	Sustainability Supplement	51-52
4.11	Precautionary Approach	●	Sustainability Supplement	52-53
4.12	Externally developed economic, environmental and social Charters and principles	●	Sustainability Supplement	52-53
4.13	Membership in industry/business association	●	Sustainability Supplement	52-53
4.14	List of stakeholder groups engaged by the Organisation	●	Sustainability Supplement	53-55
4.15	Basis for identification and selection of stakeholders with whom to engage	●	Sustainability Supplement	53-55
4.16	Approaches to stakeholder engagement including frequency	●	Sustainability Supplement	53-55
4.17	Key topics and concerns raised through stakeholders engagement and the Organisation's response	●	Sustainability Supplement	53-55
<b>Economic Performance</b>				
EC1	Direct economic value generated and distributed	●	Sustainability Supplement	58-62
EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	●	Sustainability Supplement	62
EC3	Coverage of the Organisation's defined benefit plan obligations	●	Sustainability Supplement	63
EC4	Significant financial assistance received from Government	●	Sustainability Supplement	63-64
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	●	Sustainability Supplement	65
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	□		
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	●	Sustainability Supplement	65
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	□		
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	□		
<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	□		
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	□		
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	□		

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

## GRI COMPLIANCE INDEX (3.12)

Index No.	Description	Status	Report Section	Page/s
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 organisation's discharges of water and runoff	□		
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	□		
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	68
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	□		
<b>Labour Practices and Decent Work</b>				
LA1	Total workforce by employment type, employment contract, and region	●	Sustainability Supplement	73-74
LA2	Total number and rate of employee turnover by age group, gender, and region	●	Sustainability Supplement	74-75
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	●	Sustainability Supplement	76
LA4	Percentage of employees covered by collective bargaining agreements	●	Sustainability Supplement	76
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	●	Sustainability Supplement	76
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	□		
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by province	●	Sustainability Supplement	76

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

## GRI COMPLIANCE INDEX (3.12)

Index No.	Description	Status	Report Section	Page/s
LA8	Education, training, counselling, prevention of diseases, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	<input type="checkbox"/>		
LA9	Health and safety topics covered in formal agreements with trade unions	●	Sustainability Supplement	76
LA10	Average hours of training per year per employee by employee category	●	Sustainability Supplement	77
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	77
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	<input type="checkbox"/>		
LA14	Ratio of basic salary of men to women by employee category	●	Sustainability Supplement	79
<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	80
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	81
HR6	Measures taken to eliminate child labour	●	Sustainability Supplement	81
HR7	Measures taken to eliminate compulsory or forced labour	●	Sustainability Supplement	81
HR8	Percentage of security personnel trained in Organisation policies & Procedures on Human Rights	●	Sustainability Supplement	81
HR9	Total number of violations of rights of indigenous people and actions taken	<input type="checkbox"/>		
<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	83-84
SO2	Percentage and total number of business units analysed for risks related to corruption	<input type="checkbox"/>		
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	●	Sustainability Supplement	84
SO4	Actions taken in response to incidents of corruption	<input type="checkbox"/>		
SO5	Public policy positions and participation in public policy development and lobbying	<input type="checkbox"/>		
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	●	Sustainability Supplement	84
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	●	Sustainability Supplement	84
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	●	Sustainability Supplement	84

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

## GRI COMPLIANCE INDEX (3.12)

Index No.	Description	Status	Report Section	Page/s
<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	●	Sustainability Supplement	86
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	●	Sustainability Supplement	86-87
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	●	Sustainability Supplement	87
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	●	Sustainability Supplement	87
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 B Level Reporting

		2002	C	C+	B	B+	A	A+
		In Accordance						
Mandatory	Self Declared				✓			
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
	GRI Checked							



# 400th ATM

*Operational in Ruwanwella*



*Our shoe size just got bigger...ie...  
our footprint just got wider!*



*With the addition of its 400th Automatic Teller Machine in Ruwanwella, the Bank continues to grow its island-wide 24 hour Cash Dispensing System, which is the single largest network in the country.*

*Our statistics are impressive too. More than 125,000 transactions totalling over Rs. 450 million are enacted daily through the Bank's ATM network. This is the highest value dispensed by a single ATM network in Sri Lanka.*

*The network has maintained a record up-time of over 99 per cent, for all its users.*

*The new ATM at our Ruwanwella branch provides access to the accounts of more than three million Commercial Bank account holders and to all users of ATM cards issued by other banks on the Visa, MasterCard and Amex networks.*



## ***Stewardship***

Is a composite section covering Corporate Governance including all Board Committee Reports, information on the Board of Directors and Management Teams, Risk Management and Investor Relations.

## CORPORATE GOVERNANCE

### CHAIRMAN'S STATEMENT

Dear Stakeholder,


Adopting the best governance practices is the cornerstone of the long term sustainable growth of the Commercial Bank. We, at Commercial Bank strive to satisfy the legitimate claims of all stakeholders and to fulfil the Bank's environmental and social responsibilities in an accountable and transparent manner as a well-governed Bank. Your Board of Directors is committed to push the bar higher and higher to realise the strategy while nurturing the ethical behaviour and governance practices across the Bank.

This Report spells out Corporate Governance initiatives in place at your Bank demonstrating its adherence to the requirements of 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) and the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka and subsequent amendments thereto which became fully operational effective from January 1, 2009.

In this connection I wish to state that to the best of my knowledge, I am not aware of any material violations of any of the provisions of the said Codes issued jointly by the ICASL and SEC and the Direction of the Central Bank.

While assuring you that we take every effort to improve our Corporate Governance Philosophy, we hope that this Report will be useful in understanding how the requirements of the aforesaid regulations are practiced within your Bank. Your valuable feedback is most welcome to continue with our commitment to practice corporate governance at the highest levels at Commercial Bank.

Yours Sincerely,



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

Colombo  
February 15, 2011

### Highlights

1. The Bank refreshed the Board with the appointment of two new Directors; Prof. U.P. Liyanage as an Independent Non-Executive Director and Mr. Ravi Dias, the Chief Operating Officer of the Bank as an Executive Director.
2. DFCC Bank PLC, the largest shareholder of the Bank reduced its holding in the ordinary voting shares of the Bank to 14.96% by end 2010 from 28.76% as at December 31, 2009.
3. Since the Bank is in compliance with the requirements 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 Colombo Stock Exchange exempted the Bank from complying with the requirements stipulated in Section 7.10 on 'Corporate Governance' of the Continuing Listing Requirements of the Colombo Stock Exchange.

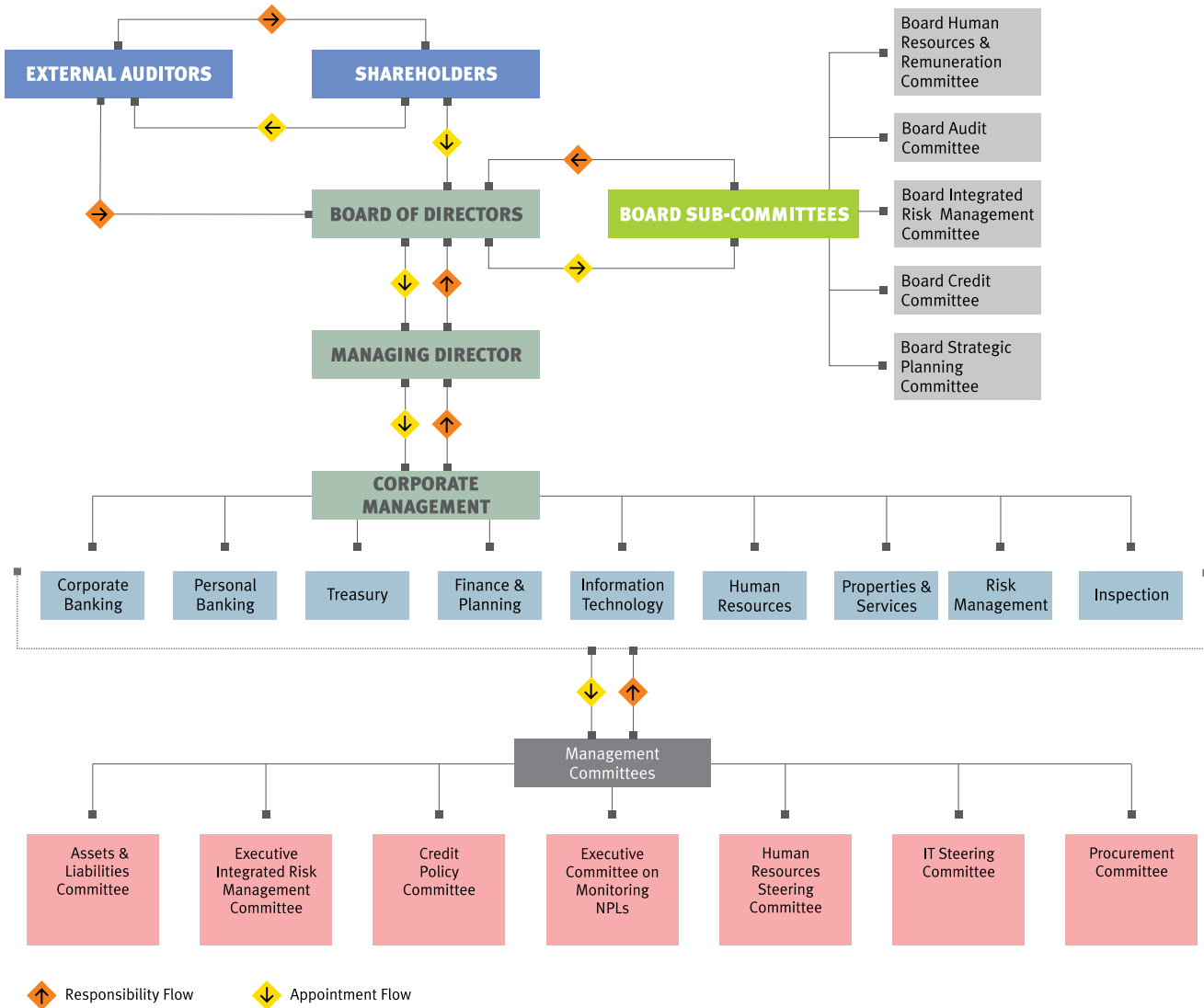
Among many balancing acts that banks perform on a day-to-day basis such as managing liquidity vs profitability, risk vs return, capital vs growth, establishing and enacting a well-structured corporate governance regime too entails a balancing act. It involves balancing performance vs compliance. In other words, it requires an institution to achieve the right balance that enables it to make profits responsibly. Recent history is replete with examples of companies that have miserably failed due to poor governance.

The Bank conducts its business in accordance with the letter and spirit of the highest standards of corporate governance embracing the best practices as enumerated

in various codes and guidelines applicable to the Bank. The annual Report contains a frank discussion and an accurate disclosure of information relating to the Bank's current performance, its attempts to balance the economic, environmental and social aspects and the risks to the business. This Corporate Governance Report details the governance structure, applicable regulations, extent of Bank's compliance with the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the requirements of the Banking Act Direction No. 11 of 2007 of the Central Bank.

## CORPORATE GOVERNANCE

### Governance Structure of the Commercial Bank



#### For further information on -

- Companies Act: <http://www.documents.gov.lk/actspg/acts2007.htm>
- Banking Act: [http://www.cbsl.gov.lk/pics\\_n\\_docs/o9\\_lr\\_docs/acts/banking\\_act\\_7th\\_rev\\_latest.pdf](http://www.cbsl.gov.lk/pics_n_docs/o9_lr_docs/acts/banking_act_7th_rev_latest.pdf)
- Banking Act Direction No. 11 of 2007: [http://www.cbsl.gov.lk/pics\\_n\\_docs/o9\\_lr\\_docs/directions/bsd/bsd\\_2010/LCB%20-%20Directions%20\(Nov%202010\).pdf](http://www.cbsl.gov.lk/pics_n_docs/o9_lr_docs/directions/bsd/bsd_2010/LCB%20-%20Directions%20(Nov%202010).pdf)

#### Major External Regulations

- Companies Act No. 07 of 2007
- Banking Act No. 30 of 1988 and amendments thereto
- Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka on 'Corporate Governance for Licensed Commercial Banks of Sri Lanka' and amendments thereto
- Code of Best Practice of Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka

#### Major Internal Regulations

- Articles of Association of the Bank
- Board of Directors' working procedure
- Policy for secrecy of information, credit and other internal manuals
- Integrated risk management procedures
- Processes for anti-money laundering
- Processes for internal controls
- Bank's Code of Ethics

## CORPORATE GOVERNANCE

### OWNERSHIP STRUCTURE

According to the share register at year-end 2010, the Bank had a total of 8,140 voting shareholders. The ownership structure of the Bank changed during the year under review with DFCC Bank, the main shareholder of the Bank, selling a significant portion of voting shares of the Bank. SBI Ven Holdings Pte Ltd. became the second largest shareholder as at the end 2010, with substantial share purchases during the year.

#### Ownership Structure - 2009



- DFCC Bank 28.69%
- HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation GNA-C61V 14.46%
- Sri Lanka Insurance Corporation Ltd. - Life Fund 5.14%
- Other Shareholders 51.71%

#### Ownership Structure - 2010



- DFCC Bank A/C 1 14.96%
- SBI Ven Holdings Pte Ltd. 9.95%
- HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation GNA-C61V 9.57%
- Other Shareholders 65.52%

For additional information regarding the ownership structure, please refer page 177.

The information on ownership structure is updated quarterly on the Bank's website, [www.combank.net/newweb/interimfinancials](http://www.combank.net/newweb/interimfinancials)

### PERFORMANCE GOVERNANCE

'Enterprise Governance – Creating the Right Balance' - a publication of the International Federation of Accountants and the Chartered Institute of Management Accountants has identified the constituent elements of Performance Governance namely, Strategic Position, Strategic Options, Strategic Implementation and Strategic Risks.

*"Performance governance is about creating the structure to whom responsibilities are allocated whilst working independently under the control of the Board"*

*Governance and Compliance Organisation, England*

At Commercial Bank, Performance Governance stemmed from the Strategic Direction drilled down to Corporate Objectives which are more fully-described in the Section on 'The Future' in the Management Discussion and Analysis on pages 13 to 42. By efficiently and methodically implanting the Performance Governance ethos, the Bank strives to develop a framework that delivers breakthrough corporate results while taking account of all stakeholders of the Bank.

The Chairman and the Managing Director together with their team review the strategic plan and budgets against the actual performance

on a monthly basis and at more frequent intervals, as needed. Board Sub-Committees whose reports are given in pages 135 to 140 assist the Board in this regard. Moreover, the strategy adopted by the Bank provides an integrated and dynamic approach to its strategic issues and ensures that the strategy is discussed at Board level on a regular basis. Alignment of the performance targets of the individuals to the Key Performance Indicators of the Bank has been highly successful over the years.

### IT GOVERNANCE

Information Technology Governance of the Bank ensures that IT objectives are aligned with business objectives by defining them in business terms. IT 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 those responsible for 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 the best IT governance across the industry having achieved certifications for CMMI Level 3 for software development, and ISO/IEC 27001:2005 Information Security, the first Sri Lankan bank to do so in each case. This is reaffirmed with a Bronze award for Organisational IT Security and Compliance at The Information Systems Audit & Control Association (ISACA) Security Awards 2010.

## CORPORATE GOVERNANCE

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
Compliance	<ul style="list-style-type: none"> <li>Investing in Licensed Software deployed in compliance with Intellectual Property Laws with a view to educate and mandate compliance to such laws throughout the Bank.</li> </ul>
Operational Efficiency	<ul style="list-style-type: none"> <li>Streamlining of payments process so that integrity is maintained across value chain through near real-time processing.</li> <li>Business Continuity Plan for IT that supports all other key functions of the Bank to ensure uninterrupted service to customers.</li> </ul>
Prudent Capital Expenditure	<ul style="list-style-type: none"> <li>All major IT-related procurement to be reviewed by a Solutions Evaluation Committee prior to seeking approval from the Bank's Procurement Committee.</li> <li>Final approval of IT capital expenditure is sought from the Board of Directors of the Bank based on value and recommendations of Chief Information Officer, the Chief Operating Officer and the Managing Director.</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>
'Green' IT	<ul style="list-style-type: none"> <li>Protecting the environment by reducing print through migration to E-Statements, Document Workflow and Soft Copy.</li> </ul>

### INTEGRATED RISK MANAGEMENT AT COMMERCIAL BANK

The Bank's Integrated Risk Management Team headed by the Chief Risk Officer is mandated by the Banking Act Direction No. 11 of 2007 on 'Corporate Governance of the Licensed Commercial Banks of Sri Lanka' to establish, co-ordinate and drive the risk management process throughout the Bank. It has established an Integrated Risk Management System to identify and manage significant risks including Credit, Market and Operational Risks. The Integrated Risk Management Team reports regularly on risks to the Board's Integrated Risk Management Committee that plays an important role with regard to the risk management processes at the Bank and reporting on same to the Board.

A full report on The Bank's Risk Management including the main focus areas in 2010, can be found on pages 153 to 169 of this Report.

### INTERNAL CONTROLS MECHANISM

Commencing from 2010, the Board provides a report on the Bank's internal control mechanism that confirms that the financial reporting system of the Bank 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. The Bank's Internal Audit Reports and Board Audit Committee Reports, provide

information on audits carried out by or on behalf of regulatory authorities whilst the External Auditors' Reports provide the Board with the evidence that enables it to conclude whether the Bank's Internal Control Mechanism is appropriately designed and operating effectively.

Further, the External Auditors' Certification on the effectiveness of such internal control mechanism on Financial Reporting has also been obtained.

Please refer 'Directors' Statement on Internal Controls' on page 204.

### 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 nurture and grow a sustainable business that reaches far beyond profit making or being the best, avowing that the Bank 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

A secured, reliable and efficient banking system is one of the pillars of economic stability of any country. The rapid development of the banking sector has generated keen competition amongst banks. Hence, maintaining close customer relations becomes paramount which in turn could lead to ethical dilemmas and conflicts of interest. Globalisation, innovation, diversification and technological development have presented new industry-wide challenges and ethical issues on top of the traditional ones.

Hence, nurturing an ethical culture is of utmost importance for banks, like any other organisation.

The cornerstone of our Code of Ethics programme is our set of values. Our core ethical values include honesty, integrity, fairness, responsible citizenship and accountability. At the Bank, its officials are encouraged to follow the six steps of our 'ETHICS PLUS Decision-Making Model' as detailed below:

- Establish the relevant facts and identify the ethical issue
- Take stock of all stakeholders or parties involved
- Have an objective assessment of each stakeholder's position
- Identify viable alternatives and their effects on stakeholders
- Compare and evaluate the likely consequences of each alternative with reference to the standards expected
- Select the most appropriate course of action

In short, in the Bank's vernacular, Business ethics means, "Choosing the good over the bad, the right over the wrong, the fair over the unfair and the truth over the untruth". Strict compliance, confidentiality, avoidance of conflicts of interest, encouraging the reporting by the Officers of the Bank on illegal and unethical behaviour are also amongst the guiding principles of the Bank's Code of ethics.

Please refer the link for additional information on the Bank's Code of Ethics: <http://www.combank.net/newweb/info/104?oid=57>

### OUR RESPONSIBILITY TO ENVIRONMENT

Social Responsibility is regarded as a fundamental aspect of our strategy execution and decision-making process and is prominently placed in the Bank's corporate priorities and core values. We at Commercial Bank are committed to minimising any adverse impact the conduct of our business may have on the environment. We indirectly manage the use of resources by our clients through the 'Social and Environmental Management System' of the Bank. This policy encourages our customers to ensure that their products, processes and businesses do not unnecessarily damage the environment.

We are proud to present in this Annual Report, the Sustainability Supplement based on the Global Reporting Initiative (GRI) Guidelines for the second time. The Bank's 'Social and Environmental Management System' is more fully-described in the Sustainability Supplement on pages 43 to 93.

### RELATIONSHIP AND COMMUNICATION WITH STAKEHOLDERS

The Bank has developed a Stakeholder Grid outlining the details of all stakeholders of the Bank, nature and methods of engagements with them including the topics covered during such engagement. Please refer 'Stakeholder Engagement' on pages 53 to 55.

**Bank's Adherence with The Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka ('Code')**

*"Corporate Governance is concerned with ensuring the Firm is run in the interests of Shareholders"* (Franklin Allen, 2005). Hence, a good Corporate Governance Code needs to address the needs of both the Company (the Bank) and its Shareholders. In this regard it is pertinent to mention that the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka focuses adequately on fulfilling the aspirations of both.

## CORPORATE GOVERNANCE

The extent of adherence by the Bank to the requirements of the six fundamental principles laid down in the aforesaid Code, which we have categorised into two Sections purely for the convenience of our stakeholders, namely Section 1 and Section 2 and the governance structures in place, are tabulated below:

**Section 1** of the Code deals with the **Company (the Bank)** and it mainly covers the governance aspects in regard to company Directors, their Remuneration, Relations with Shareholders and Accountability and Audit.

**Section 2** of the Code deals with the **Shareholders** and discusses how a good corporate citizen discharges its responsibilities towards both Institutional Investors and Other Investors.

### Section 1: The Company (the Bank)

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
<b>A Directors</b>			
<b>A.1 The Board</b>			
The Bank is headed by an effective Board of Directors with professionals and business leaders drawn from different backgrounds inter alia banking, accounting, management, marketing, human resources, law and international experience whose profiles are given on pages 146 to 147. Their leadership skills, direction provided and controls put in place ensure the achievement of the objectives of the Bank set out in the Corporate Plan and the Budget which aims to satisfy the expectations of all stakeholders.			
Board meetings	A.1.1	Complied with	Board meetings are held monthly mainly to review the Performance of the Bank and its subsidiaries and other routine matters referred to the Board by the Heads of respective divisions while Special Board meetings are convened whenever necessary. These meetings ensure that prompt actions are taken to align the business processes to achieve the expectations of all stakeholders. Please refer 'Number of Meetings Held and Attendance' on page 134.
Responsibilities of the Board	A.1.2	Complied with	The Board is responsible for the formulation and implementation of a clear business strategy which is well-understood by all stakeholders including staff, customers and investors. It is assisted in this task by the Corporate Management headed by the Managing Director.  The Board Nomination Committee helps the Board in setting the criteria and key attributes required for those aspiring for appointment or promotion to the post of Managing Director and the Key Management Personnel. It also ensures the succession arrangements for retiring Directors and Key Management Personnel. The Board takes necessary steps to fulfil the duties entrusted to it by securing the integrity of the information, managing risks and implementing an effective internal control system. In this process, compliance with all applicable laws and regulations and adherence to the Bank's ethical standards and corporate values are of utmost importance in order to ensure that the interests of all stakeholders are taken into consideration in the corporate decision-making process. Please refer 'Directors' Statement on Internal Control' on page 204.
Seeking independent professional advice	A.1.3	Complied with	The Directors are permitted to seek independent professional advice as and when required, at the Bank's expense. The Company Secretary takes the initiative in this connection.  In addition, Board Sub-Committees advise the Board on various matters under their purview.

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Advice and services of the Company Secretary	A.1.4	Complied with	All legal matters for which clarification is needed by the Board are referred to the Company Secretary who is an Attorney-at-Law. She provides such information after obtaining necessary professional advice, whenever required. All Board members have full access to the Company Secretary to ensure that proper Board procedures are followed and that all applicable rules and regulations are complied with.
Independent judgment of Directors	A.1.5	Complied with	All Directors are responsible for bringing independent judgment to the scrutiny of decisions taken by the Board on issues of strategy, performance, resources and standards of business conduct.
Dedicating adequate time and effort by the Directors	A.1.6	Complied with	All Directors of the Bank dedicate adequate time and effort to fulfil their duties as Directors of the Bank (both before and after the Board meetings), to ensure that the duties and responsibilities owed to the Bank are satisfactorily discharged. In addition, the Directors function as members of the Board Sub-Committees (details of which are found on pages 135 to 140) and ensure that they allocate adequate time for the fulfilment of their duties as members of such Board Sub-Committees.
Training for new and existing Directors	A.1.7	Complied with	Both new and existing Directors of the Bank are provided training on general aspects of directorships and industry specific matters. In this connection the Directors have recognised the need for continuous training and expansion of knowledge and take part in such professional development as they consider necessary in assisting them to carry out their duties as Directors.

### **A.2 Chairman and Chief Executive Officer (CEO)**

There is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Bank in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and for its effectiveness. The CEO's role is primarily to conduct the business operations of the Bank with the help of the Corporate Management. Hence, the roles of the Chairman and CEO are clearly distinct from one another. The Chairman is also the ultimate point of contact for shareholders, particularly on matters related to Corporate Governance.

Separation of the roles of Chairman & MD/CEO	A.2.1	Complied with	As reported above the positions and functions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision making being invested with a single autonomous entity.
--	-------	---------------	---

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
<b>A.3 Chairman's Role</b>			
Chairman is responsible for providing leadership and effectively managing the Board while preserving the order and facilitating effective discharge of Board functions. The Chairman also takes timely action to preserve good Corporate Governance by the Board.			
Role of the Chairman	A.3.1	Complied with	<p>The Chairman ensures proper conduct of Board proceedings to optimise the contribution from Board members through:</p> <ul style="list-style-type: none"> <li>• Securing effective participation by both Executive and Non-Executive Directors in the decision-making process</li> <li>• Providing leadership to all Directors to make effective contribution within their respective capabilities</li> <li>• Maintaining a balance of power between Executive and Non-Executive Directors and by ascertaining the views of the Directors on issues under consideration</li> <li>• Ensuring that the Board is in complete control of the Bank's affairs</li> <li>• Ensuring that the Board is alert to its obligations to all shareholders and other stakeholders</li> <li>• Ensuring that all Board members receive appropriate induction, covering terms of appointment, duties and responsibilities</li> <li>• Ensuring that regular meetings are conducted at least once a month and the minutes of meetings are accurately recorded and adequately secured</li> <li>• Approving the agenda prepared by the Company Secretary</li> </ul>
<b>A.4 Financial Acumen</b>			
The Code requires that the Board comprises of members with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board of the Bank has met the above requirement as three Board members out of nine including the Managing Director are Qualified Accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.			
Financial acumen and knowledge	A.4	Complied with	The MD/CEO is a Fellow of The Institute of Chartered Accountants, England & Wales and a Fellow of The Institute of Chartered Accountants, Sri Lanka. In addition, the Board includes a Fellow of The Institute of Chartered Accountants, Sri Lanka, and a Director who is a Fellow of the Chartered Institute of Management Accountants, UK. These members of the Board have the ability to offer guidance on matters of finance to the Board.
<b>A.5 Board Balance</b>			
The Code requires that balance is maintained between the Executive and Non-Executive Directors (NEDs) so that no individual or a small group of individual Directors is able to dominate the Board's decision making.			
Presence of a strong team of NEDs	A.5.1	Complied with	Seven out of nine Directors on the Board are NEDs which is well-above the minimum prescribed by this Code which is two NEDs or NEDs equivalent to one-third of the total number of Directors, whichever is higher. This ensures that the views of Non-Executive Directors carry a significant weight in the decisions made by the Board.
Independence of NEDs	A.5.2 & A.5.3	Complied with	Three out of the seven NEDs are Independent which is well above the minimum prescribed by this Code which is two NEDs or NEDs equivalent to one third of the total number of NEDs, whichever is higher.

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Annual Declaration of NEDs	A.5.4	Complied with	Every NED of the Bank has made written submissions as to their independence against the specified criteria set out by the Bank, which is in line with the requirements of Schedule H of this Code.
Annual Declaration by the Board on the independence of Directors	A.5.5	Complied with	The Board has determined the independence of Directors based on the declarations submitted by the NEDs, as to their independence, as a fair representation and will continue to evaluate their independence on this basis annually. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-executive Directors are: Mr. M.J.C. Amarasuriya Dr. H.S. Wanasinghe Mr. R.M.S. Fernando
Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions	A.5.6 & A.5.7	Not applicable	This does not arise as the positions of the Chairman and the CEO are separated and the Chairman is an Independent Director.
Conducting meetings with NEDs only	A.5.8	Complied with	Chairman meets with the NEDs without the presence of Executive Directors, whenever necessary.
Recording of concerns in Board minutes	A.5.9	Complied with	Concerns raised by the Directors during the year, if any, are recorded in the minutes of Board meetings with adequate details by the Company Secretary.

### A.6 Supply of Information

The Code requires the Bank's management to submit timely information to the Board with sufficient information for making decisions which would enable it to discharge duties.

Obligation of the Management to provide appropriate and timely information to the Board	A.6.1	Complied with	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 enabling it to deliberate on all key issues concerning the Bank. Further, Directors are free to raise inquiries for additional information, where necessary. In addition, members of the Corporate Management made presentations on issues of importance. The Chairman ensured that all Directors were briefed adequately on issues arising at Board meetings.
Adequate time for Board meetings	A.6.2	Complied with	According to the Articles of Association of the Bank, all Board members are given a notice of at least 7 days before the dates of meetings and all minutes of previous meetings, agenda and board papers are normally dispatched within the aforesaid deadlines. Further, adequate notice is given to all Directors prior to emergency/ special Board meetings. This ensures that the Board members have adequate time to study the related papers and prepare for a meaningful discussion at the meetings.

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
<b>A.7 Appointment to the Board</b>			
The Code requires having a formal and transparent procedure in place for the appointment of new Directors to the Board. During the year one Executive Director and one Non-Executive Director was appointed to the Board.			
Presence of a Nomination Committee and annual assessment of composition of the Board	A.7.1 & A.7.2	Complied with	<p>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. Further, this Committee annually assesses the composition of the Board to ensure that the combined knowledge and experience of the Board matches the strategic demand facing the Bank.</p> <p>Please refer page 139 for the 'Board Nomination Committee Report, for the terms of Reference and the members of this Committee.</p>
Disclosure of required details to Shareholders on new appointments to the Board	A.7.3	Complied with	<p>When new Directors are appointed a brief resume of each such Director including the nature of his expertise, the names of companies in which the Director holds directorships, memberships in Board Sub-Committees etc., are informed to the Central Bank of Sri Lanka and the Colombo Stock Exchange in addition to disclosing this information in the Annual Report. Further, the required information is published in a few selected newspapers for the information of interested parties. Any changes in the details provided by the Directors are disseminated to the Colombo Stock Exchange without delay.</p>
<b>A.8 Re-election</b>			
The Code requires all Directors to submit themselves for re-election, on regular intervals and at least once in every three years.			
Re-election of Non-Executive Directors including Chairman and Directors	A.8.1 & A.8.2	Complied with	<p>According to the Articles of Association of the Bank, two directors who have been longest in office since their last selection or appointment are required to retire by rotation and are eligible for re-election at each Annual General Meeting. The proposed re-election of Directors is subject to prior review by the Board Nomination Committee.</p> <p>All Directors of the Bank during 2010 had held their office for less than three years since the last re-election/appointment except as disclosed below.</p> <ul style="list-style-type: none"> <li>As required by the Companies Act No. 07 of 2007, any director who has reached the age of 70 years offers himself for re-election on an annual basis. Accordingly, Mr. M.J.C. Amarasuriya and Dr. H.S. Wanasinghe, who reached the age of 70 and 84 respectively have offered themselves for re-election at the forthcoming Annual General Meeting of the Bank and the Board has recommended the re-elections.</li> <li>Prof. U.P. Liyanage and Mr. W.M.R.S. Dias who joined the Board during the year are required to make themselves available for re-election at the forthcoming Annual General Meeting of the Bank and the Board has recommended their re-elections.</li> <li>Messrs B.R.L. Fernando and R.M.S. Fernando offer themselves to re-election by rotation.</li> </ul>

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance	
<b>A.9 Appraisal of Board Performance</b>				
The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.				
Annual appraisal of the Board's performance and the performance of its Sub-Committees	A.9.1 & A.9.2	Complied with	The performance of the Board is evaluated by the Chairman with the Board's assistance. The Board Sub-Committees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement.	
Disclosure of criteria used for the performance evaluation	A.9.3	Complied with	Please refer Human Resources and Remuneration Committee Report on pages 137 and 138 for details of the criteria considered for performance evaluation of the Board.	
<b>A.10 Disclosure of Information in respect of Directors</b>				
The Code requires that details of the Directors be disclosed in the Annual Report for information of the shareholders.				
Disclosures on Directors in the Annual Report	A.10.1	Complied with	The following details pertaining to each Director are disclosed:	
			Page Reference	
			Name, qualification and brief profile	146 - 147
			Nature of expertise in relevant functional areas	146 - 147
			Directors' interest in contracts with the Company	141 - 143
			Number of meetings (Main Board and Board Sub-Committees) held and attendance during 2010	134
Names of the Board Sub-Committees in which the Director serves as the Chairman or a member	134			
<b>A.11 Appraisal of Chief Executive Officer (CEO)</b>				
The Code requires the Board to assess the performance of the CEO at least annually to ascertain degree to which the CEO met the pre-set financial and non-financial targets.				
Setting annual targets and the appraisal of performance of the CEO	A.11.1 & A.11.2	Complied with	At the beginning of each financial year, the Board supported by the Human Resources and Remuneration Committee discusses with the CEO and sets long term, medium term and short term financial and non-financial goals for the Bank that are to be achieved by the CEO within the course of that year. Assessment of performance of the CEO is carried out by the Board at the end of each year to ensure that pre-agreed targets have been achieved or if not whether there are acceptable reasons for not achieving them.	

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
<b>B Directors' Remuneration</b>			
<b>B.1 Remuneration Procedure</b>			
This principle ensures that the Bank has a well-established, formal and transparent procedure in place for developing an effective remuneration policy for both Executive and Non-Executive Directors where no Director is involved in deciding his/her own remuneration to avoid potential conflict of interest.			
Establishment of a Remuneration Committee	B.1.1	Complied with	The Bank has a Board Human Resources and Remuneration Committee which has 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. Please refer 'Board Human Resources and Remuneration Committee Report' for the Terms of Reference on pages 137 and 138.
Composition of the Remuneration Committee	B.1.2	Complied with	As prescribed in this Code, all members of the Board Human Resources and Remuneration Committee are Non-Executive Directors and the Chairman of the Committee is appointed by the Board.
Chairman and the Members of the Committee	B.1.3	Complied with	Please refer pages 137 and 138 of the 'Board Human Resources and Remuneration Committee Report' for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.
Determination of the remuneration of Non-Executive Directors	B.1.4	Complied with	The Board as a whole decides the remuneration of the Non-Executive Directors. The Non-Executive Directors receive a fee for being a Director of the Board and an additional fee for either chairing or being a member of a Committee, working on special Committees and/or serving on subsidiary Boards. They do not receive any performance/incentive payments.
Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee	B.1.5	Complied with	The Committee has the authority to seek internal and external independent professional advice on matters falling within its purview, at the Bank's expense. Views of the Chairman and/or CEO are obtained as they too are members of the said Board Sub-Committee.
<b>B.2 Level and Make Up of Remuneration</b>			
The Bank ensures that the remuneration of Executive and Non-Executive Directors is at a satisfactory level to attract and retain the services of Directors. The proportion of remuneration of Executive Directors is linked to corporate and individual performance.			
Remuneration packages of Executive Directors	B.2.1	Complied with	The Board Human Resources and Remuneration Committee and also the Board ensures that two Executive Directors namely, the Managing Director and the Chief Operating Officer who are on the Board are provided with an attractive remuneration package.
Competitiveness of levels of Remuneration	B.2.2	Not applicable	The Board Human Resources and Remuneration Committee reviews information relating to executive pay from time to time to ensure same is on par with the market/industry rates as well as is aligned to the strategic objectives of the Bank.
Comparison of Remuneration with other companies in the Group	B.2.3	Complied with	The size and scale of the Bank is not comparable with any other companies in the Commercial Bank Group.
Performance based remuneration of Executive Directors	B.2.4	Complied with	Objectives for two Executive Directors are set at the beginning of the year and the remuneration including the performance bonus is decided based upon the degree of achievement of such pre-set targets.

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Executive share options	B.2.5	Complied with	Share options were offered to Executive Directors, the details of which are given in Notes 32 (b) and (c) of the Financial Statements on pages 262 and 263.
Designing the remuneration of Executive Directors	B.2.6	Complied with	Please refer 'Board Human Resources and Remuneration Committee Report' on pages 137 and 138.
Early termination of Executive Directors	B.2.7 & B.2.8	Not applicable	Not applicable to the Board except for the MD/CEO and Chief Operating Officer who are employees of the Bank, and their terms of employment are governed by the contract of service/employment.
Levels of Remuneration of Non-Executive Directors	B.2.9	Complied with	Non-Executive Directors of the Bank are paid a nominal fee commensurate with their time and role in the Bank. They are not entitled to receive shares under the existing Employee Share Option Schemes of the Bank.

### B.2 Disclosure of Remuneration

The Code requires the Bank to disclose in its Annual Report the details of the remuneration paid and the Remuneration Policy.

Disclosure of Remuneration	B.2.9	Complied with	<p>Please refer 'Board Human Resources and Remuneration Committee Report' on pages 137 to 138 for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Bank.</p> <p>Please refer Note 7 to the Financial Statements on page 230 for the aggregate remuneration paid to Executive and Non-Executive Directors.</p>
----------------------------	-------	---------------	--

### C Relations with Shareholders

#### C.1 Constructive Use of Annual General Meeting (AGM) and Conduct of General Meetings

The Code requires the Board to use the Annual General Meeting (AGM) which is a major event in the Bank's calendar to communicate with shareholders and encourage their active participation. In this regard, all shareholders of the Bank receive the Notice of meeting within the statutory due dates.

Use of Proxy Votes	C.1.1	Complied with	The Bank has in place an effective mechanism to count all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against the resolution.
Separate resolutions for substantially separate issues and adoption of Annual Report and Accounts	C.1.2	Complied with	<p>Separate resolutions are proposed for all substantially separate issues to provide shareholders with the opportunity to deal with each significant matter separately. This mechanism promotes better stewardship while assuring the transparency in all activities of the Bank.</p> <p>Further, adoption of the Annual Report of the Board of Directors on the affairs of the Company, Statement of Compliance and the Financial Statements together with the Report of the Auditors thereon are considered as a separate resolution.</p>
Availability of Chairmen of Board Committees	C.1.3	Complied with	The Chairman of the Bank ensures that Chairmen of all Board Sub-Committees namely, Audit, Human Recourses and Remuneration, Nomination and Integrated Risk Management are present at the AGM to answer the questions under their purview.
Adequate Notice of AGM to shareholders together with summary of the procedure	C.1.4 & C 1.5	Complied with	A Form of Proxy and a copy of the Annual Report are dispatched to all shareholders of the Bank together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice to shareholders. This provides opportunity to all shareholders to attend the AGM irrespective of their voting status and obtain clarifications for the matters of interest to them.

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance												
<b>C.2 Major Transactions</b>															
The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Bank, if entered into.															
Disclosures on proposed major transactions	C.2.1	Not applicable	There were no major transactions involving acquisition or disposal of greater than half of the net value of the Bank or its subsidiaries entered into by the Bank during the year. Transactions which materially affect the net assets base of the Bank, will be disclosed in the Quarterly/Annual Financial Statements, if any.												
<b>D Accountability and Audit</b>															
<b>D.1 Financial Reporting</b>															
This Principle requires the Board of the Bank to present a balanced and understandable assessment of the Bank's financial position, performance and prospects.															
Board's Responsibility for Statutory and Regulatory Reporting	D.1.1	Complied with	<p>The Board is well aware of its responsibility to present regulatory and statutory reporting in a balanced and understandable manner and a statement to this effect is given on page 202 confirming this position.</p> <p>The Bank had strictly complied with the requirements of the Companies Act No. 07 of 2007, the Banking Act No. 30 of 1988 and amendments thereto, in the preparation of Quarterly and Annual Financial Statements which are prepared and presented in conformity with Sri Lanka Accounting Standards. Further, the Bank has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka and the Colombo Stock Exchange.</p>												
Declarations by Directors in the Directors' Report	D.1.2	Complied with	<p>The Directors have made all required declarations in the 'Annual Report of the Board of Directors'. Please refer the 'Annual Report of the Board of Directors' on pages 193 to 201 for the required declarations.</p> <table border="1"> <thead> <tr> <th>Declaration</th> <th>Page Reference</th> </tr> </thead> <tbody> <tr> <td>The Bank has not engaged in activities that contravene laws and regulations</td> <td>201</td> </tr> <tr> <td>Directors' interests in contracts with the Company</td> <td>200</td> </tr> <tr> <td>Equitable treatment to shareholders</td> <td>197</td> </tr> <tr> <td>Going concern of the business</td> <td>200</td> </tr> <tr> <td>Review of Internal Controls and reasonable assurance on their effectiveness</td> <td>200</td> </tr> </tbody> </table>	Declaration	Page Reference	The Bank has not engaged in activities that contravene laws and regulations	201	Directors' interests in contracts with the Company	200	Equitable treatment to shareholders	197	Going concern of the business	200	Review of Internal Controls and reasonable assurance on their effectiveness	200
Declaration	Page Reference														
The Bank has not engaged in activities that contravene laws and regulations	201														
Directors' interests in contracts with the Company	200														
Equitable treatment to shareholders	197														
Going concern of the business	200														
Review of Internal Controls and reasonable assurance on their effectiveness	200														
Statements by Directors' and Auditors' on responsibility for financial reporting	D.1.3	Complied with	The "Statement of Directors' Responsibility" is given on page 202. Please refer "Auditors' Report" on page 205 for the reporting responsibility of Auditors.												
Management Discussion and Analysis	D.1.4	Complied with	Please refer 'Management Discussion and Analysis' on pages 13 to 42.												

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Declaration by Board on the going concern of the Business	D.1.5	Complied with	Please refer page 18 of this “Annual Report of the Board of Directors” and the “Statement of Directors’ Responsibility” on page 202 for the required declarations.
Requirement to Summon an Extraordinary General Meeting (EGM) to notify serious loss in net assets (capital)	D.1.6	Not applicable	Likelihood of such occurrence is remote. However, should the situation arise, an EGM will be called for and shareholders will be notified.
<b>D.2 Internal Control</b>			
The Code requires the Bank’s Board to ensure that an effective system of internal controls, which safeguards the Bank’s assets to protect the interest of shareholders is in place.			
Directors to conduct an annual review of internal controls	D.2.1	Complied with	The Bank obtained the External Auditor’s certification on the effectiveness of the internal control mechanism on financial reporting.
Need for an internal audit function for companies with no such function	D.2.2	Not applicable	This is not applicable as the Bank already has its own in-house Internal Audit Department, which is responsible for internal audit function.
<b>D.3 Audit Committee</b>			
The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Bank’s External Auditor.			
Composition of the Audit Committee	D.3.1	Complied with	All members of the Board Audit Committee including the Chairman are Independent Non-Executive Directors.  Details of the members, invitees and the Secretary of the Committee are found on the page 135 of the ‘Board Audit Committee Report’ under the heading ‘Composition of the Committee’.
Duties of the Audit Committee	D.3.2	Complied with	As stated in the Report of the Board Audit Committee of the Bank it regularly reviews scope, results and effectiveness of the audit. It also ensures the balance among objectivity, independence and value for money of the services provided by the Bank’s Auditors with special attention to provision of non-audit services by the Auditor.
Terms of Reference of the Audit Committee	D.3.3	Complied with	Terms of reference of the Board Audit Committee is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised in December 2010. This clearly explains the purpose of the Committee, its duties and responsibilities together with the scope and functions of the Committee. The Committee mainly deals with the matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, internal audit and risk management procedures of the Bank.
Disclosure of names of the members of the Audit Committee	D.3.4	Complied with	Names of the members of the Audit Committee are given on page 135 under the Section on ‘The Composition of the Committee’ and disclosure on the independence of the Auditors is found in page 136 under the Section on ‘External Audit’ in the ‘Board Audit Committee Report’ on pages 135 to 136 of this Report.

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
<b>D.4 Code of Business Conduct and Ethics</b>			
The Code requires the Bank to adopt an Internal Code of Conduct and Ethics to be adhered to by all Directors and members of the senior management of the Bank.			
Disclosures on presence of Code of Business Conduct and Ethics	D.4.1	Complied with	The Bank has an internally developed Code of Conduct for its Directors and all employees including the Corporate and Senior Management. This Code addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour, etc. Details of the Bank's Code of Ethics Programme including Governing Principles are found in the page 101 of this Report.
Affirmative Statement by the Chairman	D.4.2	Complied with	Please refer the Letter from the Chairman on page 4 for required details.
<b>D.5 Corporate Governance Disclosures</b>			
Directors of the Bank disclose annually the Bank's adherence to the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and 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 and subsequent Amendments thereto, in the 'Corporate Governance Report'.			
Annual Corporate Governance Report in the Annual Report	D.5.1	Complied with	This Report from pages 97 to 131 serves this requirement.
<b>Section 2: Shareholders</b>			
<b>E Institutional Investors</b>			
<b>E.1 Shareholder Voting</b>			
The Code requires the Institutional shareholders to make considered use of their votes and encourage to ensure their voting intentions are translated into practice.			
Communication with shareholders	E.1.1	Complied with	In order to avoid conflicts of interest by nurturing the mutual understanding, the Board carries out dialogues with its shareholders at general meetings. In this regard, the Annual General Meeting (AGM) of the Bank plays a critical role. Voting of the shareholders is crucial in carrying a resolution at the AGM. The Chairman who plays the role of the agent and communicates the views and queries of the shareholders to Board and the senior management in order to ensure that the views are properly communicated to the Bank.
<b>E.2 Evaluation of Governance Disclosures</b>			
The Code requires the Bank to encourage institutional investors to give due weight to all relevant factors drawn to their attention.			
Due weight by Institutional Investors	E.2.1	Complied with	The Institutional Investors are at liberty to give due weight on matters relating to the Board structure and composition, when they consider resolutions relating to Board structure and composition.

## CORPORATE GOVERNANCE

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
<b>F Other Investors</b>			
<b>F.1 Investing/Divesting Decision</b>			
Seek independent advice	F.1.1	Complied with	Individual shareholders are at liberty to carry out adequate analysis or seek independent advice before making investing or divesting decisions.
<b>F.2 Shareholder Voting</b>			
Encourage voting by Individual Investors	F.2.1	Complied with	Individual shareholders are encouraged to participate in General Meetings of the Bank and exercise their voting rights. The Bank adequately communicates with all shareholders by ensuring that they are informed of this position by dispatching necessary notices in time.

### **Bank's Compliance with Direction No. 11 of 2007, Issued by the Central Bank of Sri Lanka on The Subject 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'**

With a view to enhancing the overall stability of the Banking sector, which is fundamental to the maintenance of stability of the financial system, the Monetary Board of the Central Bank of Sri Lanka, under powers vested in it, via Section 46 (1) of the Banking Act No. 30 of 1988, has issued the above Direction in order to improve and sustain the Corporate Governance structures, processes and practices in all Licensed Commercial Banks in Sri Lanka. Corporate Governance structures, processes and practices for the purpose of the Direction, are deemed to be the management framework that facilitates the conduct of the banking business in a responsible and accountable manner, so as to promote the safety and soundness of individual Banks, thereby leading to the stability of the overall Banking Sector.

The Direction consists of two distinct parts viz Direction 2 and Direction 3. Direction 2 consists of eight principles, which are only for purposes of explaining and clarifying rationale for the mandatory rules set out in Direction 3 that follows. The Direction clearly states that strict compliance shall only be in respect of the rules that are set out in Direction 3. The Bank is of the view, that all of these rules are extremely helpful in conducting the Bank's business in an ethical, efficient and safe manner and has thus made every effort to comply with them fully. The following table captures the essence of these rules as well as the degree of compliance with them, by the Bank.

Relevant Section	Rule	Degree of Compliance
<b>3 (1) - Responsibilities of the Board</b>		
3 (1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	<b>Complied with</b> Approving, overseeing, communicating and monitoring the strategic objectives, corporate values, overall business strategy and policy of communication with all stakeholders mainly via the monthly and special Board meetings conducted and discussions held with Key Management Personnel.
	(b) Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	<b>Complied with</b> Procedure which is in practice is being documented for record purposes.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	<b>Complied with</b> Identifying principal risks, approving overall risk policy and risk management procedures mainly through the Board Integrated Risk Management Committee.
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	<b>Complied with</b>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
	(e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	Reviewing the adequacy and the integrity of the Bank's internal control systems and management information systems via the Board Audit Committee. Procedure which is in practice is being documented for record purposes.
	(f) Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	<b>Complied with</b>
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	<b>Complied with</b>
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	<b>Complied with</b> Procedure which is in practice is being documented for record purposes.
	(i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	<b>Complied with</b> Periodically assessing the effectiveness of the Board Directors' own governance practices. Procedure on 'management of conflicts of interest', which is in practice, is being documented for record purposes. With regard to KMPs, procedure is in practice and is being documented for record purposes.
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	<b>Complied with</b> Identifying and designate Key Management Personnel (KMP), to ensure an appropriate succession plan and defining the authority and key responsibilities for the Board and the KMPs via Nomination Committee.
	(k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	<b>Complied with</b> Executive Management Committee of the Bank meet once a month for this purpose.
	(l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	<b>Complied with</b>
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	<b>Complied with</b>
3 (1) (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) of these Directions.	<b>Complied with</b> Positions of the Chairman and the Managing Director (MD)/Chief Executive Officer (CEO) are separated. Further, functions and responsibilities of the Chairman and the CEO are properly defined and approved in line with Direction 3 (5) of these Directions. Please refer Direction 3 (5) on page 120 of this Report for details.

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (1) (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.	<p><b>Complied with</b></p> <p>Board meets regularly at least on monthly intervals. Please refer 'Item A. 1.1' of the ICASL and SEC Code table on page 102 for further details.</p> <p>Obtaining Board's consent through circulation of written resolutions/papers is minimal.</p>
3 (1) (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.	<p><b>Complied with</b></p> <p>All Board members are given equal opportunity in this regard where such proposals relate to the promotion of business and the management of risks of the Bank. Procedure which is in practice is being documented for record purposes.</p>
3 (1) (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.	<p><b>Complied with</b></p> <p>As the Bank's practice, Directors are given a notice of at least 7 days for regular Board meetings. In addition, adequate notice is given for Special Board meetings. The Bank has commenced to indicate the date of despatch in the agenda for monitoring of this requirement.</p>
3 (1) (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.	<p><b>Complied with</b></p> <p>No such situation has arisen.</p>
3 (1) (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 secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	<p><b>Complied with</b></p> <p>An Attorney-at-Law/Chartered Secretary with adequate experience functions as the Secretary of the Board and she has taken steps to duly comply with the requirements under the Banking Act No. 30 of 1988 and the Companies Act No. 07 of 2007. She has also ensured that proper Board procedures are followed and that applicable rules and regulations are adhered to. Procedure which is in practice is being documented for record purposes.</p>
3 (1) (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.	<p><b>Complied with</b></p> <p>Please refer 'Item A.1.4' of the ICASL and SEC Code table on page 103 for further details.</p> <p>Procedure which is in practice is being documented for record purposes.</p>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (1) (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.	<p><b>Complied with</b></p> <p>The Company Secretary maintains the minutes of Board meetings with sufficient details and keep open for inspection by any Director.</p> <p>Procedure which is in practice is being documented for record purposes.</p>
3 (1) (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: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (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; (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; (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; and (f) the decisions and Board resolutions.	<p><b>Complied with</b></p> <p>The Company Secretary maintains the minutes of Board meetings with sufficient details and keep open for inspection by any Director.</p> <p>Procedure which is in practice is being documented for record purposes.</p>
3 (1) (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><b>Complied with</b></p> <p>The Directors are permitted to seek independent professional advice at the Bank's expense.</p> <p>Please refer 'Item A.1.3' of the ICASL and SEC Code table on page 103 for further details.</p>
3 (1) (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><b>Complied with</b></p> <p>Directors do not participate in making decisions on matters, in which they have an interest and avoid conflicts of interests with the activities of the Bank. Such Directors' presence is disregarded in counting the quorum for agenda involving such issues.</p> <p>Procedure which is in practice is being documented for record purposes.</p>
3 (1) (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><b>Complied with</b></p> <p>The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre-set agenda of meeting ensures the direction and control of the bank is firmly under Board's control and authority.</p>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (1) (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.	<b>Complied with</b> No such situation has arisen. Procedure which is in practice is being documented for record purposes.
3 (1) (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.	<b>Complied with</b> The Bank has duly complied with Capital Adequacy requirements and requirements under other prudential grounds.
3 (1) (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.	<b>Complied with</b> This Report serves the above purpose.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	<b>Complied with</b> The Bank adopted a system of self-assessment, to be undertaken by each Director, annually.
<b>3 (2) - The Board's Composition</b>		
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	<b>Complied with</b> The Board comprised of 9 Directors which is within statutory range of 7 to 13 Directors.
3 (2) (ii)	(A) 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, and such period in office shall be inclusive of the total period of service served by such Director up to January 1, 2008.  (B) In this context, the following transitional provisions shall apply:  A Director who has completed 9 years as at January 1, 2008, or who completes such term at any time prior to December 31, 2008, may continue for a further maximum period of 3 years commencing January 1, 2009.	<b>Complied with</b> The service period of Directors is within the maximum period permitted by this Direction and amendments thereto.
3 (2) (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.	<b>Complied with</b> There are two Executive Directors on the Board, the MD/CEO and the Chief Operating Officer who was appointed as an 'Executive Director' during the year.  This number does not exceed one-third of the number of Directors of the Board.
3 (2) (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 1, 2010 onwards.  A Non-Executive Director shall not be considered independent if he/she:	<b>Complied with</b> The Board has three Independent Non-Executive Directors which is in line with the statutory minimum of having three or one-third of the total number of Directors, whichever is higher.  No Director has personally had any transaction with the Bank exceeding 10% of the regulatory capital of the Bank. Further, Bank has not had any transaction with a concern, in which any of the Directors has/had a substantial interest, exceeding 10% of the Bank's regulatory capital. In addition, the Bank has obtained legal advice, to this effect.

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
	<p>(a) has direct and indirect shareholdings of more than 1% of the Bank;</p> <p>(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;</p> <p>(c) has been employed by the Bank during the two year period immediately preceding the appointment as Director;</p> <p>(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;</p> <p>(e) represents a specific stakeholder of the Bank;</p> <p>(f) is an employee or a Director or a material shareholder in a company or business organisation:</p> <p>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</p> <p>II. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or</p> <p>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.</p>	
3 (2) (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.	<b>Complied with</b> This situation has not arisen.
3 (2) (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> All Non-Executive Directors of the Board are persons with credible track records and posses required skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources. Their profiles are found on pages 146 to 147.
3 (2) (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 1, 2010 onwards.	<b>Complied with</b> All Board meetings held during 2010 were duly constituted with more than one-half of the number of Directors present at such meetings being consist of Non-Executive Directors. Please refer 'Number of Meetings Held and Attendance' on page 134.
3 (2) (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> Details on the profiles of the Non-Executive of Directors is given on pages 146 to 147.

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (2) (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.	<p><b>Complied with</b></p> <p>New appointments and re-elections of Directors to the Board are based on the recommendations of the Board Nomination Committee.</p> <p>There is a procedure in place for the orderly succession of appointments to the Board.</p> <p>Please refer page 139 for the 'Board Nomination Committee Report'.</p>
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	<p><b>Complied with</b></p> <p>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.</p>
3 (2) (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.	<p><b>Complied with</b></p> <p>During the year Mrs. S.N. Wickramasinghe and Ms. J. Kuruppu resigned from the Board of Directors of the Bank. The Company Secretary duly informed the Central Bank of Sri Lanka and the Colombo Stock Exchange of these resignations together with the reasons for their resignations.</p>
3 (2) (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.	<p><b>Complied with</b></p> <p>None of the present Directors of the Bank acts as Director of another Bank, unless provided otherwise in the directions applicable.</p> <p>Procedure which is in practice is being documented for record purposes.</p>
<p><b>3 (3) - Criteria to Assess the Fitness and Propriety of Directors</b></p> <p>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.</p>		
3 (3) (i)	<p>The age of a person who serves as Director shall not exceed 70 years.</p> <p>(A) In this connection the following general exemption shall apply:</p> <p>A Director who has reached the age of 70 years as at January 1, 2008 or who would reach the age of 70 years prior to December 31, 2008 may continue in office for a further maximum period of 3 years commencing January 1, 2009.</p>	<p><b>Complied with</b></p> <p>The age limit of Directors is within the maximum period permitted by this Direction and amendments thereto.</p>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/ institutions inclusive of Subsidiaries or Associate Companies of the Bank. Of such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	} Will be complied before the end of the exemption period.
3 (3) (ii) (A)	In this context, the following general exemption shall apply: If any person holds posts in excess of the limitation as above, such person shall within a maximum period of 3 years from January 1, 2009 comply with the above-mentioned limitation and notify the Monetary Board accordingly.	
<b>3 (4) - Management Functions Delegated by the Board</b>		
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	<b>Complied with</b> The Board is empowered by the Articles of Association to delegate to the MD/CEO any of the powers vested with the Board, upon such terms and conditions and with such restrictions as the Board may think fit.
3 (4) (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.	<b>Complied with</b> 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 hinder the Board's ability to discharge its functions fully and effectively.
3 (4) (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.	<b>Complied with</b> The delegated powers are reviewed periodically to ensure that they remain relevant to the needs of the Bank.
<b>3 (5) - The Chairman and Chief Executive Officer</b>		
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	<b>Complied with</b> Positions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision-making in one person.
3 (5) (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.	<b>Complied with</b> Chairman is an Independent Non-Executive Director.

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (5) (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.	<p><b>Complied with</b></p> <p>The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. Similarly, no relationships prevail among the other members of the Board, other than being common Directors of certain companies.</p> <p>Procedure which is in place, is being documented for record purposes.</p>
3 (5) (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.	<p><b>Complied with</b></p> <p>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.</p>
3 (5) (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.	<p><b>Complied with</b></p> <p>The Agenda for each Board meeting is finalised by the Company Secretary after consulting the other Directors, depending on the matters to be taken up at the meeting, under supervision of the CEO and finally, the Chairman.</p>
3 (5) (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.	<p><b>Complied with</b></p> <p>The Chairman ensures that all Directors are properly briefed on issues arising at Board Meetings and all Directors receive adequate information in a timely manner. Please refer 'Item A.6.1' of the ICASL and SEC Code Table on page 103 for further details.</p>
3 (5) (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.	<p><b>Complied with</b></p> <p>The Chairman takes all possible steps to ensure that the Board acts in the best interests of the Bank.</p>
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	<p><b>Complied with</b></p> <p>The Chairman facilitates that all Directors both Executive and Non-Executive, bring independent judgment to bear on issues of strategy, conduct of Bank operations and performance.</p>
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	<p><b>Complied with</b></p> <p>The Chairman does not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.</p>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (5) (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.	<p><b>Complied with</b></p> <p>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 CEO or any other officer.</p> <p>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.</p>
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Bank's operations and business.	<p><b>Complied with</b></p> <p>The CEO is supported by the members of the Corporate Management to manage the day-to-day-management of the Bank's operations and business.</p>
<b>3 (6) - Board Appointed Committees</b>		
3 (6) (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.	<p><b>Complied with</b></p> <p>The following Board Sub-Committees have been appointed by the Board requiring each such committee to report to the Board:</p> <ol style="list-style-type: none"> <li>1. Board Audit Committee</li> <li>2. Board Human Resources and Remuneration Committee</li> <li>3. Board Nomination Committee</li> <li>4. Board Integrated Risk Management Committee</li> <li>5. Board Credit Committee</li> </ol> <p>The Board has appointed Secretaries for each Committee who arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the respective Committee.</p> <p>Please refer pages 135 to 140 for the Reports of the first four Committees.</p>
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	Please refer Sections of Composition, Charter, Meetings and the Methodology of the Board Audit Committee Report on pages 135 - 136.
	(a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	<b>Complied with</b>
	(b) All members of the Committee shall be Non-Executive Directors.	<b>Complied with</b>
	(c) The Committee shall make recommendations on matters in connection with:	<b>Complied with</b>
	(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; and (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.	<b>Complied with</b>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
	<p>(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:</p> <ol style="list-style-type: none"> <li>I. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</li> <li>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</li> <li>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.</li> </ol>	Complied with
	<p>(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.</p>	Complied with
	<p>(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.</p>	Complied with
	<p>(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.</p>	Complied with
	<p>(i) The Committee shall review the External Auditor's management letter and the management's response thereto.</p>	Complied with

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
	<p>(j) The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <ul style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>iii. Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</li> <li>iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> </ul>	<p><b>Complied with</b></p>
	<p>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;</p>	
	<p>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;</p>	<p><b>Complied with</b> The procedure which is in practice is being documented for record purposes.</p>
	<p>(k) The Committee shall consider the major findings of internal investigations and management's responses thereto;</p>	<p><b>Complied with</b></p>
	<p>(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.</p>	<p><b>Complied with</b></p>
	<p>(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; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	<p><b>Complied with</b></p>
	<p>(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.</p>	<p><b>Complied with</b></p>
	<p>(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; and (iii) details of attendance of each individual Director at such meetings.</p>	<p><b>Complied with</b></p>
	<p>(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.</p>	<p><b>Complied with</b></p>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
	(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>
<b>3 (6) (iii)</b>	The following rules shall apply in relation to the Human Resources and Remuneration Committee:	Please refer Sections of Composition, Charter, Meetings and the Methodology of the Board Human Resources and Remuneration Committee Report on pages 137 and 138.
	(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> Procedure which is in practice is being documented for record purposes.
	(b) The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	<b>Complied with</b> Procedure which is in practice is being documented for record purposes.
	(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.	<b>Complied with</b>
	(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>
<b>3 (6) (iv)</b>	The following rules shall apply in relation to the Board Nomination Committee:	Please refer Sections of Composition, Charter, Meetings and the Methodology of the Board Nomination Committee Report on page 139.
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	<b>Complied with</b> Procedure documented for Directors. For KMPs the procedure is in practice and is being documented for record purposes.
	(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.	<b>Complied with</b>
	(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.	<b>Complied with</b> Procedure which is in practice is being documented for record purposes.
	(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.	<b>Complied with</b>
	(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.	<b>Complied with</b>
	(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.	<b>Complied with</b>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	Please refer Sections of Composition, Charter, Meetings and the Methodology of the Board Integrated Risk Management Committee Report on page 140.
	(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
	(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.	Complied with for Bank. Steps are being taken to comply with this requirement for Subsidiary Companies.
	(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.	Complied with
	(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the 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.	Complied with
	(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with
	(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.	Complied with
	(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.	Currently this Report is submitted to the next Board Meeting held immediately after the Committee Meeting and steps will be taken to comply with the requirement in future.
	(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

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
<b>3 (7) - Related Party Transactions</b>		
3 (7) (i)	<p>The Board shall take the 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:</p> <ul style="list-style-type: none"> <li>(a) Any of the Bank's subsidiary companies;</li> <li>(b) Any of the Bank's associate companies;</li> <li>(c) Any of the Directors of the Bank;</li> <li>(d) Any of the Bank's Key Management Personnel;</li> <li>(e) A close relation of any of the Bank's Directors or Key Management Personnel;</li> <li>(f) A shareholder owning a material interest in the Bank;</li> <li>(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.</li> </ul>	<p><b>Complied with</b></p> <p>The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties.</p> <p>Procedure which is in practice is being documented for record purposes.</p> <p>Transactions are carried out with Related Parties in the normal course of business as disclosed in Note 40 on 'Related Party Disclosures' on pages 274 to 280.</p>
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <ul style="list-style-type: none"> <li>(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,</li> <li>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</li> <li>(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank,</li> <li>(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.</li> </ul>	<p><b>Complied with</b></p> <p>The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with its related parties.</p> <p>Procedure which is in practice is being documented for record purposes.</p> <p>Transactions are carried out with Related Parties in the normal course of business as disclosed.</p>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (7) (iii)	<p>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. In this context, “more favourable treatment” shall mean and include treatment, including the:</p> <p>(a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the Bank’s regulatory capital, as determined by the Board. For purposes of this sub-direction:</p> <p>I. “Accommodation” shall mean accommodation as defined in the Banking Act Directions No. 07 of 2007 on Maximum Amount of Accommodation.</p> <p>II. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank’s share capital and debt instruments with a maturity of 5 years or more.</p> <p>(b) Charging of a lower rate of interest than the Bank’s best lending rate or paying more than the Bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty;</p> <p>(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>(d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p><b>Complied with</b> The Bank does not engage any transactions with its related parties in the manner that would result in “more favourable treatment” including granting loans exceeding a prudent percentage of the Bank’s regulatory capital, more favourable terms, etc.</p>
3 (7) (iv)	<p>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>	<p><b>Complied with</b> All accommodations granted to Directors and their close relations were sanctioned at Board Meetings with not less than two-thirds of the number of Directors present other than the Director concerned, voting in favour of such accommodation.</p>
3 (7) (v)	<p>(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> <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> <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> <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>	<p><b>Not applicable</b> The Bank did not encounter this situation during the year.</p>

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
3 (7) (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.	<b>Complied with</b> No accommodation has been given to employees on a favourable basis other than the general schemes applicable to all employees of the Bank, such as staff loans facilities.
3 (7) (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 remission without such approval shall be void and of no effect.	<b>Not applicable</b> due to the reasons mentioned above.
<b>3 (8) - Disclosures</b>		
3 (8) (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 that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	<b>Complied with</b> Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published in the newspapers (in Sinhala, Tamil and English) in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards. In addition a copy of the Annual Report is sent to each shareholder either in the hard copy form or in a CD. Further Interim Financial Statements are sent to the Colombo Stock Exchange in addition to hosting them in the official website of the Bank for the information of interested stakeholders.
3 (8) (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) 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> Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the annual Audited Financial Statements have been made in the ‘Annual Report of the Board of Directors’ on pages 193 to 201, ‘Managing Director’s and Chief Financial Officer’s Responsibility Statement on page 203 and the Note D on Statement of Compliance in ‘Notes to the Financial Statements’ on page 212.  <b>Complied with</b> Report by the Board on the effectiveness of the Bank’s internal control mechanism to ensure 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 is given on page 202 on “Statement of Directors’ Responsibility” of this Annual Report. In addition, all Directors have signed the “Annual Report of Board of Directors” found on pages 193 to 201, wherein all Directors have collectively taken the responsibility for the above requirement.

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance														
	(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.	<b>Complied with</b> The Bank obtained the External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8)(ii) (b) above.														
	(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> Profiles of Directors are given on pages 146 to 147, transactions of the Directors with the Bank are given in the 'Directors Interest in Contracts with the Company' on pages 141 to 143 and the total of fees/remuneration paid to the Directors by the Bank is given in Note 7 to the Financial Statements on page 230.														
	(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> Total net accommodations granted to each category of related parties are given in Note 40 to the Financial Statements on pages 274 to 280. The net accommodations granted to each category of related parties as a percentage of the Bank's regulatory capital are given below: Direct and indirect accommodation to related parties:														
		<table border="1"> <thead> <tr> <th rowspan="2">Category of Related Party Transactions</th> <th colspan="2">% of the Regulatory Capital</th> </tr> <tr> <th>2010</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel</td> <td>0.19</td> <td>0.19</td> </tr> <tr> <td>Subsidiaries</td> <td>0.82</td> <td>0.97</td> </tr> <tr> <td>Associates</td> <td>0.10</td> <td>0.13</td> </tr> </tbody> </table>	Category of Related Party Transactions	% of the Regulatory Capital		2010	2009	Key Management Personnel	0.19	0.19	Subsidiaries	0.82	0.97	Associates	0.10	0.13
Category of Related Party Transactions	% of the Regulatory Capital															
	2010	2009														
Key Management Personnel	0.19	0.19														
Subsidiaries	0.82	0.97														
Associates	0.10	0.13														
	(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> The aggregate values of remuneration paid by the Bank to its Key Management Personnel are given in Note 40.2.1 to the Financial Statements on page 275 and the aggregate values of the transactions of the Bank with its Key Management Personnel are set out in Note 40.2.2 to the Financial Statements on pages 275 to 276.														
	(g) The External Auditor's Certification of the compliance with these Directions in the Annual Corporate Governance Reports published after January 1, 2010.	<b>Complied with</b> The External Auditor's Certification of the compliance with the requirements of these Directions was obtained and it does not contain any significant deviations.														
	(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 202 for details of the compliance with prudential requirements, regulations, laws and internal controls.  There were no material non-compliance to prudential requirements, regulations, laws and internal controls affecting the Bank.														

## CORPORATE GOVERNANCE

Relevant Section	Rule	Degree of Compliance
	(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.	<b>Complied with</b> There were no significant supervisory concerns on lapses in the Bank's risk management or non-compliance with this Direction that have been pointed out by the Director of Bank Supervision of Central Bank of Sri Lanka and requested by the Monetary Board to be disclosed to the public.
<b>3 (9) - Transitional and Other General Provisions</b>		
3 (9) (i)	Compliance with this Direction shall commence from January 01, 2008 onwards and all Licensed Commercial Banks shall fully comply with the provisions of this Direction by or before January 1, 2009 except where extended compliance dates have been specifically provided for in this Direction.	Position reported in 2008 & 2009 Annual Reports. Position applicable to the year 2010 as reported in this Annual Report.
3 (9) (ii)	In respect of the Banks that have been incorporated by specific statutes in Sri Lanka, the Boards as specified in such statutes shall continue to function in terms of the provisions of the respective statutes, provided they take steps to comply with all provisions of this Direction that are not inconsistent with the provisions of the respective statutes.	<b>Not Applicable</b>
3 (9) (iii)	This Direction shall apply to the branches of the foreign Banks operating in Sri Lanka to the extent that it is not inconsistent with the regulations and laws applicable in such Bank's country of incorporation. The branch of a foreign Bank shall also publish its parent Bank's Annual Corporate Governance Report together with its Annual Report and accounts of the branch operations in Sri Lanka.	<b>Not Applicable</b>
3 (9) (iv)	In the event of a conflict between any of the provisions of this Direction and the Articles of Association (or Internal Rules) pertaining to any Bank, the provisions of this Direction shall prevail. However, if the Articles of Association of an individual Bank set a more stringent standard than that specified in this Direction, such provisions in the Articles of Association may be followed.	<b>Not Applicable</b>
3 (9) (v)	If for any reason such as ill health or any incapacity as provided in the Banking Act, 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.	<b>Not Applicable</b>



***Substantial  
Development  
Bank Ready***



***National  
t... and a  
to Assist!***

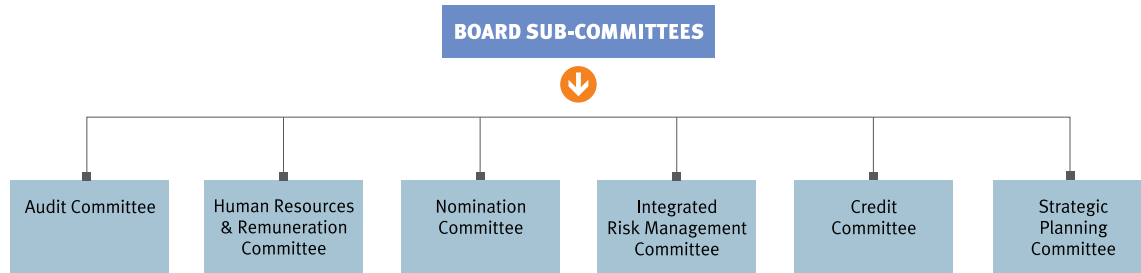
*National economic growth and well-being must travel a Smooth Road*



*The fact is that the Government of Sri Lanka has planned and is implementing enormous development across the country. Yet, bottlenecks in infrastructure can slow momentum.*

*The Commercial Bank is gearing to play its part in providing whatever assistance it can by way of tailored banking and financial solutions to the 'needs of the hour'.*

## BOARD SUB-COMMITTEES



### Number of Meetings Held and Attendance

Committee	Main Board		Audit Committee		Human Resource & Remuneration Committee		Nomination Committee		Board 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	14	14			8	8	2	2	4	4				
Mr. B.R.L. Fernando	14	14	10	10			2	2	4	1				
Mr. A.L. Gooneratne	14	14	***10	10	8	8	***2	2	4	4				
Dr. H.S. Wanasinghe	14	14	10	10	8	8								
Mr. P. M Martelli	13	10												
Mr. D.S. Weerakkody	12	12	10	5	8	8								
Mr. R.M.S. Fernando	14	13	10	9					4	4				
Mrs. S.N. Wickramasinghe (Resigned w.e.f. 26.05.2010)	3	3	5	3					1	1				
Mrs. J. Kuruppu (Resigned w.e.f. 15.07.2010)	6	5			3	1								
Prof. U.P. Liyanage (Appointed w.e.f. 14.12.2010)	1	1												
Mr. W.M.R.S. Dias (Appointed w.e.f. 14.12.2010)	1	1												

\* 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 and Nomination Committee Meetings by invitation.

### Committee Composition as at December 31, 2010

Committee	Main Board	Audit Committee	Human Resource & Remuneration Committee	Nomination Committee	Board 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	M		M	M	M	M
Mr. A.L. Gooneratne	M	Ω	M	Ω	M	M	M
Dr. H.S. Wanasinghe	M	M	M				
Mr. P.M. Martelli	M						
Mr. D.S. Weerakkody	M	M	M				M
Mr. R.M.S. Fernando	M	C			M		
Mrs. S.N. Wickramasinghe (Resigned w.e.f. 26.05.2010)	M	M			M		
Mrs. J. Kuruppu (Resigned w.e.f. 15.07.2010)	M		M	M			
Prof. U.P. Liyanage (Appointed w.e.f. 14.12.2010)	M						
Mr. W.M.R.S. Dias (Appointed w.e.f. 14.12.2010)	M				M		

C Chairman

M Member

Ω By invitation

Reports of the Audit, Human Resource & Remuneration, Nomination and Integrated Risk Management Committees are given on pages 135 to 140.

## BOARD AUDIT COMMITTEE REPORT



Mr. R.M.S. Fernando -  
Chairman



Mr. B.R.L. Fernando



Dr. H. S. Wanasinghe



Mr. D.S. Weerakkody

### THE COMPOSITION OF THE COMMITTEE

The Board appointed Audit Committee comprises the following Non-Executive Directors of the Bank:

Mr. R.M.S. Fernando (*Chairman*)

Mr. B.R.L. Fernando

Dr. H.S. Wanasinghe

Mr. D.S. Weerakkody

Mr. R.M.S. Fernando, was appointed the Chairman of the Audit Committee from April 2010, on Mr. B.R.L. Fernando, former Chairman stepping down from the Chairmanship. However, Mr. B.R.L. Fernando continues to extend his services to the Committee as a Member.

Mrs. S.N. Wickremasinghe, who was a Member of the Committee relinquished her services upon resignation from the Board from May 2010. Mr. A.T.P. Edirisinghe, who served the Committee in the capacity of a consultant, too relinquished his services in September 2010.

The Chairman of the Committee, an independent Non-Executive Director, is a Fellow of The Chartered Institute of Management Accountants, U.K., and a Fellow of The Chartered Institute of Bankers, U.K. The Managing Director, the Chief Financial Officer and the Chief Risk Officer attend Committee meetings by invitation. Bank's Deputy General Manager – Inspection, functions as the Secretary of the Committee.

### TERMS OF REFERENCE

The terms of reference of the Audit Committee are clearly defined in the Charter of the Audit Committee approved by the Board of Directors. The Audit Committee Charter is periodically reviewed and revised with the concurrence of the Board of Directors. The Committee is responsible to the Board of Directors and report on its activities regularly. The role and functions of the Audit Committee are also regulated by the rules governing Audit Committees as specified by the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka', the 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and the 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

### MEETINGS OF THE COMMITTEE

During the financial year ended December 31, 2010, ten meetings of the Committee were held. The proceedings of the Committee Meetings are recorded with adequate details and are reported regularly to the Board of Directors. The attendance of the Committee Members at the meetings is stated in the table on page 134 of this Annual Report. On the invitation of the Committee, the Engagement Partner of the Bank's External Auditors, M/s Ernst & Young, attended five Committee meetings during the year.

Members of the Senior Management of the Bank too were invited to participate at 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 all relevant issues relating to the financial and other connected affairs of the Bank
- Monitor the Internal and External Audit and Inspection Programmes, review the Internal and External Audit/Inspection Reports, follow up on all their findings and recommendations.
- Analyse and review the risks faced by the Bank and examine the adequacy, efficiency and the effectiveness of the Internal Control Systems and Procedures in place to avoid, mitigate or transfer such risks.
- Review the suitability and the quality of Accounting Policies and any changes in Accounting Policies and Practices, their adherence to Statutory and Regulatory Compliance and applicable Accounting Standards.
- Review and ensure the integrity of the Bank's Annual Report and the Accounts and the Interim Financial Statements prepared for the information of the shareholders, before submission of same to the Board.
- Ensure that a sound reporting system is in place to provide timely information to the Board of Directors, Regulatory Authorities, Management and other stakeholders.
- Ensure that the Bank has adopted and adheres to policies which firmly commits the Bank to achieve the highest levels of good corporate governance standards and practices and that the Bank's operations conform to the highest ethical standards, industry practices and serve the best interests of the stakeholders.

### FINANCIAL REPORTING

The Committee assists the Board of Directors to discharge their responsibility for the preparation of Financial Statements that portray a true and fair view of the affairs of the Bank, in accordance with the Bank's accounting records and in conformity with 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 internal controls over 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.
- Reviewing any changes in accounting policies and practices, major judgemental areas and significant adjustments arising out of the Audit.
- Ensuring strict adherence and compliance to the accounting policy requirements of the Sri Lanka Accounting Standards and disclosure requirements.
- Reviewing the Annual Financial Statements and the Interim Financial Statements prepared for disclosure, prior to submission to the Board.

## BOARD AUDIT COMMITTEE REPORT

Having assessed the internal financial controls, systems and procedures, the Committee seeks to satisfy itself 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 reviews 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.

### 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 work done by 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

370 audit and inspection reports on Branches and Head Office Departments were examined and the operational deficiencies and shortcomings highlighted 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. Major findings of internal investigations and responses of the Management thereto were considered and appropriate directions issued.

### EXTERNAL AUDIT

The Committee assists the Board of Directors in engaging External Auditors for the audit services in compliance with the statutes and agreeing on their remuneration with the approval of the shareholders. The Committee keeps itself informed of Central Bank guidelines issued to Auditors from time to time and the application of the relevant accounting standards.

The Committee also reviews the non-audit services provided by the Auditors to ensure that such functions do not fall within the restricted services and that the provision of such services does not impair the External Auditor's independence and objectivity. The Committee met with the External Auditors prior to commencement of the Audit to discuss the scope of the Audit, approach and methodology adopted and at the conclusion of the Annual Audit, to deliberate the 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 discuss and express their opinion on any matter in the absence of key management personnel, and also to verify whether they were

in a position to obtain whatever information they had requested from the management.

The Auditors' Management Letter together with the Management's responses thereto and the audited Annual Accounts were reviewed with the Auditors.

### INTERNAL CONTROLS

The Committee in consultation with the External Auditors closely monitored the progress being made by the Bank in formulating procedures designed to maintain an effective internal control mechanism to provide reasonable assurance regarding the reliability of financial reporting and that the Financial Statements have been prepared in accordance with the relevant accounting principles and regulatory requirements.

The Committee also regularly examined the major decisions taken by 'Assets and Liability Committee', 'Credit Policy Committee', all exceptional items charged to the Income Statement, long outstanding items in Bank's Chart of Accounts, Credit Quality and adherence to bad debt classification 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

The Committee monitored on a continuous basis the maintenance of the highest standards in Corporate Good Governance and strict adherence to the Bank's Code of Ethics. Through the Code of Ethics and a Whistle-Blower's Charter all staff have been encouraged to resort

to whistle-blowing in the strictest confidence, when they suspect wrong doings or other improprieties. Appropriate procedures are in place to conduct independent investigations into all such reported incidents. Staff have been assured of maintenance of strict confidentiality of the identity of whistle-blowers.

### THE CHARTER OF THE AUDIT COMMITTEE

The Audit Committee Charter was last revised in December 2010 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 rated highly 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, 2011 subject to the approval of shareholders at the next Annual General Meeting. As per Section 3(6) (ii) (c) (iv) of the Banking Act Direction No. 11 of 2007, the Engagement Partner in charge of the Audit will change next year, after providing his services for five consecutive years.



R.M.S. Fernando  
Chairman - Audit Committee

Colombo  
February 15, 2011

## BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT



Mr. M.J.C. Amarasuriya -  
Chairman



Dr. H. S. Wanasinghe



Mr. D.S. Weerakkody



Mr. A.L. Gooneratne

### COMPOSITION OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Board appointed Human Resources and Remuneration Committee comprises of four members, consisting of three Non-Executive Directors and an Executive Director who is the Managing Director of the Bank.

Mr. M.J.C. Amarasuriya (*Chairman*)

Mr. A.L. Goonarathne (*Managing Director*)

Dr. H.S. Wanasinghe

Mr. D.S. Weerakkody

Brief profiles of each member are given on pages 146 to 147. Ms. J. Kuruppu, one of the Non-Executive Directors of the Bank, who was appointed to the Committee on January 28, 2010 resigned from the Committee with her resignation from the Board of Directors of the Bank with effect from July 15, 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 -

- Determine 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.
- Determine 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 in 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 and make recommendations and provide 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 fulfillment of all commitments arising as a result of the employer-employee relationship.
- Recommend/decide/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.
- 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 of the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general 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 support sustainable growth.
- Structuring remuneration packages to ensure that a significant portion of the remuneration is linked to performance, to promote a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- To develop a robust pipeline of raising talent capable and available to fill key positions in the Bank.

### HUMAN RESOURCES AND REMUNERATION COMMITTEE GUIDING PRINCIPLES

The Overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience and the skills and competencies required, to be considered for appointment or promotion to the post of Managing Director and to Key Management positions.
- Setting guidelines and policies to ensure that the Bank upholds and adhere to the provisions of

### HUMAN RESOURCES AND REMUNERATION COMMITTEE MEETINGS

The Committee held eight meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 134. The Chairman of the Committee can convene 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.

## BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

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.

### **METHODOLOGY USED BY THE HUMAN RESOURCES AND REMUNERATION COMMITTEE**

The Committee recognises rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract and retain and to motivate employees to perform by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the Managing Director and Key Management Personnel against the pre-agreed targets and goals that balance short term and long term financial and strategic objectives.

The Bank's variable (bonus) 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 is set to ensure that individual rewards reflect the performance of the Bank overall, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre-determined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.



**M.J.C. Amarasuriya**  
*Chairman - Human Resources and Remuneration Committee*

Colombo  
February 15, 2011

## BOARD NOMINATION COMMITTEE REPORT



Mr. M.J.C. Amarasuriya -  
Chairman



Mr. B.R.L. Fernando



Mr. A.L. Gooneratne

### COMPOSITION OF THE NOMINATION COMMITTEE

The Nomination Committee comprises of Mr. M.J.C. Amarasuriya, Chairman and Mr. B. R. L. Fernando, Deputy Chairman and Mr. A.L. Gooneratne, Managing Director attends meetings by invitation. Ms. Janaki Kuruppu who was also a member of the Committee resigned from the Board of Directors of the Company and the Committee with effect from July 15, 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 twice during the year under review. The attendance of Committee Members at meetings is stated in the table on page 134. 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 15, 2011

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT



Mr. M.J.C. Amarasuriya -  
Chairman



Mr. B.R.L. Fernando



Mr. R.M.S. Fernando



Mr. A.L. Gooneratne



Mr. W.M.R.S. Dias

### COMPOSITION OF BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board Integrated Risk Management Committee (BIRMC) consists of the following members;

Mr. M.J.C. Amarasuriya\*  
(Chairman of the Board & the BIRMC)

Mr. B.R.L. Fernando\*

Mr. R.M.S. Fernando\*

Mr. A.L. Gooneratne (Managing Director/CEO)

Mr. W.M.R.S. Dias (Executive Director/Chief Operating Officer)

Mr. S. Renganathan (Chief Risk Officer)

Mr. K.D.N. Buddhipala (Chief Financial Officer & Secretary of the BIRMC)

\*Independent Non-Executive Director

Mrs. S.N. Wickramasinghe, one of the Non-Executive Directors resigned from the Board and consequently from the Committee, with effect from the 26th of May, 2010.

### CHARTER OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The BIRMC was established by the Board of Directors, in compliance with the Section 3 (6) of Direction No. 11

of 2007, on the subject "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the Central Bank of Sri Lanka under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee is in conformity with the provisions of the Section 3 (6) (v) of the aforesaid Direction.

The Charter of the BIRMC was reviewed by the Board of Directors in March 2010. Its scope and functions, in the context of the Bank's overall Risk management framework, are more fully described in the Section on 'Risk Management' on pages 153 to 169 of this Annual Report.

### BOARD INTEGRATED RISK MANAGEMENT COMMITTEE MEETINGS

The Committee held four meetings, on a quarterly basis, during the year under review. The attendance of Committee Members at meetings is stated in the table on page 134 of this Annual Report. A summary of the proceedings of meetings of the BIRMC is tabled at meetings of the Board of Directors.

### METHODOLOGY ADOPTED BY THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Committee continued to work very closely with the Key Management Personnel and Board in fulfilling its statutory, fiduciary and regulatory responsibilities for Risk Management. In this regard, the Committee's main functions include *inter alia* the following:

- To assess all risks including credit, market, liquidity, operational and strategic risks on a regular basis via appropriate risk indicators and MIS reports.
- To review the adequacy and effectiveness of all management level committees such as Credit Policy, Assets and Liabilities, Executive Integrated Risk Management, etc., and to manage the associated risks within the quantitative and qualitative risk limits.
- To ensure that the risks of the Bank are within the prudent levels decided by the Committee based on the Bank's risk appetite and the regulatory and supervisory requirements. Corrective actions, if any are taken promptly on a needy basis.

- To take appropriate actions against the failures of the officers responsible for risk management functionality to improve the overall effectiveness of risk management at Commercial Bank.
- To 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 assisted by the Compliance Officer of the Bank
- To review progress on Basel II Roadmap implementation.
- To review the updated Business Continuity Plan.

During the year under review, the Committee supported and moved forward the Bank's business strategy and reinforced its values in the context of a clearly articulated risk appetite and effective risk management system.

**M.J.C. Amarasuriya**  
Chairman - Board Integrated Risk Management Committee

Colombo  
February 15, 2011

## 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 274 to 280. 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 31.12.2010 Rs. '000	Balance Outstanding As at 31.12. 2010 Rs. '000	Balance Outstanding As at 31.12.2009 Rs. '000
<b>(a) Mr. M.J.C. Amarasuriya</b>					
Pelwatte Sugar Industries PLC	Chairman	Loans & Advances	1,233	1,233	6,001
		Deposits		3,174	916
Serendib Flour Mills (Pvt) Ltd.	Chairman	Loans & Advances	2,577,360	1,123,704	188,330
		Off-Balance Sheet Accommodations	4,270,000	385,713	-
		Deposits		436,495	-
<b>(b) Mr. B.R.L. Fernando</b>					
Chemical Industries (Colombo) PLC	Chairman	Loans & Advances	450,000	-	-
		Off-Balance Sheet Accommodations	250,000	-	1,024
		Deposits		13,677	15,967
Chemanex PLC	Chairman	Loans & Advances	80,000	-	13,073
		Off-Balance Sheet Accommodations	43,000	12,107	14,065
		Deposits		1,060	139
CIC Agri Business (Pvt) Ltd.	Chairman	Loans & Advances	1,300,510	550,510	716,650
		Off-Balance Sheet Accommodations	10,000	4,586	13,473
		Deposits		78,548	61,673
CIC Feeds (Pvt) Ltd.	Chairman	Loans & Advances	479,904	199,734	452,250
		Off-Balance Sheet Accommodations	405,000	218,981	93,799
		Deposits		147	375
Tea Advisory Services (Pvt) Ltd.	Chairman	Loans & Advances	2,000	-	-
		Deposits		760	811
Akzo Nobel Paints Lanka (Pvt) Ltd.	Chairman	Deposits		9,666	13,294
CIC Agri Produce Export (Pvt) Ltd.	Chairman	Deposits		1,443	2,186
CIC Agri Produce Marketing (Pvt) Ltd.	Chairman	Deposits		1,496	418
Crop Management Services (Pvt) Ltd.	Chairman	Deposits		4,547	3,315
Link Natural Products (Pvt) Ltd.	Director	Deposits		1,231	5,275
First Guardian Equites (Pvt) Ltd.	Director	Deposits		2,906	-
Sunhill Tea Factory (Pvt) Ltd.	Director	Deposits		2,165	-
Ceylon Tea Brokers PLC	Director	Loans & Advances	50,000	37,823	-
		Deposits		2,806	-

## DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Company	Relationship	Accommodation Granted/Deposits	Current Limit As at 31.12.2010 Rs. '000	Balance Outstanding As at 31.12. 2010 Rs. '000	Balance Outstanding As at 31.12.2009 Rs. '000
<b>(c) Mr. D.S. Weerakkody</b>					
Chartered Institute of Management Accountants	Council Member	Deposits		275	80
Cornucopia Lanka Ltd.	Director	Deposits		150	-
DFCC Bank	Director	Deposits		23,938	-
<b>(d) Mr. R.M.S. Fernando</b>					
Orient Financial Services Corp. Ltd.	Chairman	Loans & Advances	499,903	219,304	247,200
		Deposits		469	339
United Motors Lanka PLC	Chairman	Loans & Advances	200,000	-	3,315
		Off-Balance Sheet Accommodations	150,000	62,462	22,930
		Deposits		15,152	4,166
Seguwantivu Wind Power (Pvt) Ltd.	Chairman	Loans & Advances	500,000	500,000	
		Off-Balance Sheet Accommodations	50,581	50,581	758,809
		Deposits		97,504	766,327
Vidatamunai Wind Power (Pvt) Ltd.	Chairman	Deposits		1,814	267,603
Unimo Enterprises (Pvt) Ltd.	Chairman	Loans & Advances	253,000	159,696	107,317
		Off-Balance Sheet Accommodations	548,516	412,843	51,158
		Deposits		2	7
Orient Motor Company Ltd.	Chairman	Loans & Advances	15,000	-	3,082
		Deposits		6,151	-
Piramal Glass Ceylon PLC	Director	Loans & Advances	451,000	251,344	287,512
		Off-Balance Sheet Accommodations	110,000	18,938	1,850
		Deposits		87,234	4,466
Kelani Tyres PLC	Director	Loans & Advances	110,000	39,046	8,885
		Off-Balance Sheet Accommodations	10,000	5,925	-
		Deposits		49	-
Sierra Cables PLC	Director	Loans & Advances	585,242	583,015	304,508
		Off-Balance Sheet Accommodations	550,000	475,770	242,772
		Deposits		6,675	4,715

## DIRECTORS' INTEREST IN CONTRACTS WITH THE COMPANY

Company	Relationship	Accommodation Granted/Deposits	Current Limit As at 31.12.2010 Rs. '000	Balance Outstanding As at 31.12. 2010 Rs. '000	Balance Outstanding As at 31.12.2009 Rs. '000
<b>(e) Prof. U.P. Liyanage (Appointed to the Board on 14.12.2010)</b>					
Diesel & Motor Engineering Company PLC	Director	Loans & Advances	1,160,600	<b>1,147,700</b>	-
		Off Balance Sheet Accommodations	1,927,000	<b>1,837,767</b>	-
		Deposits		<b>433,300</b>	-
Chemanex PLC	Director	Loans & Advances	80,000	-	-
		Off Balance Sheet Accommodations	43,000	<b>12,107</b>	-
		Deposits		<b>1,060</b>	-
Ceylon Cold Stores	Director	Loans & Advances	150,000	<b>76,003</b>	-
		Off Balance Sheet Accommodations	50,000	-	-
Talawakelle Tea Estates PLC	Director	Loans & Advances	254,800	<b>9,358</b>	-
		Off Balance Sheet Accommodations	10,000	<b>1,520</b>	-
Q & E Advertising (Pvt) Ltd.	Director	Loans & Advances	2,800	<b>1,403</b>	-
		Deposits		<b>3,034</b>	-

\* Comparative figures for 2009 are disclosed only if outstandings are available as at 31.12.2010.

BOARD OF DIRECTORS





*Seated Left to Right:*

B.R.L. Fernando (*Deputy Chairman*), M.J.C. Amarasuriya (*Chairman*), A.L. Gooneratne (*Managing Director*), Dr. H.S. Wanasinghe

*Standing Left to Right:*

Prof. U.P. Liyanage, R.M.S. Fernando, D.S. Weerakkody, W.M.R.S. Dias, Mrs. R.R. Dunuwille (*Company Secretary*), P.M. Martelli (not in picture)

## 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 also the Chairman of Pelwatte Sugar Industries PLC, Serendib Flour Mills (Pvt) Ltd., Equity Investments Lanka Ltd., Unawatuna Beach Resorts Ltd., ONEzero Company Ltd. and Commex Sri Lanka SRL. He is a Director of Mawubima Lanka Foundation and Infoserve (Pvt) Ltd., and a Co-owner of Clodagh Western Estate. 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 670,645 Voting Shares and 227,821 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 Commercial Development Company PLC, Chemical Industries (Colombo) PLC, Akzo Nobel Paints Lanka (Pvt) Ltd., Chemanex PLC, CIC Agri Businesses (Pvt) Ltd., CIC Feeds (Pvt) Ltd., CIC Bio Security Breeder Farms Ltd. and

Crop Management Services (Pvt) Ltd. He is also the Past Chairman of CIC Seeds (Pvt) Ltd., CIC Agri Biotech (Pvt) Ltd., CIC Vetcare (Pvt) Ltd., CIC Poultry Farms Ltd., CISCO Speciality Packaging (Pvt) Ltd., CIC Environmental Management Liquid (Pvt) Ltd., CIC CropGuard (Pvt) Ltd., Kelani Valley Canneries Ltd., CIC Mahaweli Livestock Dairies (Pvt) Ltd. and Wayamba Agro Fertilizer Company Ltd. He is a Director of First Guardian Equities (Pvt) Ltd., Link Natural Products (Pvt) Ltd., CIC Agri Produce Export (Pvt) Ltd., CIC Agri Produce Marketing (Pvt) Ltd., Tea Advisory Services (Pvt) Ltd., Sunhill Tea Factory (Pvt) Ltd., Ceylon Tea Brokers PLC, Sri Lanka Business Development Centre, National Council for Economic Development and Catholic Business Persons and Professional Association. He is also a Committee Member of the Japan-Sri Lanka Technical and Cultural Association. He holds 12,621 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 and Wales and a Fellow of The Institute of Chartered Accountants, Sri Lanka. He was the Founder Chairman of the Financial Ombudsman Sri Lanka (Guarantee) Ltd. and is the current Vice-Chairman of 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 is also a Committee Member of the National Payments Council, which is a Central Bank structured committee and is the current Chairman of Commercial Insurance Brokers (Pvt) Ltd. He was a member of the National Task Force on Corporate Governance for the Banking Industry. He was also nominated to the Board of SriLankan Air line during 2002-2004 by the Government of Sri Lanka. He holds 1,373,620 Voting Shares and 57,042 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 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.

### **D.S. WEERAKKODY**

He was first appointed to the Board on July 29, 2005.

He holds a Master's Degree in Business Administration (MBA) from the University of Leicester, England and is a Graduate in Business Administration. 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, Member of the Sri Lanka Institute of Directors 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 (2003-2010) and Glaxo SmithKline 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 10,000 Voting Shares.

## BOARD OF DIRECTORS - PROFILES

### **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 the Chairman of United Motors Lanka PLC, Unimo Enterprises (Pvt) Ltd., Latex Green Ltd., Wealth Trust Corporation (Pvt) Ltd., Vidatamunai Wind Power (Pvt) Ltd., Seguwantivu Wind Power (Pvt) Ltd. and Leopard Sri Lanka Fund.

Mr. Fernando is also a Director of Kelani Tyres PLC, Sierra Cables PLC, Piramal Glass Ceylon PLC, UML Property Developments (Pvt) Ltd., Orient Motor Company Ltd., ICICI International (Pvt) Ltd. (Mauritius) and Prasac Microfinance - Cambodia. He has been the Chief Executive Officer and a Director of The National Development Bank PLC, 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 first 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.

### **PROF. U.P. LIYANAGE**

He was first appointed to the Board on December 14, 2010.

He is a Fellow of the Chartered Institute of Marketing, UK and he holds a MBA and Ph.D. in Business Management from the Postgraduate Institute of Management (PIM), University of Sri Jaywardenepura. He is a Director of Chemanex PLC, Kuruwita Textile Mills PLC, Diesel & Motor Engineering PLC, Richard Peiris & Co. (Plastic Sector), Ceylon Cold Stores PLC, Talawakelle Tea Estate PLC and Q&E Advertising. He possesses 18 years of teaching/research experience in Marketing/Management at post graduate level. He has published widely on branding and strategic marketing and addressed numerous international conferences.

### **W.M.R.S. DIAS**

He was first appointed to the Board on December 14, 2010. Since February 2008 he functions as the Chief Operating Officer of the Bank. He holds a Degree in Law (LL.B.) and is a Fellow of the Chartered Institute of Bankers (London). He is also a Hubert. H. Humphrey Fellow. He possesses substantial professional experience in Banking, out of which 15 years as a member of Corporate Management. He holds 310,349 voting shares.

### **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 Mrs. S.N. Wickramasinghe and Ms. J. Kuruppu 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 Prof. U.P. Liyanage and Mr. W.M.R.S. Dias to the Board.

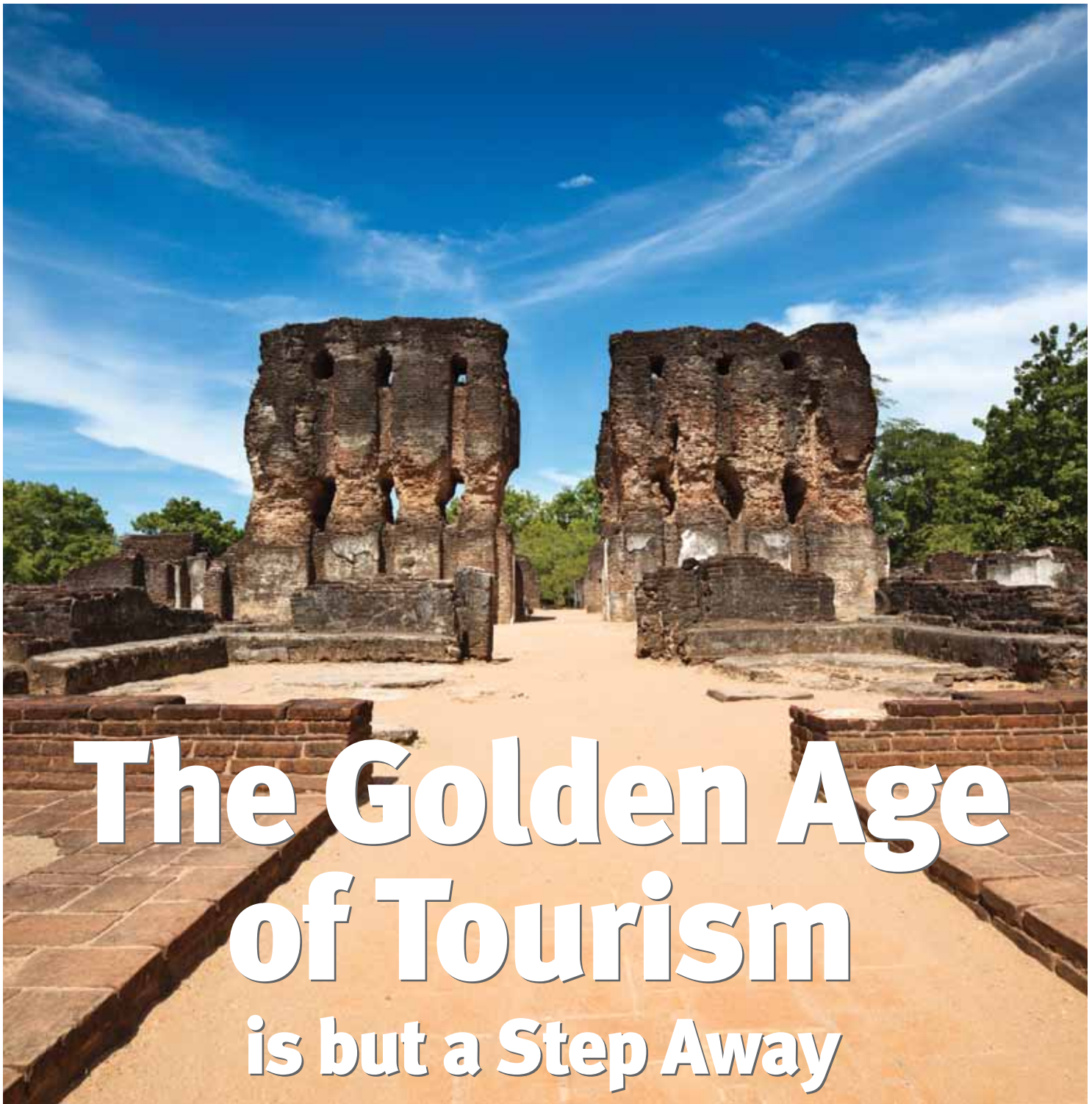
## CORPORATE MANAGEMENT TEAM



1. A.L. Gooneratne  
(Managing Director/Chief Executive Officer)
2. W.M.R.S. Dias  
(Chief Operating Officer)
3. B.H.M.G. Dharmasiri  
(Deputy General Manager - Corporate Banking)
4. S.D. Bandaranayake  
(Deputy General Manager - Operations)
5. T.F. Delip Fernando  
(Deputy General Manager - Inspection)
6. K.D. Nimal Luxshman  
(Deputy General Manager - Personal Banking)
7. Jegan Durairatnam  
(Deputy General Manager - International)
8. K.D. Nandika Buddhipala  
(Chief Financial Officer)
9. A. Rohan Muttiah  
(Chief Information Officer)
10. U.I.S. Thilakawardena  
(Deputy General Manager - Human Resource Management)
11. Mrs. Marion Abeywardena  
(Assistant General Manager - Corporate Banking I)
12. Vimal Fernando  
(Assistant General Manager - Personal Banking I)
13. Ajith Wijayasundara  
(Assistant General Manager - Information Technology I)
14. S. Chandana Gunasekera  
(Assistant General Manager - SME/Personal Banking II)
15. S.M. Richard Rodrigo  
(Assistant General Manager - Plan Implementation)
16. Mrs. Carmelita De Silva  
(Assistant General Manager - Corporate Banking II)
17. D.N. Felician Perera  
(Assistant General Manager - Recoveries)
18. S. Renganathan  
(Chief Risk Officer)
19. K.A. Prins Perera  
(Head of Global Markets)
20. B.A.S.P. Shantha Balasuriya  
(Head of Global Treasury)
21. Mrs. Sandra Walgama  
(Assistant General Manager - Personal Banking 111)
22. Noel Wickramasinghe  
(Assistant General Manager - Properties and Services)
23. K.S.A. Gamage  
(Assistant General Manager - Information Technology/  
CEO-ONEzero Co. Ltd.)
24. Anshuman Verma  
(Marketing Consultant)







# The Golden Age of Tourism is but a Step Away

*Sri Lanka's Tourism on the Up...fuelled by positive international sentiment*



*Going by the numbers, Sri Lanka is poised to ride a great wave of renaissance in terms of tourism. The world is 're-discovering' what a great destination Sri Lanka is... more people are talking up a storm on our attributes.*

*The fact is however, we have many challenges to meet...such as a tourism plant that needs*

*serious upgrading in the form of hotel rooms and personnel and other resources. There are the peripheral yet important areas of infrastructure in terms of transport - the increasing usage of air transport within borders, developing current road networks, building new ones... and so on.*

*Most of these initiatives will require funding - financial solutions to private players too will be crucial.*

*This is where Commercial Bank sees a role it can play...a role that we are gearing for as we write.*

## SENIOR MANAGEMENT TEAM

- |   |  |  |  |
|---|--|--|--|
| 1. Palitha Perera<br><i>Head of Operations</i>                        | 12. V.S. Rajasooriyar<br><i>Senior Regional Manager - North Eastern</i>        | 22. Colvin Karunaratne<br><i>Chief Manager - Exports</i>   | 31. Ranjan Ediriweera<br><i>Chief Manager - Corporate Banking II</i>                     |
| 2. C.M. Abeyssekera<br><i>Head of Corporate Banking III</i>           | 13. Roshan Perera<br><i>Senior Regional Manager - Colombo South</i>            | 23. Amitha Munasinghe<br><i>Chief Manager - Information Systems Audit and Business Continuity Planning</i> | 32. Stanley Fernando<br><i>Chief Manager - AML Compliance</i>                            |
| 3. Naveen Sooriyarachchi<br><i>Head of Corporate Finance</i>          | 14. Sanath Manatunga<br><i>Head of Credit Risk</i>                             | 24. S. Shanmugarajah<br><i>Chief Manager - ICBS Unit</i>   | 33. Esala Silva<br><i>Chief Manager - Central Cash and Clearing</i>                      |
| 4. Nugent Kapuwatte<br><i>Head of Lease Promotion/ Personal Loans</i> | 15. Prasanna Indrajith<br><i>Head of Finance</i>                               | 25. Chanura Wijetilleke<br><i>Regional Manager - Sabaragamuwa</i>  | 34. Chirath Manukulasuriya<br><i>Regional Manager - Southern</i>                         |
| 5. Duminda Kurukulasuriya<br><i>Head of Imports</i>                   | 16. Mrs. R.R. Dunuwille<br><i>Company Secretary</i>                            | 26. P. U. de Silva<br><i>Chief Manager - Branch Credit Monitoring Department</i>                           | 35. B.A.H.S. Preena<br><i>Chief Manager - Corporate Banking</i>                          |
| 6. Hilary Fernando<br><i>Head of Treasury Processing</i>              | 17. Vajira Thotagammana<br><i>Chief Manager - IT Operations</i>                | 27. Saman Kalansuriya<br><i>Chief Manager - Leasing and Factoring</i>                                      | 36. Bindu Perera<br><i>Chief Manager - Premises and Engineering</i>                      |
| 7. B.W.R. Srikantha<br><i>Senior Regional Manager - Colombo North</i> | 18. Ivan Fernando<br><i>Regional Manager - Colombo Metro</i>                   | 28. Asela Wijesiriwardena<br><i>Chief Dealer - Assets and Liability Management</i>                         | 37. S. Prabagar<br><i>Country Manager - Bangladesh</i>                                   |
| 8. Niran De Costa<br><i>Senior Regional Manager - Colombo Inner</i>   | 19. Leel Rodrigo<br><i>Regional Manager - North Central - Eastern Region</i>   | 29. Siva Sivakumar<br><i>Chief Manager - Wellawatte Branch</i>   | 38. G.R. Genevieve Liyanage<br><i>Chief Manager - Offshore Banking Centre</i>            |
| 9. Mrs. Sarojini Dunuwille<br><i>Head of Legal</i>                    | 20. Ajith Naranpanawe<br><i>Regional Manager - Central Region</i>              | 30. M.Z. Careem<br><i>Chief Manager - Inspection</i>   | 39. D.J. Delakshan Hettiarachchi<br><i>Chief Manager - Development Credit Department</i> |
| 10. Anura Ratnayake<br><i>Head of Operations - Foreign Branch</i>     | 21. Sivam Yoganandasivam<br><i>Chief Manager - IT Research and Development</i> |  | 40. Thusitha Prasad Suraweera<br><i>Chief Manager - Card Centre</i>                      |
| 11. Lakshman Perera<br><i>Head of Card Centre</i>                     |  |  |  |

The division wise breakdown of the Senior Management Team is found on pages 23, 28, 32 and 37.

## MANAGEMENT COMMITTEE - BANGLADESH

- |   |   |  |
|---|---|--|
| 1. S. Prabagar<br><i>Country Manager</i>  | 6. A.K. Nandy<br><i>Deputy General Manager - Chittagong</i>                             | 10. Mostafa Anowar Sohel<br><i>Assistant General Manager - Human Resources</i> |
| 2. D. Das Gupta<br><i>Senior General Manager</i>  | 7. Mahmood Rashid<br><i>Assistant General Manager - Internal Control and Compliance</i> | 11. Reaz Wahid<br><i>Assistant General Manager - International Trade</i>       |
| 3. Dilan Rajapakse<br><i>Chief Operating Officer</i>                                      | 8. Binoy Gopal Roy<br><i>Assistant General Manager - Finance and Accounts</i>           |  |
| 4. S. Kutubuddin Ahmed<br><i>General Manager - Risk, Compliance and Corporate Affairs</i> | 9. Atahar Uddin Ahmed<br><i>Assistant General Manager - Credit Administration</i>       |  |
| 5. Golam Mortuza<br><i>Deputy General Manager - International Trade</i>                   |   |  |

# *From Precious Metal... to Cash in Hand*

## *Putting Non-Cash Wealth to Good Use*

*By placing their non-cash wealth such as gold jewellery with the Bank as surety against a loan, customers are assured of many pluses that far outstrip what most in the market offer.*

*Highest value for gold; minimum interest rates; cash over the counter/overdraft on your Commercial Bank current account; no requirement for monthly payments; minimum documentation; no guarantors required; maximum security and privacy...the list goes on.*



## MANAGING RISK AT COMMERCIAL BANK

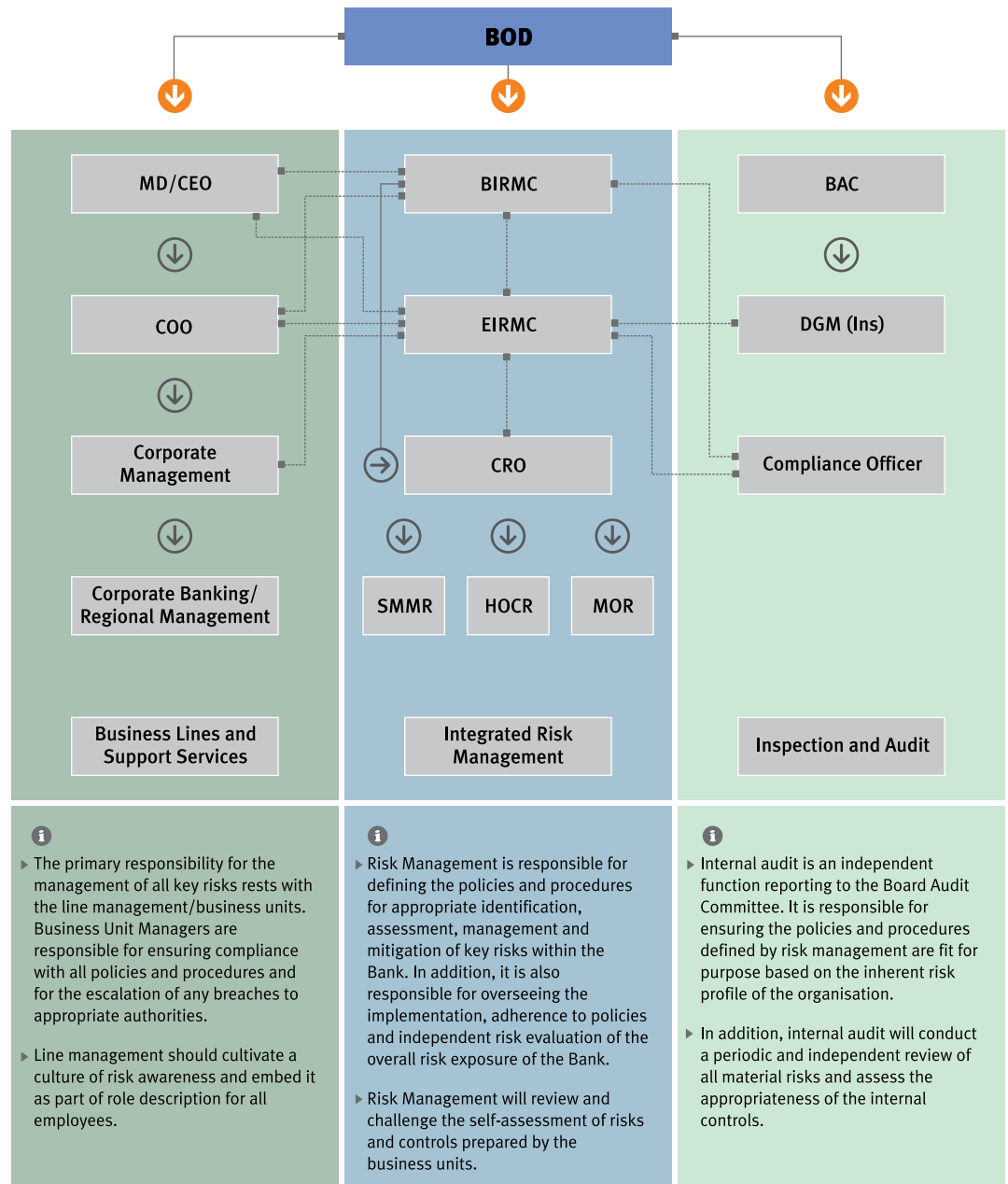
Business of Banking naturally entails assuming 'Risks' in all business transactions. As a result, 'Risk Management' is gaining prominence as a key strategic focus in managing banks effectively in today's volatile financial markets.

The ability of a Bank to take strategic initiatives within pre-defined and consistent risk framework can be considered as a speciality that can make a distinction for a Bank and ensure 'Safety' for all the stakeholders in today's competitive market scenario.

Due to these factors, Commercial Bank has recognised the maintenance of a strong integrated risk management framework as a strategically important priority area in its future endeavours.

The Bank has recognised the risk management capabilities as a 'Journey' rather than a 'Destination' and is committed to maintain and continuously improve its risk management framework/capabilities through a number of initiatives including substantial investments in IT infrastructure, training and development of human resources etc.

Success of Risk Management practises adopted by the Bank is reflected in the comparison of exposures with Risk Policy Parameters given in pages 164 and 165 of this Annual Report.



BOD - Board of Directors  
 MD/CEO - Managing Director  
 BAC - Board Audit Committee  
 BIRMC - Board Integrated Risk Management Committee  
 EIRMC - Executive Integrated Risk Management Committee  
 COO - Chief Operating Officer

CRO - Chief Risk Officer  
 DGM (Ins.) - Deputy General Manager (Inspection)  
 HOCR - Head of Credit Risk  
 SMMR - Senior Manager - Market Risk  
 MOR - Manager - Operational Risk

## MANAGING RISK AT COMMERCIAL BANK

### RISK GOVERNANCE STRUCTURE AND RISK MANAGEMENT COMMITTEES

The Bank has established a three-tiered risk governance structure to support effective risk management throughout the organisation covering all key business activities.

The integrated risk management structure has been established in a manner that the 'risk monitoring' activities are independent from the 'risk assuming' activities as shown above. The Bank has clearly defined the authority and accountability of all relevant officials to clearly demarcate their roles and responsibilities. The entire risk management structure is clearly connected to the Board of Directors to facilitate a consolidated view of the organisation in its entirety, based on risk perspective.

The Board of Directors is assisted by the Committees listed in the table below in effectively deploying the Bank's risk management framework and capabilities to achieve the strategic objectives:

Committee	Key Objectives
Board Integrated Risk Management Committee (BIRMC)	To ensure that the Bank – wide risks are managed within the risk strategy and appetite established by the Board of Directors.
Executive Integrated Risk Management Committee (EIRMC)	To monitor and review all the risk exposures and risk related policies/procedures affecting credit, market and operational areas in line with the directives from Board of Directors.
Assets and Liabilities Committee (ALCO)	To achieve the Bank's financial goals, while maintaining market risk at desired levels.
Credit Policy Committee	To approve and review credit policies/procedures to ensure that all the credit portfolios are properly managed within the broad lending strategies of the Bank.
Executive Committee on Monitoring NPAs.	To Review and monitor the Bank's Non Performing Advances (NPAs) above Rs. 10.0 Mn. to initiate timely corrective actions to prevent/reduce losses.

### INTEGRATED RISK MANAGEMENT DEPARTMENT (IRMD)

The IRMD functions as a separate department to identify, assess and manage all types of risk exposures assumed by different business units within the Bank on an integrated manner. Bank has identified credit, market and operational risks including strategic, legal and reputational risks as major types of risks the Bank is exposed to in achieving its strategic objectives.

#### Taxonomy of Risks

Credit	Market	Operational
• Recovery	• Interest Rate	• Process
• Default	• Foreign Exchange Rate	• People
• Concentration	• Liquidity	• Systems
• Sovereign	• Equity Price	• External events
• Settlement	• Commodity Price	• Compliance
		• Legal
		• Strategic
		• Reputational

Hence, the IRMD consists of three divisions - Credit Risk Management Unit (CRMU), Market Risk Management Unit (MRMU) and Operational Risk Management Unit (ORMU). Each of these divisions is headed by well-experienced and senior staff of the Bank. While these three Unit Heads report to the CRO of the Bank, the CRO reports to the Chairman of the Board Integrated Risk Management Committee (BIRMC).

All products and services offered by the Bank are independently evaluated by the IRMD and appropriate actions have been initiated to mitigate the overall risk exposure of the Bank.

The integrated risk management process assists the relevant divisions to set business development priorities within the Risk Appetite of the Bank, while optimising the risk return trade off derived from the relevant risk exposure.

In order to achieve this as a team, the staff of IRMD engages in continuous dialog with the respective business areas which are responsible for assuming various risk exposures.

### CREDIT RISK

Credit risk is the potential financial loss that could arise as a result of the failure of a borrower or counterparty to honour its contractual obligations. The credit risk arises from different activities of the Bank including lending, international trade, treasury functions, Leasing and off-balance sheet exposures such as guarantees. Due to lending being the main line of business of the Bank, credit risk can be considered as the highest contributor in the overall risk exposure of the Bank. Within the Integrated Risk Management framework, Credit Risk Management Unit (CRMU) facilitates the business units to manage their credit risk exposures in an objective manner.

CRMU engages in independent risk assessment of all credit risk exposures above certain thresholds before the engagement of such transactions. It also carries out credit risk reviews on a regular basis with a view to identify, assess and

## MANAGING RISK AT COMMERCIAL BANK

take appropriate risk mitigation measures to ensure that the existing risk exposures are maintained at reasonable level.

Branch wise as well as portfolio-wise credit risk reviews are carried out on a regular basis to ensure that a constant level of quality is maintained in all loans and advances.

### Credit Risk Appetite:

Credit Risk Appetite and the 'Risk Acceptance Criteria' of the Bank are clearly defined in the Lending Guidelines of the Bank set by the Board of Directors. The Lending Officers are guided by the 'Risk Acceptance Criteria' in achieving their lending objectives through establishing clear business development priorities. The sectors which are perceived to be exceptionally 'High Risk' have been clearly defined by the Credit Policy Committee of the Bank to alert the Lending Officers to have adequate risk mitigants and proper pricing in entertaining proposals from such high risk sectors. The Credit Risk Appetite of the Bank also clearly defines the 'Prohibited' type of lending which the Bank under no circumstances will entertain due either to the very high risks involved in such proposals and/or to negative social/ethical considerations.

### Credit Risk Exposures of the Bank:

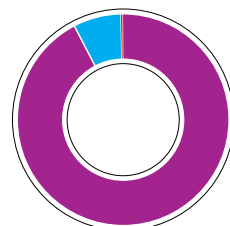
Major credit exposures of the Bank are created from lending to corporate/retail borrowers, lending/Placements/treasury-related activities with Financial Institutions and other counterparties. Exposures to foreign counterparties also trigger 'cross border' risks.

In the case of corporate and retail borrowers, exposures are mainly created from conventional on Balance Sheet exposures such as Overdrafts, Term Loans, Import Loans, Pre-shipment Loans, Export Bill Purchasing etc., and Off-Balance Sheet products such as Letters of Guarantee, Letters of Credit etc.

Credit risk can also be created when the excess funds of the Bank are placed with other financial institutions (local and overseas) or when the Bank enters in to treasury-related transactions such as placements, FX transactions, derivatives etc., with financial institutions and different counterparties.

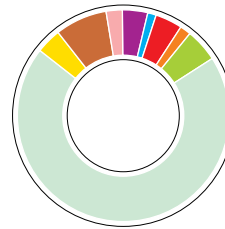
The graphical presentations below depicts the analysis of the Bank's overall credit risk exposure as at December 31, 2010 based on different factors. Industry Sector distribution of the Advances Portfolio is given under Sustainability Supplement in Page No. 45.

### The Concentration of Counterparty bank Exposures in Sri Lanka Fitch Ratings - Wise as at 31.12.2010



AAA to AA 92.41%  
A to BBB 7.20%  
BB to B 0.39%  
CCC to Unrated 0.00%

### The Geographical Distribution of the Advances Portfolio as at 31.12.2010



Central 3.94%  
North-Central 1.42%  
North-Western 3.95%  
Sabaragamuwa 1.78%  
Southern 4.97%  
Western 69.22%  
Other SL Provinces 3.88%  
Bangladesh 8.01%  
Maldives 2.52%  
Other Foreign Geographies 0.31%

#### Note:

Although, 69% 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.

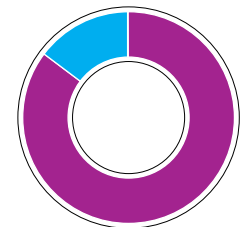
### The Concentration of Foreign Counterparty bank Exposure (Sri Lanka & Bangladesh Operations) Credit Ratings-Wise\*\* as at 31.12.2010



AAA to AA 41.19%  
A to BBB 54.83%  
BB to B 0.00%  
CCC to Unrated 3.98%

\*\* S&P rating or other equivalent international credit ratings have been used where S & P ratings are unavailable.

### The Concentration of Counterparty bank Exposures in Bangladesh CRAB\* Rating - Wise as at 31.12.2010

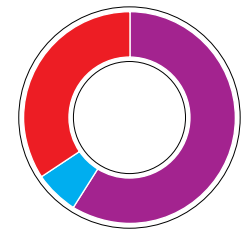


AAA to AA 85.31%  
A to BBB 14.69%  
BB to B 0.00%  
CCC to Unrated 0.00%

\* Equal CRISL ratings have been used where CRAB ratings are unavailable.

## MANAGING RISK AT COMMERCIAL BANK

**Concentration of Cross-Border Exposure\* (Sri Lanka and Bangladesh Operations) - S & P Rating Wise as at 31.12.2010**



■ AAA to BBB- 58.81%  
■ Below BBB- 6.69%  
■ Unrated 34.50%

\* Excluding investment in Bangladesh

As per the Credit Policy of the Bank, no credit exposure is created in the Bank without a thorough credit risk assessment and obtaining approval of the relevant authority in the hierarchy.

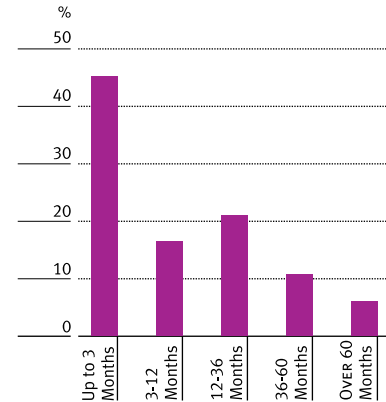
Except for certain type of one-off advances such as housing loans, leases, personal loans etc., all the other credit exposures are subject to review, at least annually.

### Credit Risk Indicators:

At individual exposure level, risk grading of the borrowers has been used as a single point indicator to place them on the risk continuum. With the planned automation of the credit evaluation process, the Bank expects to introduce a robust risk grading system to have the capability of predicting the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD) of a borrower. These indicators would help the Lending Officers to measure the risk profile of the credit portfolios in an objective manner.

At Portfolio Level, the Bank tracks the quality of the loan book by analysing risk migration and trends in the non-performing ratios of different

**Tenor-wise Breakdown of Advances Portfolio as at 31.12.2010 (SL Operations)**



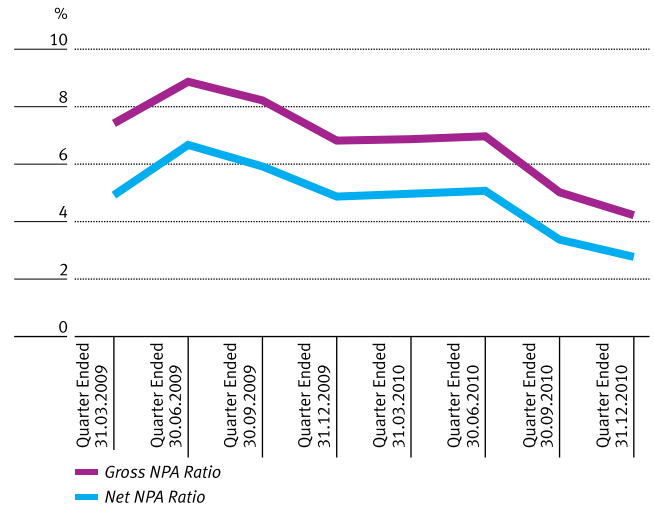
lending portfolios on a regular basis. Such indicators prompt the relevant risk management committees to take timely decisions in preserving the quality of loans and advances.

Although, the Provision Cover of 34.05% as at December 31, 2010 reflects a significant improvement from the Provision Cover of 28.53% as at December 31, 2009, this ratio is slightly below the internally benchmarked rate of 35%. Nevertheless, the Bank has made provisions in excess of the guidelines stipulated by the Central Bank of Sri Lanka. (Please refer Note 20.4 (e) and 20.4 (f) to the Financial Statements on page 247 for further details.)

**Distribution of Specific Provision as at December 31, 2010**

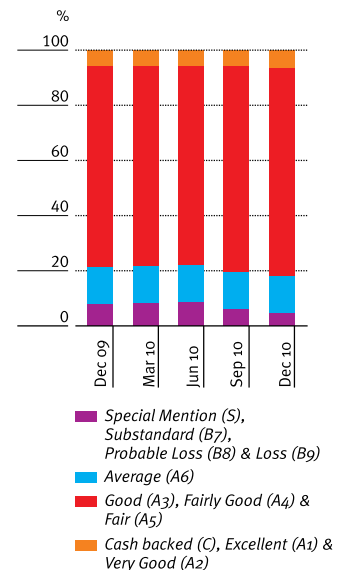
	Exposure (Net of suspense and security) Rs. '000	Minimum Provision Requirement as per CBSL Direction		Specific Provision already held		
		Rs. '000	%	Rs. '000	%	
Special Mention	594,105	-		21,864	3.68	✓
Substandard	494,179	98,836	20.00	419,182	84.82	✓
Doubtful	189,198	94,599	50.00	188,587	99.68	✓
Loss	2,559,777	2,559,777	100.00	2,560,517	100.03	✓
<b>Total</b>	<b>3,837,259</b>	<b>2,753,212</b>		<b>3,190,150</b>		

**Movement of Gross & Net Non-Performing Advances Ratios during the years 2009 and 2010**



The Open Credit Exposure Ratio too shows a significant improvement from 28.68% as at December 31, 2009 to 18.61% as at December 31, 2010 mainly due to the reduction of non-performing loans and advances in absolute terms and the expansion of the Bank's capital base during the year 2010. This strong Open Credit Exposure Cover also signifies the Bank's resilience to absorb any credit losses even without considering the values of securities under mortgage to the Bank. [Please refer Note to the Financial Statements 20.4(g)].

**Risk Migration of Advances Portfolio during Year 2010 (Sri Lanka & Bangladesh Operation)**



## MANAGING RISK AT COMMERCIAL BANK

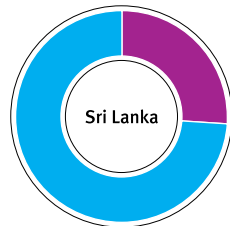
### Credit Risk Mitigation

The Bank believes that a key component of a disciplined credit culture is adherence to internal policies and procedures. Hence, comprehensive Credit Policies and Guidelines have been established in the Bank to ensure quality and transparency of lending decisions at all times. A well-defined approval hierarchy supported by high ethical standards, established policies, procedures and practices function as the core credit risk mitigant in the overall credit culture of Commercial Bank.

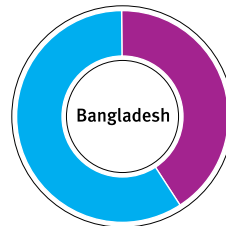
As explained earlier, the Bank would not assume any credit exposure without undertaking a proper risk evaluation. In addition, such exposures are maintained within the prudent risk exposure limits approved by the Board. The Bank as a policy mitigates over-exposing itself to any Borrower/Counterparty, Economic Sector, Product, Country etc., by establishing prudent exposure limits which are subject to periodic review, depending on a number of factors such as trends in the global/local economy, evolution of the Bank's Loan Book, future strategies of the Bank etc.

By adopting such prudent limits in managing credit exposures, the Bank has been able to reduce over concentration to any single Borrower/Counterparty, Sector, Product or a Country.

### Top 15 Credit Exposures as a % of Advances Portfolio as at 31.12.2010



■ Top 15 Credit Exposures 26.12%  
■ Other Borrowers 73.88%



■ Top 15 Credit Exposures 40.79%  
■ Other Borrowers 59.21%

### Concentration of Cross-Border Exposure\* - Country Wise (Sri Lanka & Bangladesh Operations) as at 31.12.2010



■ Maldives\*\* 32.25%  
■ USA 12.40%  
■ UK 7.06%  
■ India 6.91%  
■ Singapore 5.94%  
■ Hong Kong 5.50%  
■ UAE 3.93%  
■ Germany 3.48%  
■ Russia 3.22%  
■ Uganda 3.11%  
■ Japan 1.54%  
■ France 1.51%  
■ Others 13.15%

\* Excluding investment in Bangladesh Operations.

\*\* Maldives include Direct Lendings.

As a guiding principle, the Bank considers 'Collateral' as the ultimate source of recovery of a credit exposure in an extreme situation rather than a factor which enhances the credit quality of a borrower in taking a credit decision. As a result, risk profile of the borrower and the repayment capacity are always given prominence over collateral. However, Lending Officers are encouraged to obtain suitable collaterals against loans and advances wherever possible to mitigate potential credit risks. The common types of collaterals include Mortgage over properties, Lien over deposits, Mortgage over other Assets, Guarantees etc. The Bank always insists on ascertaining the realistic values of the fixed assets mortgaged to the Bank by obtaining valuations by qualified, independent valuers.

In addition to collaterals, stipulation of covenants and special conditions in the loan agreements too assist the Bank in mitigating the credit risk.

The diversified nature of the Bank's credit portfolios across different economic sectors, borrowers, regions, product categories etc., also naturally mitigate the overall risk.

### Credit Risk Monitoring:

Credit risk of the Bank is regularly monitored through daily, weekly and monthly management reports. Major risks emerging in the portfolios are detected well in advance to take remedial measures without delay.

This process is complemented by the management committees which meet regularly to review various aspects of the lending activities of the Bank (Please refer page 154 for the relevant Management Committees)

In addition, Credit Risk Review function is deployed by the Risk Management unit to independently monitor the credit processes, quality of portfolios and risk grading systems to ensure that high credit standards are maintained by Lending Officers at all times.

### MARKET RISK

The Basel II defines the market risk as the risk of losses in on and off-balance sheet positions arising from movements in market prices. Market risk of the Bank arises from non-trading activities such as accepting deposits/granting advances as well as from trading activities. As commonly seen, market risk in the non-trading and trading portfolios

## MANAGING RISK AT COMMERCIAL BANK

of the Bank can be segregated into different risk categories using different nomenclature; it is evident that none of these risk categories can exist in isolation. Changes in market factors constantly interact and disturb the status of equilibrium sought by prudent bankers and challenge the risk managers constantly.

The primary objective of Market Risk Management Unit (MRMU) is to ensure optimisation of the risk-reward relationship and minimisation of the exposure to unacceptable losses arising from movements in interest rate, liquidity, Foreign Exchange (FX) rate, commodity and equity prices. To achieve this objective, MRMU works closely together with risk takers (the business units) and other control/support groups.

Capital charge for market risk is provided based on Standardised Approach as per the Basel II guidelines.

### Market Risk Appetite

The Market Risk Management process of the Bank broadly involves risk identification, assessment and establishment of tolerance limits for risk exposures and overall risk monitoring and control.

The major stakeholder for the trading-related market risk exposures is the Bank's Treasury. The Market Risk Management process ensures that the risks assumed by the Bank's Treasury are within the stipulated risk appetite of the Bank or the regulatory limits that are in place, whichever is more stringent. The Board approval is sought in setting up of limits for

market risk exposure and limits are formulated giving due cognisance to the business opportunities and risk appetite. The Treasury limits are reviewed by the Assets & Liabilities Committee of the Bank and sanctioned by the Board of Directors on an annual basis. The Treasury Mid-Office, an independent unit, monitors and reports the limit utilisations as per documented procedures.

The non-trading activities related-market risk is mainly managed through ALM (Assets & Liabilities Management) process of the Bank and the Board approved limits set out the risk appetite of the Bank.

### Market Risk Exposures of the Bank

The Bank's Market Risk Exposures are mainly measured in terms of Interest Rate Risk, Liquidity Risk and Foreign Exchange Risk. The Bank was not majorly exposed to the Commodity Price (Commodity Risk) and to Equity Price (Equity Risk) fluctuations during 2010. However, the traditional banking business-related products such as loans, investments, deposits, term borrowings etc., were subjected to Currency and Interest Rate Risks along with the Liquidity & Funding-related risks. Hence, the Bank as a prudent measure has established overall policy parameters to mitigate the impact from these market risk exposures.

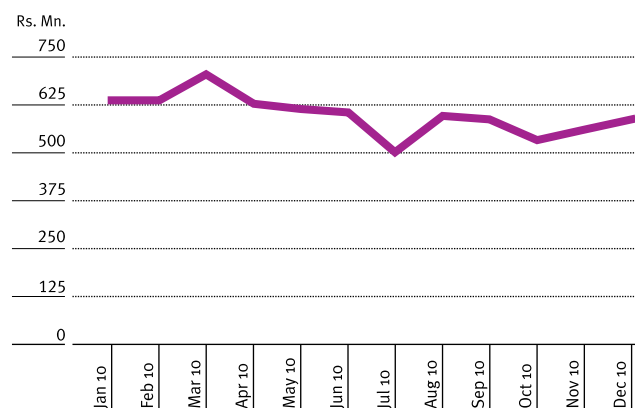
**Interest Rate Risk (IRR)** is the effect of changes in the economic value of interest rate sensitive instruments including loans and deposits, and is reflected in the levels of future income and expense

produced by these positions versus levels that would be generated by current levels of interest rates. Interest Rate Risk (IRR) represents the most significant market risk exposure to our non-trading financial instruments which is reflected in the Banking Book.

The Bank considers the importance of managing IRR from the earnings perspective and ensures that adverse interest rate movements do not materially impact the Net Interest Income (NII) of the Bank.

Bank has established an overall policy parameter for interest rate shock in the Sri Lankan operations and has been successful in managing the overall Interest Rate Shock impact to NII at moderate levels during the year 2010 as shown below:

### Forecasted Net Interest Income volatility due to interest rate shock



Traditional Gap analysis on the Rate Sensitive Assets (RSA) & Rate Sensitive Liabilities (RSL) are prepared and monitored to decide on the suitable strategies to be adopted based on the future interest rates forecast.

## MANAGING RISK AT COMMERCIAL BANK

### Re-pricing Gap Report - Sri Lankan Operations - December 2010 (Rs. Bn.)

	O/N	1-3 Months	4-6 Months	7-12 Months	13 - 24 Months	25 - 36 Months	37 - 48 Months	48 - 60 Months	Over 60 Months	Total
RSA	5.458	124.112	66.653	65.855	15.824	12.384	9.978	5.940	18.709	<b>324.914</b>
RSL	107.796 <sup>®</sup>	91.010	25.071	39.240	5.320	2.936	2.332	1.731	4.937	<b>280.372</b>
RSA-RSL	(102.337)	33.102	41.582	26.615	10.505	9.448	7.646	4.209	13.772	
RSA/RSL	0.05	1.36	2.66	1.68	2.97	4.22	4.28	3.43	3.79	

RSA: Rate Sensitive Assets

RSL: Rate Sensitive Liabilities

<sup>®</sup> RSL includes Rupee and FCY denominated Savings Deposits in Sri Lankan Operations (Rs. 99 Bn.)

The economic value perspective-related analysis adopted by the Bank in the latter part of 2010, provides information pertaining to sustainability and Economic Value of Equity (EVE) of the Bank.

**Liquidity Risk** is the risk that the Bank cannot promptly fulfil its payment obligations due to unforeseen factors or be forced to borrow funds on unfavourable terms. In addition to the more traditional Static Liquidity Gap Reports (prepared with certain assumptions to classify non-maturing assets - Credit Card Advances/overdrafts and non-maturing liabilities - savings and current account balances), Dynamic Liquidity Gap Reports, which incorporate all contracted as well as anticipated inflows and outflows are regularly discussed at ALCO to ascertain real cash flow mismatches. Appropriate measures are then initiated to ensure that the Bank's overall liquidity risk is maintained at a moderate level.

The following table depicts the Bank's Static Liquidity Gap Report as at 31.12.2010:

### Static Liquidity Gap Report - Bank - December 2010 (Rs. Bn.)

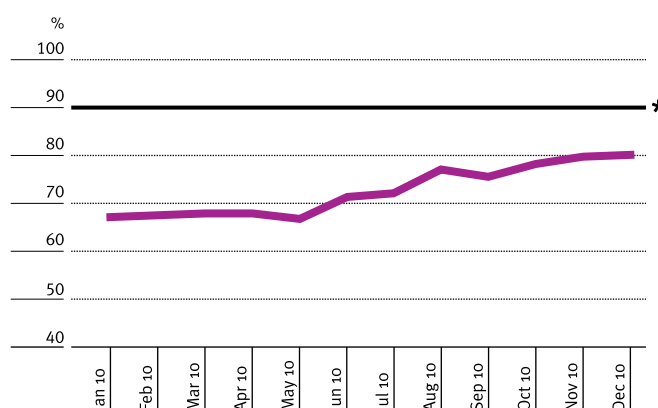
	O/N	1-7 Days	8-30 Days	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	5< Years	Total
Assets (A)	77.747	6.582	17.158	38.424	51.052	53.154	73.143	29.654	23.146	<b>370.060</b>
Liabilities + Equity (B)	152.526*	19.420	25.611	42.215	28.633	43.931	10.699	5.204	41.821	<b>370.060</b>
(A)-(B)	(74.779)	(12.839) <sup>#</sup>	(8.453) <sup>#</sup>	(3.791) <sup>#</sup>	22.419	9.223	62.444	24.450	(18.675)	
(A)-(B)/A (Times)	(0.96)	(1.95)	(0.49)	(0.10)	0.44	0.17	0.85	0.82	(0.81)	

\* More stable rupee denominated savings deposits (Approx. Rs. 77 Bn.) are shown in the Overnight (O/N) bucket and the Bank does not anticipate major cash outflows on these deposits based on historical information available.

# Negative mismatches in these buckets can be met with the unencumbered Treasury Bills & Bonds portfolio of the Bank (Approx. Rs. 30 Bn.).

Net Advances to Deposit Ratio (A/D Ratio) too provides important insight into the liquidity parameters of the Bank. The market experienced a slow credit growth in the 1<sup>st</sup> half of 2010 and gradual picking up of the loan growth pushing this ratio towards a healthy and desirable level can be clearly identified as shown in the graph.

### Net Advances/Deposit Ratio



\* Desired level of A/D Ratio

## MANAGING RISK AT COMMERCIAL BANK

Liquidity stress testing based on assumed stress scenarios provides the Bank valuable insight into formulating contingency funding plans and the Bank is mindful of the multitude implication on the liquidity crisis experienced world over during the last few years. Therefore, in addition to the internal management of sufficient liquidity, the Bank has initiated action to establish a Contingency Funding arrangement with an appropriate counterparty to overcome any unforeseen adverse liquidity situations.

**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 interest rate risk arising from the maturity mismatches of foreign currency positions.

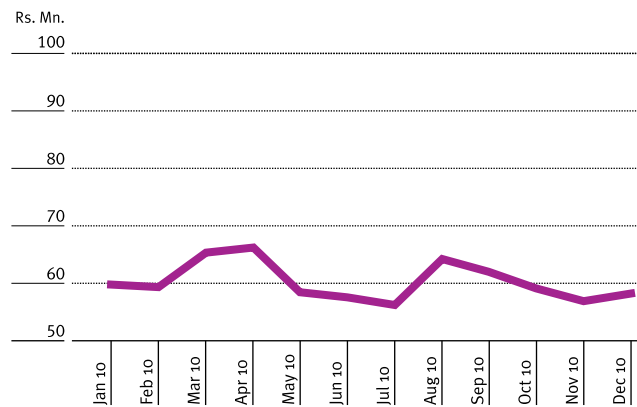
As the Bank's base currency is Sri Lankan Rupee (LKR), it is exposed to FX risk from investments in foreign operations, foreign currency-denominated loans, foreign currency-denominated securities, future cash flows in foreign currencies arising from foreign exchange transactions and various foreign exchange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

The Bank has established Risk Tolerance limits for FX exposure within the directives of Central Bank of Sri Lanka in order to ensure that any adverse exchange rate movements on the results of the

Bank due to un-hedged foreign exchange positions are managed within acceptable parameters.

The graph shown below indicates possible gains/losses to the Profit & Loss Account as a result of 100 bps exchange rate movement. The graph depicts the Bank's ability to maintain the FX risk at a low level compared to the internal limits established.

**FX Risk - SL Operations (Maximum Limit - Rs. 250 Mn.)**



The Bank is exposed to minimum equity pricing risk during 2010 as the investments made in shares are very marginal.

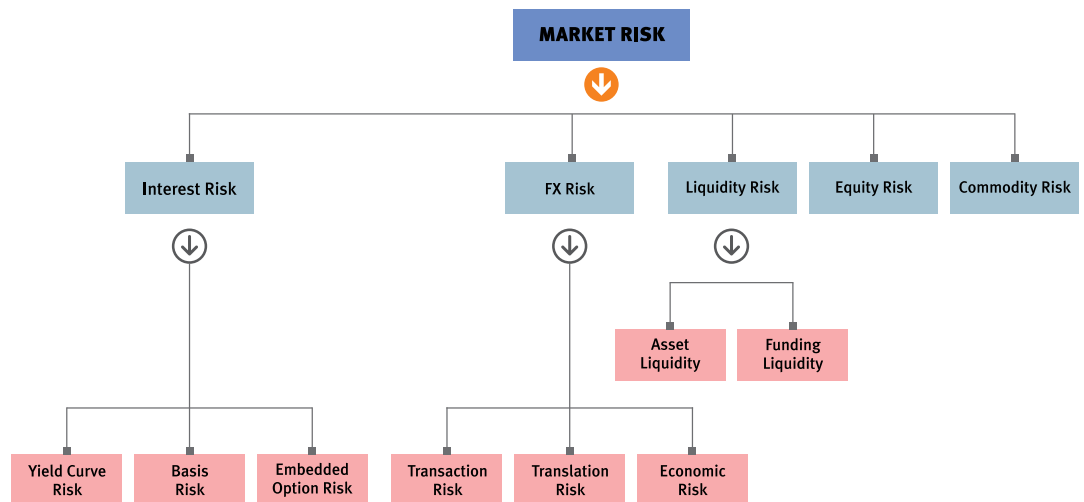
### Market Risk Indicators

With a view to maintain the Bank's exposure against the following types of market risks at a reasonable level, Key Risk Indicators are identified, assessed and periodically monitored by the EIRMC and BIRMC.

The Bank's overall risk appetite and the Board approved risk tolerance limits have been disseminated to the Treasury Dealers. The adherence to these exposure limits are monitored on a daily basis by Middle Office which comes under the purview of MRMU. Key Market Risk Indicators have been established under each of the following major market risk exposures.

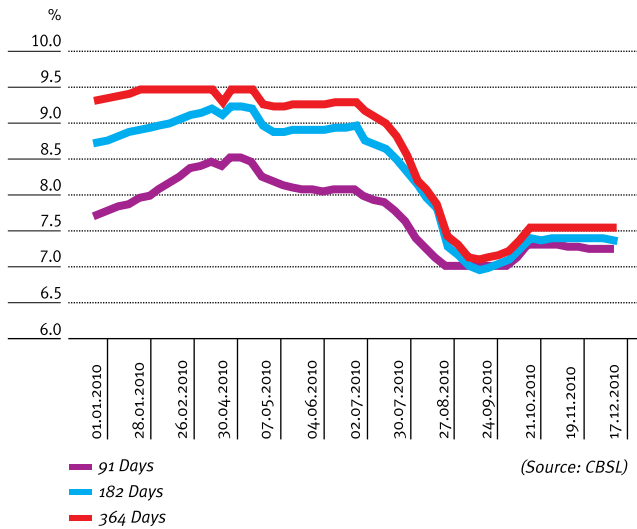
### Interest Rate Risk (IRR) Indicator:

The Bank monitors interest rate risk on an ongoing basis giving due cognisance to the re-pricing characteristics of the individual asset and liability products. Yield Curve Risk, the risk arising from change in the slope and shape of the yield curve of re-pricing mismatches after applying rate shocks of different magnitudes to all relevant assets and liabilities are computed and monitored on a regular basis to ensure that the impact to the Bank's earnings is within reasonable levels.

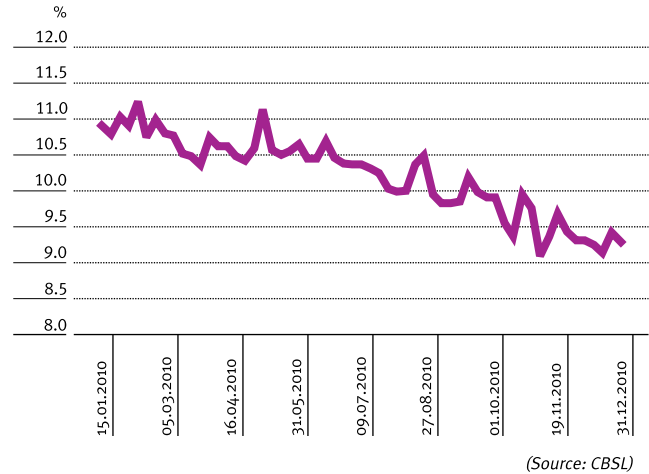


## MANAGING RISK AT COMMERCIAL BANK

**Treasury Bills Rates - 2010**



**PLR Movement - 2010**



Basis risk, the risk that the interest rate of different assets and liabilities may change in different magnitudes, is another factor that affects the IRR of the Bank. In order to assess and monitor the Basis risk, the ALCO of the Bank carries out analysis of the movement of PLR and Government Securities rates and take appropriate action. The movements in the Prime Lending Rate (PLR) and Treasury Bill rates during the year 2010 are shown above.

Embedded option risk, arising out of prepayment of loans or premature withdrawal of deposits that are associating put/call options is another risk that has a direct correlation to the market interest rates. The Bank's exposure to this risk has been minimal during the period under review.

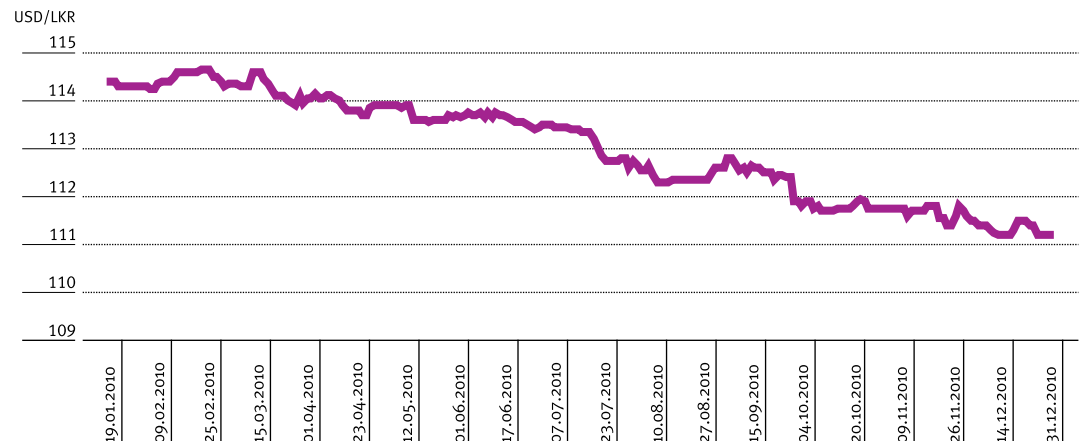
### Foreign Exchange (FX) Risk Indicator:

Bank's exposure to FX risk is managed by computing FX transaction and translation risks and their impact to the P&L of the Bank.

The impact of the FX transaction risk is identified by providing exchange rate shocks to the net open position of the Bank.

In addition, possible translation risk arising from the Bank's investments in foreign currency overseas, is monitored regularly by carrying out scenario analysis based on different exchange rates to the net overseas investment. The graph shown below illustrates the movement of USD exchange rate during the year 2010:

### USD Exchange Rate



## MANAGING RISK AT COMMERCIAL BANK

### Liquidity and funding Risk Indicator:

The Bank identified the following key liquidity risk indicators to assess and monitor the liquidity risk exposure:

1. Liquidity Gap Reports.
2. Net advances to deposits ratio.
3. Liquid assets ratio.
4. Funding concentration in LKR and foreign currencies.
5. Duration analysis on investment portfolio.

Bank's Treasury had been maintaining a negative gap in the short term tenor during the year 2010 as a business strategy with a view to maximising opportunities to derive higher returns from the decreasing interest rate scenario in the market.

These gaps were maintained within the internally approved limits while having surplus liquid marketable securities in the longer tenor to meet any unforeseen situations.

The Bank recognises the importance of using single point indicator such as Value at Risk (VAR) to measure market risk across the different facets and shall work towards setting up a robust software-backed risk indicator system in 2011.

### Market Risk Mitigation

Trading-related market risk mitigation is mainly through policies, limits and control measures which seek to reduce risk within or across the desks. ALM Policy and the FX Policy of the Bank set out the guidelines and limits pertaining to Market Risk-related activities in detail.

Treasury Desks, which include Foreign Exchange, Money Market, Fixed Income, Corporate Sales desks, Hierarchical Dealer Limits and segregation of duties act as mitigants

in direct dealing related transactions of the Treasury. The objective of a limit is to ensure that the negative earnings and impact of price risks are within the market risk appetite of the Bank. The nature of limits could typically include position limits, gap limits, tenor and duration limits, stop loss limits etc. These limits are appropriately selected for the relevant portfolios.

Dealers are required to sign a special Code of Conduct which ensures that dealing activities are carried out within ethical standards and acceptable trade practices. An independent Middle Office which monitors Treasury activities to ensure that the transactions are carried out within the approved overall risk tolerance limits.

All risk tolerance limits are subject to regular review and appropriate mitigation measures are adopted where necessary by the ALCO and the EIRMC.

### Market Risk Monitoring

Due to the inherent nature of the market risks associated with trading activities, risk exposures accepted by the Bank are checked against the internal limits and external regulations by the Treasury Processing Department.

Middle Office plays a vital role in monitoring the market risk exposures of the Bank undertaken by Treasury on a daily basis and reports to MRMU in regard to any major observations.

MRMU complies key market risk indicators and carries out stress testing analysis based on major vulnerable risk exposures. These reports together with any other market risk assessments carried out by the MRMU on new products and

services are submitted for discussion and decision making process at the ALCO and EIRMC.

MRMU submits monthly assessment on market risk to the Board Integrated Risk Management Committee (BIRMC) of the Bank and discusses in detail the overall market risk exposure on a quarterly basis at the BIRMC meeting.

### OPERATIONAL RISK

Operational Risk is the risk of loss or harm resulting from inadequate or failed internal processes, people and systems or from external events. Capability to carry out a large number of transactions effectively and accurately while complying with applicable laws and regulations constitute Operational Risk Management activities of the Bank.

Key Processes of the Management of Operational Risk in the Bank are based on the concept of 'Risk vs Service vs Cost' and Operational Risk is effectively managed with least inconvenience to the clients.

### Risk Appetite

The Bank maintains total gross operational losses (before deducting the insurance claims and amounts recovered from other means) well within the 1% margin of average gross income for the last three years which is far below the 15% capital allocation under Basic Indicator Approach of Basel II. Hence, the Bank has established the internal tolerance levels under the following parameters:

03% (of the average gross income for last three years) - Alert Level

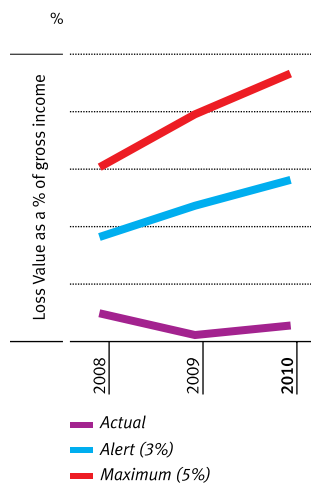
05% (of the average gross income for last three years) - Maximum Level

## MANAGING RISK AT COMMERCIAL BANK

These thresholds have been established by considering the following factors:

- Historical loss data of the Bank (number of transactions and value of losses)
- Budget and Forecasts of the Bank
- Performance of the Bank
- Existing Systems and Controls Governing Bank Operations
- Customer Complaints
- Number of Observations/Precepts by Supervisory Authorities
- Number of Failures or Manageability of (IT) Systems
- Number of Internal Policies and Procedures in need of Amendments
- Employee Turnover

### Actual Operational Losses Against Internal Alert Levels for 2008-2010



### Operational Loss Data

The Bank is in the process of collecting loss data and establishing a database with a view to migrate to Advanced Measurement Approach of computing Operational Risk Capital. As at the date of the Balance Sheet, Bank has compiled loss data for the past three financial years.

The loss data consists of number of operational loss events (including near miss events) and the values of such events in gross terms (excluding any recoveries against such losses from insurance and other means).

The above data has been tabulated based on following Basel II event – type category:

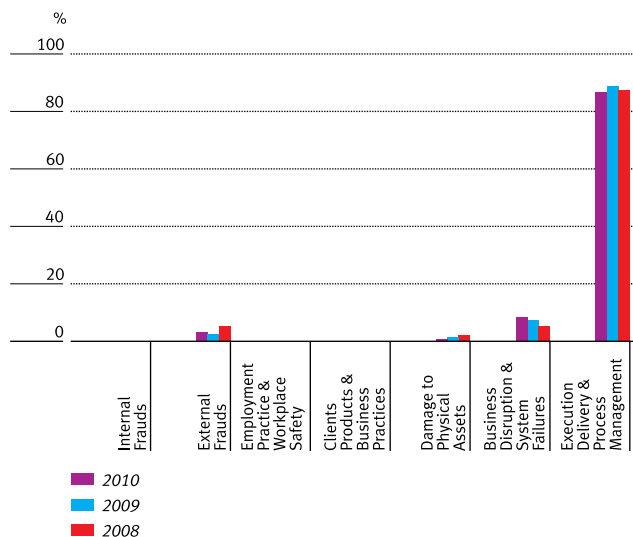
- Internal Fraud
- External Fraud
- Employment Practices and Workplace Safety
- Clients, Products & Business Practices
- Damage to Physical Assets
- Business Disruptions & System Failures
- Execution, Delivery & Process Management.

The following two graphs depict the Banks' Number of Operational Loss events and the Gross Values of such events as a percentage against their respective totals, during the past three years.

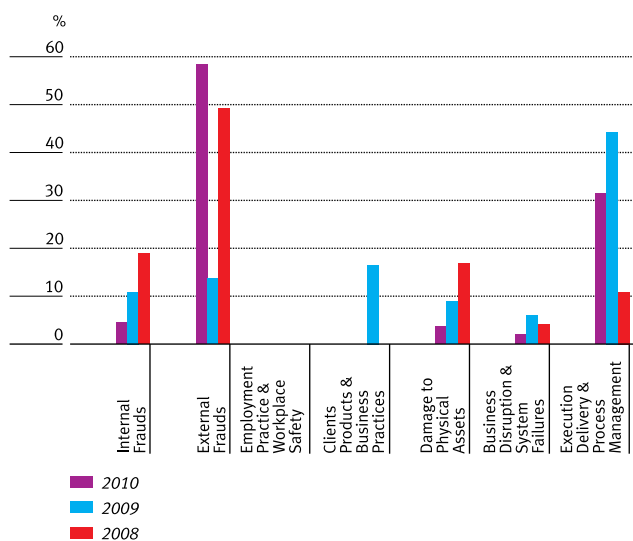
Execution, Delivery and Process Management which mainly consist of lower value cash shortages (at Counters and ATMs) which had taken place in over 600 delivery points both in Sri Lanka and Bangladesh accounted for the highest number of loss events for this year as well.

Based on the gross values of the losses incurred, the external frauds carry a higher percentage of losses during the year 2010 mainly due to a legal claim relating to forged cheques which took place way back in 1984. As experienced in previous years, the events with high frequency had a low financial impact. Number of events with values less than Rs. 100,000/- accounted for more than 99% of the total loss events.

### Operational Loss Events by Category - % of Total Losses By Events 2008-2010



### Operational Loss Events by Category - % of Total Losses By Value 2008-2010



## MANAGING RISK AT COMMERCIAL BANK

Total Operational Losses for the year 2010 as a percentage of average gross income for the last three years is 0.29%, which is well below the internal maximum tolerance level of 5%.

The Bank maintains these figures at extremely lower levels (compared to the mandatory capital allocation of 15% under Basic Indicator Approach of capital computation) mainly due to the application of sound and effective systems and controls.

### Computation of Operational Risk Requirement under Standardised Approach

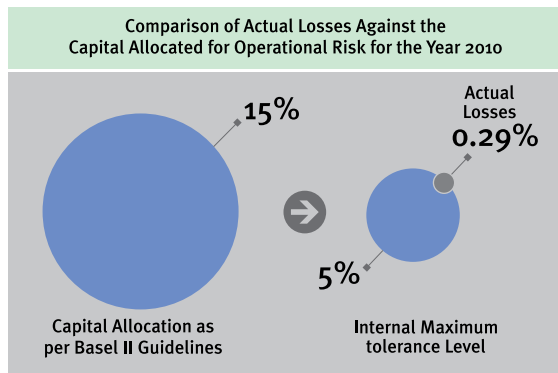
Parallel computation of capital required for operational risk under Standardised Approach (SA) is being done along with the Basic Indicator Approach (BIA).

Capital required for operational risk of the Bank for the year 2010 as per SA is computed as follows.

Business Line	Weighted Average Rate (%)	Capital Requirement (Rs. Mn.)
Corporate Finance	18	1,955
Trading & Sales	18	731.952
Retail Banking	12	811.501
Commercial Banking	18	1,064.509
Payment & Settlement	18	96.497
Agency Services	12	4.318
<b>Total Requirement</b>		<b>2,730.032</b>

However, operational risk capital provided as per BIA for the year was Rs. 2,779.263 Mn.

*Following table summarises the position of overall risk exposures of the Bank under the major categories - credit, market and operational risks as at December 31, 2010.*



### COMPARISON OF EXPOSURE WITH RISK POLICY PARAMETERS

Risk Parameter	Goal	Actual Position as at 31.12.2010	Compliance
<b>Credit Risk Criteria</b>			
<b>Quality of the Lending Portfolio</b>	Net NPA Ratio**	At Minimum	4.22% -
	Net Exposure**	At Minimum	2.78% -
	Provision Cover	Minimum of 35%	34.05% <input type="checkbox"/>
	Aggregate Loans & Advances in the Risk Grades 'C - A5'	Minimum of 70%	79.73% ✓
	Weighted Average Rating of the Overall Lending Portfolios to be better than 'A5'	Weighted Average Score of above 35%	42.32% ✓
<b>Concentration</b>	Loans & Advances by Product ***	Maximum HHI of 0.25	0.17 ✓
	Advances by Economic Sub-Sector (using SIC) ***	Maximum HHI of 0.03	0.02 ✓
	Exposures Exceeding 5% of the Eligible Capital ***	Maximum HHI of 0.10	0.05 ✓
	Exposures Exceeding 15% of the Eligible Capital ***	Maximum HHI of 0.20	0.13 ✓
	Exposure to any Sub-Sector (SIC) to be maintained	Below 5%	Max 3.94% ✓
	Aggregate of Exposures Exceeding 15% of the Eligible Capital	To be below 35% of the total Loans & Advances	24.51% ✓

## MANAGING RISK AT COMMERCIAL BANK

### COMPARISON OF EXPOSURE WITH RISK POLICY PARAMETERS

	Risk Parameter	Goal	Actual Position as at 31.12.2010	Compliance
<b>Market Risk Criteria</b>				
Interest Rate Risk	Interest Rate Shock	Maximum of 800 (Rs. Mn.)	598	✓
	Re-pricing Gaps	Desired 1.5 (Times) RSA/RSL	0.05-4.28	☐
Liquidity Risk	Statutory Liquid Assets Ratio	Minimum of 20%	29.74%	✓
	Net Advances to Deposits Ratio	Desired below 90%	82.43%	✓
	Structured Liquidity Gap Reports	(1 - 7 days)	Desired 0.5 (Times) PG/AP	1.95
(8 - 30 days)		Desired 0.5 (Times) PG/AP	0.49	✓
FX Risk	Exchange Rate Shocks	Maximum of 250 (Rs. Mn.)	58	✓
Concentration Risk	Rupee Deposit Concentration	Desired below 5%	< 4%	✓
	FCY Deposit Concentration	Desired below 60%	53%	✓
Capital	CAR (Capital Adequacy Ratio)	Minimum of 10%	12%	✓
<b>Operational Risk Criteria</b>				
Overall	Operational Loss Tolerance Limit (Total loss value as a percentage of last three years average gross income)	Desired maximum of 5%	0.29%	✓
Internal Fraud	Acts of a type intended to defraud, misappropriate property or circumvent regulations etc.	Desired below 10% #	0.25%	✓
External Fraud	Acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party	Desired below 50% #	3.39%	✓
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	Desired below 2% #	Nil	✓
Clients, Products & Business Practices	Unintentional or negligent failure to meet a professional obligation to specific clients etc	Desired below 3% #	Nil	✓
Damage to Physical Assets	Loss or damage to physical assets from natural disasters or other events	Desired below 10% #	0.20%	✓
Business Disruption & System Failures	Disruption of business or system failures	Desired below 5% #	0.13%	✓
Execution, Delivery & Process Management	Failed transactions processing or process management	Desired below 20% #	1.83%	✓

\*\* For the Total Bank

\*\*\* (Using Herfindahl - Hirschman Index - HHI)

SIC - Standard Industrial Classification

RSA - Rate Sensitive Assets; RSL - Rate Sensitive Liabilities; PG - Period Gap; AP - Assets in the period

# Value as a percentage of maximum Operational Loss Tolerance Limit

☐ Explanations provided under the respective risk comments.

## MANAGING RISK AT COMMERCIAL BANK

### CAPITAL ADEQUACY

Capital Adequacy Ratio (CAR) is a measure the adequacy of a Bank's capital against the risks it encounters. It is a key ratio used to protect depositors and promote the stability and efficiency of Banks around the world.

The CAR is an expression of a Bank's capital as a percentage of its Risk Weighted Assets (RWA).

In terms of the powers conferred by Section 19(7)(a) of the Banking Act No. 30 of 1988 as amended, the Monetary Board of the Central Bank of Sri Lanka has arrived at a determination in respect of the maintenance of capital adequacy

ratio of Licensed Commercial Banks having regard to the guidelines for capital adequacy set out by the Bank for International Settlements in Basel. Accordingly, in the exercise of powers conferred by Section 46(1) of the Banking Act No. 30 of 1988 as amended, the Monetary Board has issued the following Direction,

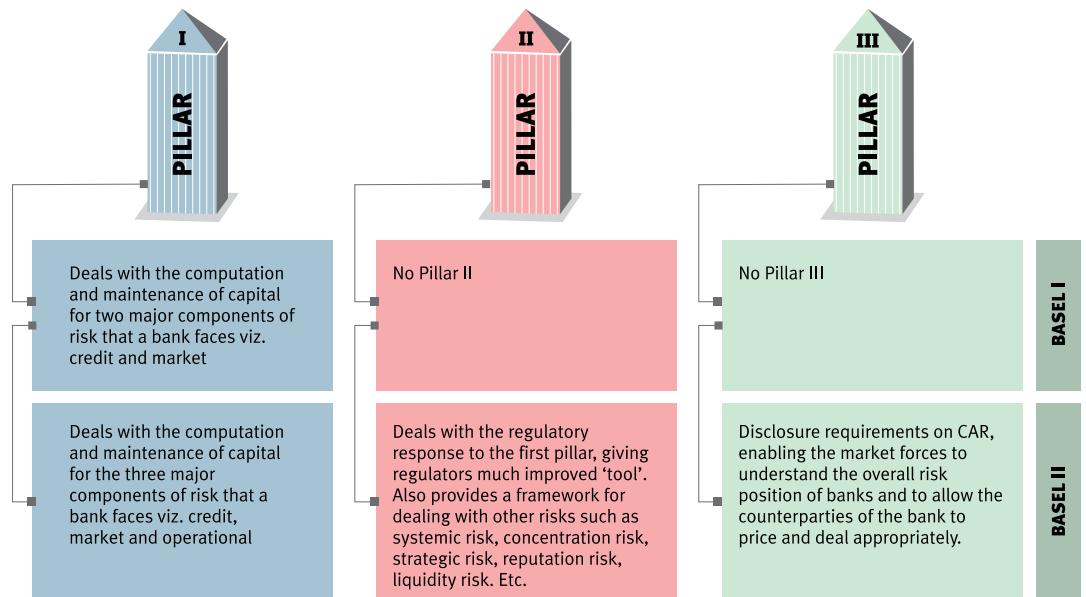
*Quote*

*“Commencing from 01 January 2008, all Licensed Commercial Banks shall, at all times, maintain a capital adequacy ratio of not less than 10% in relation to total risk weighted assets with core capital constituting not less than 5% in relation to total risk weighted assets”.*

*Unquote*

The Central Bank of Sri Lanka (CBSL) in March 2006 announced that the basis for the computation of the Capital Adequacy Ratio effective from 1st January 2008 will be the framework developed by, the “International Convergence of Capital Measurement and Capital Standards- a Revised Framework”, widely known as Basel II, issued by the Basel Committee on Banking Supervision of the Bank for International Settlements in June 2004 and as amended to framework in June 2006.

A comparison between the pillar framework of Basel I and Basel II is as follows:



## MANAGING RISK AT COMMERCIAL BANK

### 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	
	2010	2009		2010	2009
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
<b>Assets</b>					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	108,059,692	97,440,207	0	-	-
Claims on Foreign Sovereigns and their Central Banks	7,288,779	7,805,369	0-150	7,288,779	7,805,369
Claims on Public Sector Entities (PSEs)	27,660	134,868	20-150	27,660	134,868
Claims on Official Entities and Multilateral Development Banks (MDBs)	-	-	20-150	-	-
Claims on Banks	5,836,513	20,107,539	0-150	3,178,266	6,015,906
Claims on Financial Institutions	1,126,800	23,686	20-150	777,750	13,120
Claims on Corporates	181,686,544	131,534,193	20-150	173,266,572	127,233,378
Retail Claims	18,413,845	10,472,076	75-100	18,413,845	10,472,076
Claims Secured by Residential Property	19,106,565	15,925,655	50-100	15,229,147	15,925,655
Claims Secured by Commercial Real Estate	-	-	100	-	-
Non-performing Assets (NPAs)	6,191,125	9,268,346	50-150	8,334,882	12,682,682
Cash Items	6,192,757	5,595,001	0	1,758	7,780
Property, Plant & Equipment	6,703,918	4,725,637	100	6,703,918	4,725,637
Other Assets	6,183,157	6,801,379	100	6,183,157	6,801,379
<b>Total</b>	<b>366,817,356</b>	<b>309,833,957</b>		<b>239,405,735</b>	<b>191,817,851</b>

	2010 Rs. '000	2009 Rs. '000	Credit Conversion Factor %	Credit Equivalent	
				2010	2009
				Rs. '000	Rs. '000
<b>Instruments</b>					
Direct Credit Substitutes	21,117,004	9,077,625	100	21,117,004	9,077,625
Transaction-Related Contingencies	6,207,068	5,764,699	50	3,103,534	2,882,350
Short-Term Self-Liquidating Trade-Related Contingencies	33,960,523	19,043,141	20	6,792,105	3,808,629
Sale and Repurchase Agreements and Assets Sale 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	49,001,044	24,959,003	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	80,486,733	85,776,729	0-5	1,609,735	1,715,535
Interest Rate Contracts	576,868	2,633,830	0-3	13,520	67,277
<b>Total</b>	<b>191,349,240</b>	<b>147,255,027</b>		<b>32,635,898</b>	<b>17,551,416</b>

## MANAGING RISK AT COMMERCIAL BANK

### Capital Charge for Market Risk

Item	2010	2009
	Rs. '000	Rs. '000
Capital Charge for Interest Rate Risk	252,058	142,968
Capital Charge for Equity	32,639	13,547
Capital Charge for Foreign Exchange and Gold	57,004	7,331
Total Capital Charge for Market Risk	341,701	163,846
Total Risk Weighted Assets Market Risk	3,417,009	1,638,460

### Capital Charge for Operational Risk

#### Gross Income

Year 1	16,226,822	11,723,240
Year 2	19,236,720	16,226,822
Year 3	20,121,710	19,236,720
<b>Average Gross Income</b>	<b>18,528,417</b>	<b>15,728,927</b>
Total Capital Charge for Operational Risk - (15%)	2,779,263	2,359,339
Total Risk Weighted Assets Operational Risk	27,792,626	23,593,391

### Computation of Capital

#### TIER I : Core Capital

Paid-up Ordinary Shares/Common Stock/Assigned Capital++	11,566,166	10,607,792
Statutory Reserve Fund	2,338,511	2,062,346
Published Retained Profits/(Accumulated Losses)(+/-)	28,056	26,427
General and Other Reserves	15,866,038	13,463,820
Minority Interests (consistent with the above capital constituents)	24,980	26,068
LESS :		
Other Intangible Assets	(425,255)	(387,515)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	(3,068)	(4,214)
50% Investments in the Capital of Other Banks and Financial Institutions	(5,402)	(5,402)
<b>Total Eligible Core Capital (TIER I Capital )</b>	<b>29,390,025</b>	<b>25,789,323</b>

#### TIER II : Supplementary Capital

Revaluation Reserves (as approved by Central Bank of Sri Lanka)	651,037	651,037
General Provisions	1,709,481	1,560,553
Approved Subordinated Term Debt	1,426,154	2,154,028
LESS :		
50% Investments in the Capital of Other Banks and Financial Institutions	(5,402)	(5,402)
<b>Total Eligible Supplementary Capital (TIER II Capital )</b>	<b>3,781,270</b>	<b>4,360,216</b>
<b>Total Capital Base</b>	<b>33,171,295</b>	<b>30,149,539</b>

## MANAGING RISK AT COMMERCIAL BANK

### Computation of Ratios

	2010 Rs. '000	2009 Rs. '000
Total Risk Weighted Assets (RWA)		
Total Risk Weighted Assets for Credit Risk	239,405,735	191,817,851
Total Risk Weighted Assets Market Risk	3,417,009	994,014
Total Risk Weighted Assets Operational Risk	27,792,626	23,593,391
Sub Total	270,615,370	216,405,255
Minimum Capital Charge		
Minimum Capital Charge for Credit Risk	23,940,573	19,181,785
Minimum Capital Charge for Market Risk	341,701	99,401
Minimum Capital Charge for Operational Risk	2,779,263	2,359,339
Sub Total	27,061,537	21,640,526
Total Capital available to meet the Capital Charge for Credit Risk		
Total Eligible Core Capital (TIER I Capital )	29,390,025	25,789,323
Total Eligible Supplementary Capital (TIER II Capital )	3,781,270	4,360,216
Total Capital Base	33,171,295	30,149,539
Core Capital Ratio (Minimum Requirement 5%)		
Total Eligible Core Capital (TIER I Capital )	29,390,025	25,789,323
Total Risk Weighted Assets	270,615,370	216,405,255
	10.86%	11.92%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital Base	33,171,295	30,149,539
Total Risk Weighted Assets	270,615,370	216,405,255
	12.26%	13.93%

# EVENTS 2010

## JANUARY

**CBC Bangladesh opened its 5th & 6th SME centres at Chittagong and Tongi**



*Chittagong SME Centre opening*



*Tongi SME Centre opening*

## FEBRUARY

**CBC No. 2 in Business Today Top 10**



## MARCH

**CBC receives its 12th 'Best Bank' award from Global Finance**



**CBC Bangladesh 6th Annual Staff Conference**



*The theme of the 2010 Staff Conference was 'Empower the Entrepreneur'*

## APRIL

**173rd, 174th and 175th branches were opened at Kalmunai, Manipay and Majestic City**



*Kalmunai Branch opening*

## AUGUST

**CBC Launches Innovative 'Gold Overdraft' Facility**



*An overdraft facility that is literally worth its weight in Gold has been launched by CBC to provide an innovative solution for people who may periodically need access to extra cash at short notice.*

**183rd Branch was opened at Valachchenai**

## SEPTEMBER

**CBC Internet Payment Gateway Offers New Functionality**

*CBC the only Sri Lankan bank operating an Internet Payment Gateway hosted by MiGS (MasterCard Internet Gateway System), offers many features that facilitate SME type transactions, without the complexity and costs of existing e-commerce structures, through its ComBank Payment Gateway (CPG).*

**CBC Launches Information Centre**



*CBC customers will be able to obtain information on banking products and services that they need, by calling the information centre.*

**184th Branch was Opened at Wellawaya**



## OCTOBER

**CBC expands money transfer services in Saudi Arabia**

*CBC expanded its Instant Money Transfer Service, in Saudi Arabia for the benefit of thousands of Sri Lankans working there.*

**185th Branch was Opened at Mawathagama**



**CBC Assists Jaffna Hospital**



*CBC contributed nearly two million Rupees from its CSR Trust for the renovation of Ward 09 of the Jaffna General (Teaching) Hospital.*

**CBC helps families displaced by conflict**



*Four families from the Chavakachcheri area in Jaffna had an opportunity to begin life anew, thanks to another community initiative of the Commercial Bank. Two of these families have received houses built on their own lands and the other two will receive their new houses in 2011.*

## MAY

**CBC Adjudged the Best Agent Corridor Collaboration by MoneyGram**



**Another Gold for CBC**



*CBC was among the 10 Gold winners at the 'HRM Awards 2010' conducted by The Association of Human Resource Professionals.*

**176th Branch was opened at Mannar**



## 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), for the 2nd consecutive year.*

**177th, 178th and 179th branches were opened at Nawam Mawatha, Kilinochchi and Bokundara**



*Kilinochchi Branch opening*

## JULY

**CBC promotes Bancassurance with Union Assurance PLC**



*CBC entered into an MOU with Union Assurance PLC to offer Life Insurance products to the Bank's existing and potential customers.*

**Year-5 Scholarship winners received Rs. 3.5 Mn. from CBC**



*350 students who hold CBC Arunalu Minors' accounts were rewarded for achieving the 1st, 2nd and 3rd best results in their schools at the Year-5 Scholarship Examination of 2009.*

**180th, 181st and 182nd branches were opened at Achchuvvely, Thirunelvely and Eheliyagoda.**



*Achchuvvely Branch opening*



*Eheliyagoda Branch opening*

**CBC 'e-Exchange' promo winners receive cash prizes worth Rs. 2.5 Mn.**



**CBC rewards MoneyGram recipients**

*CBC conducted 'MoneyGram Customer Weeks' at its branches in the Jaffna Peninsula, Colombo North and Vavuniya. Accordingly, all customers who received MoneyGram remittances during the promotion period were presented with special gift packs.*

## NOVEMBER

**CBC bags 04 Gold Awards including the overall award at the 'National Business Excellence Awards' organised by the National Chamber of Commerce of Sri Lanka**



**CBC Launches Chip Card with VISA**



*CBC has commenced issuing chip-integrated Credit and Shopping Debit Cards under the Visa brand, becoming the first bank in Sri Lanka to offer locally personalised Chip Cards.*

**CBC Paymaster Demo Attracts Corporates**



*More than 100 representatives of leading corporate institutions gained valuable insights into making ETF payments a hassle-free online process at an awareness programme on 'Paymaster,' held at Taj Samudra Hotel, Colombo.*

## DECEMBER

**CBC Annual Report 2009 wins the overall Silver Award and 04 other Awards at the 'Awards for Excellence in Annual Reporting 2010' organised by The Institute of Chartered Accountants of Sri Lanka**



**CBC Reaches milestone 400th ATM at Ruwanwella**



*CBC achieved yet another milestone with the addition of the 400th ATM at Ruwanwella branch to its extensive, island wide 24 hour cash dispensing system which includes on site as well as off-site ATMs, and is the single largest in the country.*

**CBC supports Ranaviru Sevana**



*CBC installed an Automated Teller Machine at the Ranaviru Sevana in Ragama, in a gesture of support to over 400 war heroes accommodated at the Complex.*

**CBC assists the University of Jaffna by providing computer equipment to its Department of Geography**



**186th and 187th branches were opened at Thambuttegama and Ruwanwella**



*Ruwanwella Branch opening*

## INVESTOR RELATIONS

Dear Shareholder,

We have dedicated this Section of our Annual Report to you in appreciation of your continued support which enabled the Bank to achieve the following milestones.

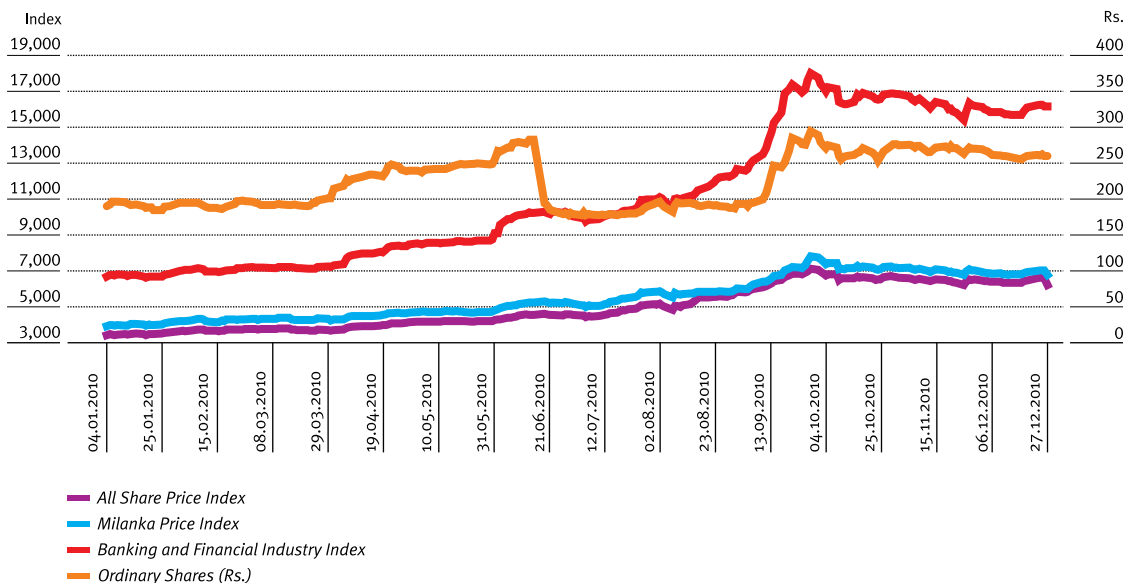
- Highest Market Capitalisation among the Banking institutions in Sri Lanka and the fourth largest among all listed companies in the Colombo Stock Exchange as at end 2010
- Only Sri Lankan Bank to pay a dividend of Rs. 7 per share for three successive years since 2008 which is the highest Dividend per Share paid by any local bank in the country
- First Indigenous Private Sector Bank to reach the Rs. 5 Bn. Mark in post-tax profits
- The largest Asset Base among Local Private Sector Banks
- First Sri Lankan Bank to be ranked among the Top 1,000 Banks of the world on the basis of capital adequacy and soundness in 2008
- Sri Lanka's 'Bank of the Year' Seven times by UK-based 'The Banker' magazine (2002-2008)

We place great importance on communication with our shareholders. The full report and accounts and the interim reports are available to shareholders on the Bank's website ([www.combank.net](http://www.combank.net)). Alternatively, shareholders can elect to receive a mailed copy of the accounts on request. The Company Secretary of the Bank responds to individual letters received from shareholders.

There is a regular dialogue with institutional shareholders through such means as the participation in investor forums, the publication of general press releases after the preliminary year end and interim results etc. The Board is advised of any specific comments from institutional investors to enable them to develop an understanding of the views of major shareholders. All shareholders have the opportunity to raise questions/obtain clarifications at the Bank's Annual General Meeting.

The Bank's shares are listed on the Colombo Stock Exchange. Daily share prices are found in newspapers including the Daily FT, Daily News, The Island, and Daily Mirror.

### Performance of the Commercial Bank's Ordinary Voting Share in 2010



## INVESTOR RELATIONS

### SPECIAL MOMENTS IN 2010

#### 'Best Bank' Awards for 12 Years Running



Your Bank continued to maintain its prestigious position when it was recognised as the 'Best Bank in Sri Lanka' for the 12th consecutive year by the 'Global Finance' of USA, one of the most respected financial magazines in the world. The awards of Global Finance are considered as one of the world's best bank awards where banks are selected from over 150 countries representing both the developed and emerging markets.

The ranking by Global Finance 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.

#### Top Honours at National Business Excellence



The Commercial Bank of Ceylon PLC forcefully reaffirmed its status as one of Sri Lanka's leading corporate entities when it won four top accolades including the Overall – Gold Award at the 2010 National Business Excellence Awards presented by the National Chamber of Commerce of Sri Lanka. In addition to the Overall - Gold winner, the Bank also bagged the top award in the Banking & Finance category, the Business Excellence Award in the 'Extra Large' category and the top award for Excellence in Performance Management Practices.

Performance in key areas including business & financial performance, global reach, knowledge integration, technological investment, capacity building, performance management, corporate governance and corporate social responsibility are considered when selecting winners of the National Business Excellence Awards. These awards honour businesses that contribute significantly towards the development of the country through excellent business practices.

#### 'Best Domestic Bank in Sri Lanka'



Commercial Bank was adjudged the 'Best Domestic Bank in Sri Lanka' by one of the region's most respected financial publications, 'FinanceAsia'. This is the second time that Sri Lanka was included in the magazine's prestigious awards programme. The Commercial Bank took the accolade on the first occasion too, making it two 'Best Bank' awards out of the two presented to the country by 'FinanceAsia' to date.

A summary of "Awards and Accolades" won by the Bank in the recent past is given on page 49 in the Section on "Sustainability Supplement" for the information of the shareholders.

The remainder of this Section describes the manner in which your Bank responded to the specific disclosure requirements as laid down in the Listing Rules of the Colombo Stock Exchange, together with other voluntary disclosures which we think is of value to you.

## INVESTOR RELATIONS

### COMPLIANCE REPORT ON THE CONTENTS OF ANNUAL REPORT IN TERMS OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

We are pleased to inform you that the Bank has complied with all the

requirements of the Section 7.6 of the Listing Rules of the Colombo Stock Exchange on the contents of the Annual Report and Accounts of a Listed Entity. The table below

provides the details of the Sections of this Annual Report where specified information is found together with page references for the convenience of the readers.

Rule No.	Disclosure Requirement	Section/Reference	Page/s
7.6 (i)	Names of persons who held the position of Directors during the financial year	<ul style="list-style-type: none"> <li>Annual Report of the Board of Directors</li> </ul>	197
7.6 (ii)	Principal activities of the Bank and its Subsidiaries during the year and any changes therein	<ul style="list-style-type: none"> <li>Note B in Accounting Policies</li> <li>Annual Report of the Board of Directors</li> </ul>	212 194
7.6 (iii)	The names of the twenty largest shareholders of voting and non-voting shares together with the number and the percentage of holding	<ul style="list-style-type: none"> <li>Item 03 of the Investor Relations</li> </ul>	177-178
7.6 (iv)	The public holding percentage	<ul style="list-style-type: none"> <li>Item 03 of the Investor Relations</li> </ul>	177-178
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at end of the financial year	<ul style="list-style-type: none"> <li>Item 11 of the Investor Relations</li> </ul>	181
7.6 (vi)	Information pertaining to material foreseeable risk factors	<ul style="list-style-type: none"> <li>Risk Management</li> </ul>	153-169
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	<ul style="list-style-type: none"> <li>Bank/Group did not encounter any situation of this nature which require disclosure during the year under review</li> </ul>	-
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties	<ul style="list-style-type: none"> <li>Note 23.3 to the Financial Statements on 'Property, Plant &amp; Equipment'</li> </ul>	252-253
7.6 (ix)	Number of shares representing the stated capital	<ul style="list-style-type: none"> <li>Note 32 (a) to the Financial Statements on 'Stated Capital'</li> <li>Item 14 of the Investor Relations</li> </ul>	262 183
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	<ul style="list-style-type: none"> <li>Item 9 of the Investor Relations</li> </ul>	180
7.6 (xi)	Ratios and market price information:		
	1. Dividend per share, dividend payout, net asset value per share, market value per share, debt/equity ratio, Interest cover and quick asset ratio	<ul style="list-style-type: none"> <li>Items 5 (a) , 5 (b) and 15 of the Investor Relations</li> </ul>	179 & 184
	2. Market information of listed debentures	<ul style="list-style-type: none"> <li>Item 15 of the Investor Relations</li> </ul>	184
	3. Any changes in credit rating	<ul style="list-style-type: none"> <li>Item 5 (c) of the Investor Relations</li> </ul>	179
7.6 (xii)	Significant changes in the Group's fixed assets and the market value of land, if the value differs substantially from the book value	<ul style="list-style-type: none"> <li>Note 23 to the Financial Statements on 'Property, Plant and Equipment'</li> </ul>	250
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year	<ul style="list-style-type: none"> <li>Not applicable for the year</li> </ul>	-
7.6 (xiv)	Information in respect of Employee Share Option Schemes	<ul style="list-style-type: none"> <li>Note 32 (b) and (c) to the Financial Statements on 'Employee Share Option Plan - 2002 and 2008', respectively</li> </ul>	262-263
7.6 (xv)	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 Listing Rules	<ul style="list-style-type: none"> <li>Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules</li> </ul>	-
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	<ul style="list-style-type: none"> <li>The Bank did not have any related party transaction exceeding this threshold as at the end 2010.</li> </ul>	-

## INVESTOR RELATIONS

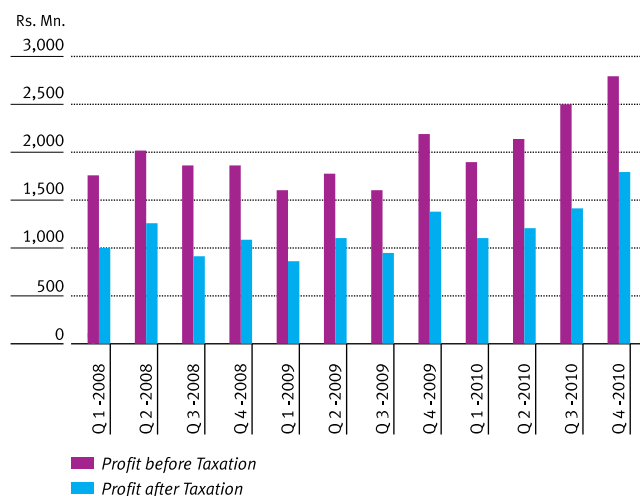
### STATUTORY AND VOLUNTARY DISCLOSURES

#### 1. QUARTERLY PERFORMANCE IN 2010 COMPARED TO 2009

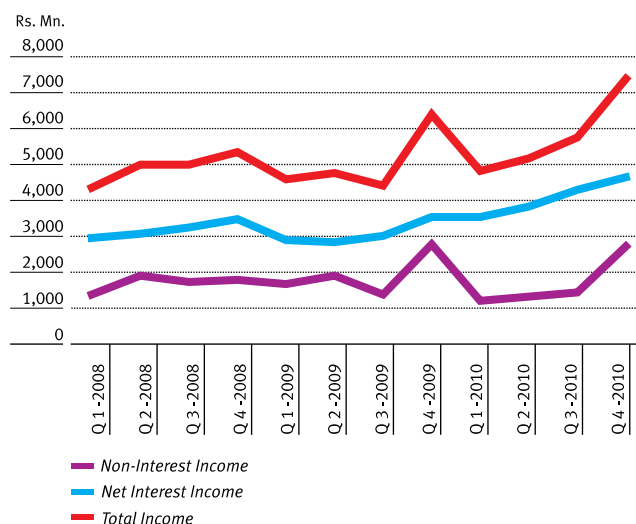
##### Summary of the Income Statements

	2010					2009				
	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.		Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	
<b>Group</b>										
Net Interest Income	3,573.8	3,819.2	4,312.2	4,668.3	<b>16,373.5</b>	2,941.7	2,845.8	3,046.8	3,587.2	12,421.5
Non-Interest Income	1,255.7	1,338.5	1,469.2	2,729.2	<b>6,792.6</b>	1,698.9	1,921.5	1,405.1	2,674.7	7,700.2
Less: Operating Expenses	2,925.8	3,024.8	3,277.9	4,648.0	<b>13,876.5</b>	3,005.9	2,964.0	2,818.5	4,207.7	12,996.1
Profit from Operations	1,903.7	2,132.9	2,503.5	2,749.5	<b>9,289.6</b>	1,634.7	1,803.3	1,633.4	2,054.2	7,125.6
Add: Share of Profit of Associate Companies	1.2	0.7	5.3	3.6	<b>10.8</b>	0.8	1.5	0.9	1.0	4.2
Profit before Taxation	1,904.9	2,133.6	2,508.8	2,753.1	<b>9,300.4</b>	1,635.5	1,804.8	1,634.3	2,055.2	7,129.8
Less: Income Tax Expense	797.0	927.5	1,087.0	979.0	<b>3,790.5</b>	743.3	682.1	662.8	848.6	2,936.8
Profit after Taxation	1,107.9	1,206.1	1,421.8	1,774.1	<b>5,509.9</b>	892.2	1,122.7	971.5	1,206.6	4,193.0
Quarterly Profit as a % of the Profit after Tax	20.1	21.9	25.8	32.2	<b>100.0</b>	21.3	26.8	23.2	28.7	100.0
Cumulative Quarterly Profit as a % of the Profit after Tax	20.1	42.0	67.8	100.0		21.3	48.1	71.2	100.0	
<b>Bank</b>										
Net Interest Income	3,583.4	3,829.0	4,322.0	4,677.0	<b>16,411.4</b>	2,933.4	2,839.9	3,047.2	3,589.8	12,410.3
Non-Interest Income	1,248.5	1,340.3	1,461.4	2,731.4	<b>6,781.6</b>	1,688.1	1,921.4	1,400.9	2,805.7	7,816.1
Less: Operating Expenses	2,940.1	3,036.4	3,289.1	4,610.1	<b>13,875.7</b>	3,021.1	2,977.2	2,837.0	4,199.3	13,034.6
Profit before Taxation	1,891.8	2,132.9	2,494.3	2,798.3	<b>9,317.3</b>	1,600.4	1,784.1	1,611.1	2,196.2	7,191.8
Less: Income Tax Expense	790.4	920.7	1,080.4	1,002.6	<b>3,794.1</b>	734.2	673.0	654.3	825.4	2,886.9
Profit after Taxation	1,101.4	1,212.2	1,413.9	1,795.7	<b>5,523.2</b>	866.2	1,111.1	956.8	1,370.8	4,304.9
Quarterly Profit as a % of the Profit after Tax	19.9	21.9	25.6	32.6	<b>100.0</b>	20.1	25.8	22.2	31.9	100.0
Cumulative Quarterly Profit as a % of the Profit after Tax	19.9	41.9	67.5	100.0		20.1	45.9	68.2	100.0	

##### Profit before and after Taxation - Bank



##### Quarterly Income - Bank



## INVESTOR RELATIONS

### Summary of the Balance Sheets

Group	2010				2009			
	As at 31-March Rs. Mn.	As at 30-June Rs. Mn.	As at 30-Sep. Rs. Mn.	As at 31-Dec. Rs. Mn.	As at 31-March Rs. Mn.	As at 30-June Rs. Mn.	As at 30-Sep. Rs. Mn.	As at 31-Dec. Rs. Mn.
<b>Group</b>								
Net Loans & Advances	172,220.1	174,793.3	192,915.7	<b>216,815.0</b>	173,591.0	165,998.8	166,329.0	171,727.1
Investments	116,617.6	127,007.8	129,941.2	<b>117,337.6</b>	57,678.2	79,633.0	89,605.7	103,052.6
Other Assets	45,725.3	36,371.0	41,757.4	<b>36,105.4</b>	56,609.5	55,154.7	55,222.4	47,765.7
<b>Total Assets</b>	<b>334,563.0</b>	<b>338,172.1</b>	<b>364,614.3</b>	<b>370,258.0</b>	<b>287,878.7</b>	<b>300,786.5</b>	<b>311,157.1</b>	<b>322,545.4</b>
Deposits	241,340.3	242,241.3	252,561.7	<b>259,744.6</b>	204,280.9	215,713.5	223,189.7	234,730.7
Other Liabilities	63,319.4	65,791.3	80,531.3	<b>76,974.2</b>	56,437.6	57,789.4	59,679.5	59,067.9
Shareholders' Funds	29,903.3	30,139.5	31,521.3	<b>33,539.2</b>	27,160.2	27,283.6	28,287.9	28,746.8
<b>Total Liabilities and Equity</b>	<b>334,563.0</b>	<b>338,172.1</b>	<b>364,614.3</b>	<b>370,258.0</b>	<b>287,878.7</b>	<b>300,786.5</b>	<b>311,157.1</b>	<b>322,545.4</b>
Growth in the Balance Sheet over the previous year end (%)	3.73	4.84	13.04	<b>14.79</b>	2.24	6.82	10.51	14.55
<b>Bank</b>								
Net Loans & Advances	172,449.8	175,066.1	193,158.7	<b>217,038.5</b>	173,756.6	166,194.3	166,573.7	171,969.8
Investments	116,867.4	127,258.0	130,186.6	<b>117,656.3</b>	57,840.3	79,785.3	89,750.4	103,303.7
Other Assets	45,006.1	35,619.0	41,036.6	<b>35,365.4</b>	55,902.2	54,422.7	54,441.6	47,041.2
<b>Total Assets</b>	<b>334,323.3</b>	<b>337,943.1</b>	<b>364,381.9</b>	<b>370,060.2</b>	<b>287,499.1</b>	<b>300,402.3</b>	<b>310,765.7</b>	<b>322,314.7</b>
Deposits	241,382.0	242,269.0	252,617.4	<b>259,778.9</b>	204,296.7	215,732.6	223,213.2	234,744.7
Other Liabilities	63,292.3	65,782.2	80,498.7	<b>76,979.2</b>	56,429.9	57,784.7	59,678.0	59,071.0
Shareholders' Funds	29,649.0	29,891.9	31,265.8	<b>33,302.1</b>	26,772.5	26,885.0	27,874.5	28,499.0
<b>Total Liabilities and Equity</b>	<b>334,323.3</b>	<b>337,943.1</b>	<b>364,381.9</b>	<b>370,060.2</b>	<b>287,499.1</b>	<b>300,402.3</b>	<b>310,765.7</b>	<b>322,314.7</b>
Growth in the Balance Sheet over the previous year end (%)	3.73	4.85	13.05	<b>14.81</b>	2.24	6.82	10.51	14.62

### 2. 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 2010 were submitted to the CSE within 45 days from the respective quarter ends as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the Colombo Stock Exchange (The Bank duly complied with this requirement for 2009).

The unaudited Interim Financial Statements for the fourth quarter of 2010 will be submitted to the CSE on or before February 28, 2011, as required by the Rule No. 7.4 (a) (i) of the Colombo Stock Exchange (The Bank duly complied with this requirement for 2009).

The Audited Income Statement for the year ended December 31, 2010 and the Audited Balance Sheet as at December 31, 2010 will be submitted to the Colombo Stock Exchange within three months from the Balance Sheet date (The Bank duly complied with this requirement for 2009), which is well within the required deadline as required by the Rule No. 7.5 (a).

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.

## INVESTOR RELATIONS

### 3. THE NAMES, NUMBER AND PERCENTAGE OF SHARES HELD BY TWENTY LARGEST SHAREHOLDERS (AS PER RULE NO. 7.6 (III) OF THE COLOMBO STOCK EXCHANGE)

As at December 31,	2010		2009 (*)	
	No. of Shares	%	No. of Shares	%
<b>Ordinary Voting Shares</b>				
DFCC Bank A/C 1	52,853,674	14.96	67,090,868	28.69
SBI Ven Holdings Pte Ltd.	35,147,227	9.95	-	-
HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation GNA - C61V	33,800,002	9.57	33,800,000	14.46
Sri Lanka Insurance Corporation Ltd. - Life Fund	18,022,212	5.10	12,014,808	5.14
Employees' Provident Fund	16,605,950	4.70	4,680,300	2.00
HSBC Intl. Nominees Ltd. - SSBT - Janus Overseas Fund	16,162,100	4.57	-	-
Sri Lanka Insurance Corporation Ltd. - General Fund	15,496,623	4.39	10,331,082	4.42
Mr. Y.S.H.I.K. Silva	11,078,063	3.14	4,007,742	1.71
Distilleries Company of Sri Lanka PLC	7,773,921	2.20	5,182,614	2.22
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global - Asian Smaller Companies Fund	7,520,750	2.13	3,658,500	1.56
HSBC Intl. Nominees Ltd. - SSBT - Janus Aspen Series Overseas Portfolio	7,323,050	2.07	-	-
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global Asia Pacific Equity Fund	5,331,280	1.51	3,554,187	1.52
HSBC Intl. Nominees Ltd. - SSBT - South Asia Portfolio	4,369,300	1.24	-	-
Mercantile Investments Ltd.	3,900,000	1.10	273,500	0.12
HSBC Intl. Nominees Ltd. - SSBT - Aberdeen Institutional Commingled Fund, LLC	3,828,761	1.08	2,679,040	1.15
HSBC Intl. Nominees Ltd. - BPSS LUX - Aberdeen Global - Emerging Markets Smaller Companies Fund	3,290,200	0.93	1,157,400	0.49
HSBC Intl. Nominees Ltd. - BP2S LONDON - Aberdeen Asia Smaller Companies Investment Trust	2,989,999	0.85	1,993,333	0.85
BNY - CF Ruffer Investment Fund: CF Ruffer Pacific Fund	2,765,000	0.78	1,200,000	0.51
RBC Dexia Investor Services Bank S.A - Vontobel Fund - Far East Equity	2,186,150	0.62	-	-
Freudenberg Shipping Agencies Limited	2,175,000	0.62	1,488,000	0.64
Sub Total	252,619,262	71.50	153,111,374	65.48
Other Shareholders	100,686,125	28.50	80,709,897	34.52
<b>Total</b>	<b>353,305,387</b>	<b>100.00</b>	<b>233,821,271</b>	<b>100.00</b>

As per Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding of voting shares as at December 31, 2010 was 84.37% (56.31% as at December 31, 2009).

\* Comparative shareholdings as at December 31, 2009 of the twenty largest shareholders as at December 31, 2010.

## INVESTOR RELATIONS

As at December 31,	2010		2009 (*)	
	No. of Shares	%	No. of Shares	%
<b>Ordinary Non-Voting Shares</b>				
Sri Lanka Insurance Corporation Ltd. - General Fund	1,317,941	5.45	1,711,961	10.62
BNYM SA/NV - The Walter Fund	1,154,800	4.78	-	-
Employees' Trust Fund Board	714,255	2.95	166,770	1.03
The Gilpin Fund Ltd.	616,449	2.55	410,966	2.55
HINL - JPMCB - Butterfield Trust (Bermuda) Ltd.	600,000	2.48	400,000	2.48
Deutsche Bank AG - National Equity Fund	593,300	2.45	-	-
Deutsche Bank AG as Trustee for NAMAL Aquity Value Fund	589,200	2.44	425,000	2.64
M.J.F. Exports Ltd.	413,665	1.71	278,677	1.73
Mr. J.D. Bandaranayake	402,113	1.66	274,742	1.70
Mrs. L.E.M. Yaseen	340,000	1.41	427,700	2.65
Dr. A.K.A. Jayawardene	272,031	1.12	181,354	1.12
Mr. M.F. Hashim	269,587	1.11	177,692	1.10
Mr. J.G. De Mel	243,899	1.01	159,166	0.99
Mr. M.J.C. Amarasuriya	227,821	0.94	151,881	0.94
Saboor Chatoor (Pvt) Ltd.	214,000	0.88	75,000	0.47
Union Assurance PLC/No. - 01 A/C	206,050	0.85	100,000	0.62
Bank of Ceylon No. 1 Account	199,300	0.82	-	-
Mr. G.R. Mallawaarachy & Mrs. B.G.P. Mallawaarachy (Joint)	190,650	0.79	127,100	0.79
Alpex Marine (Pvt) Ltd.	181,999	0.75	121,333	0.75
Mr. K.S.M. De Silva	154,385	0.64	101,390	0.63
<b>Sub Total</b>	<b>8,901,445</b>	<b>36.81</b>	<b>5,290,732</b>	<b>32.81</b>
<b>Other Shareholders</b>	<b>15,279,750</b>	<b>63.19</b>	<b>10,830,065</b>	<b>67.19</b>
<b>Total</b>	<b>24,181,195</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>

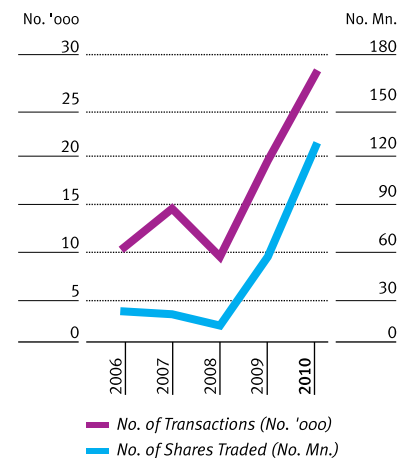
As per Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding of non-voting shares as at December 31, 2010 was 98.77% (88.15% as at December 31, 2009).

\* Comparative shareholdings as at December 31, 2009 of the twenty largest shareholders as at December 31, 2010.

### 4. INFORMATION ON SHARE TRADING

	Ordinary Shares - Voting		Ordinary Shares - Non-Voting	
	2010	2009	2010	2009
Number of Transactions	19,620	13,267	8,614	5,301
Number of Shares Traded	113,377,065	46,401,626	9,799,700	7,950,100
Value of Shares Traded (Rs. Bn.)	26.37	6.60	1.56	0.81

### Share Trading



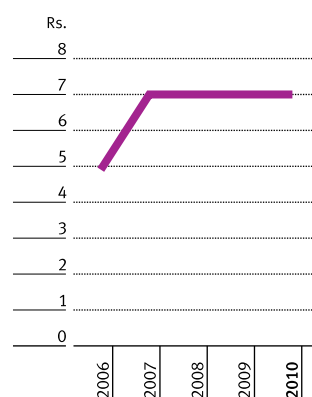
## INVESTOR RELATIONS

### 5. INFORMATION ON RATIOS, MARKET PRICES AND CREDIT RATINGS (AS PER RULE NO. 7.6 (XI) OF THE COLOMBO STOCK EXCHANGE)

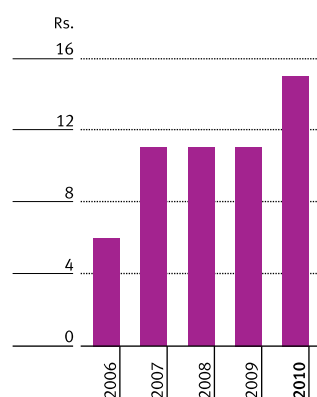
#### (a) Information on Ratios

	2010	2009
Dividend per Share (Rs.)	7.00	7.00
Dividend Payout Ratio (%)	47.84	40.68
Net Assets Value per Share (Rs.)	88.22	76.01

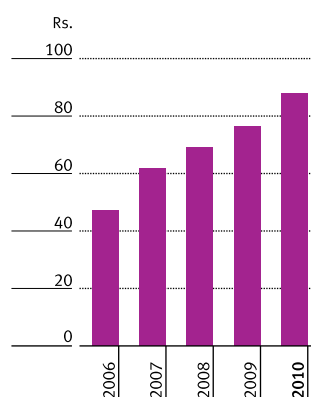
#### Dividend Per Share



#### Earnings Per Share



#### Net Assets Value Per Share



#### (b) Market Prices

	Ordinary Shares - Voting		Ordinary Shares - Non-Voting	
	2010 Rs.	2009 Rs.	2010 Rs.	2009 Rs.
Highest Price	295.00	192.00	226.00	131.25
Date of the Highest Price	(04.10.2010)	(30.12.2009)	(15.06.2010)	(14.10.2009)
Lowest Price	175.00	66.00	75.00	48.25
Date of the Lowest Price	(07.07.2010)	(02.01.2009)	(21.09.2010)	(02.01.2009)
Year end Price	259.90	189.50	162.00	124.75

#### (c) Credit Ratings

The Bank's credit rating was revised to AA(lka) by Fitch Ratings Lanka Ltd. in 2010 from AA+(lka) in 2009.

Consequently, the credit rating of the Bank's subordinated debentures too revised to AA-(lka) from AA(lka) in 2009.

The Bank's Bangladesh Operation's credit rating, AA+ was reaffirmed by Credit Rating Information Services Ltd. in 2009.

## INVESTOR RELATIONS

### 6. INFORMATION ON SHAREHOLDERS' FUNDS AND MARKET CAPITALISATION

As at December 31,	Shareholders' Funds Rs. Mn.	Com Bank Market Capitalisation* Rs. Mn.	Total Market Capitalisation of the CSE Rs. Mn.	As % of CSE Market Capitalisation	Market Capitalisation Ranking
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
2009	28,499	44,309	1,092,138	4.06	5
<b>2010</b>	<b>33,302</b>	<b>91,824</b>	<b>2,280,874</b>	<b>4.03</b>	<b>4</b>

\* Commercial Bank's Market Capitalisation includes only Voting Ordinary Shares.

### 7. INFORMATION ON DIVIDENDS ON ORDINARY SHARES (FOR BOTH VOTING AND NON-VOTING SHARES)

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

	2010 Rs.	2009 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, which consist of a cash dividend of Rs. 2.00 per share and a scrip dividend of Rs. 2.00 per share for both Voting and Non-voting shareholders of the Bank for the year ended December 31, 2010 for approval by the shareholders at the 42nd Annual General Meeting (AGM), to be held on March 30, 2011.

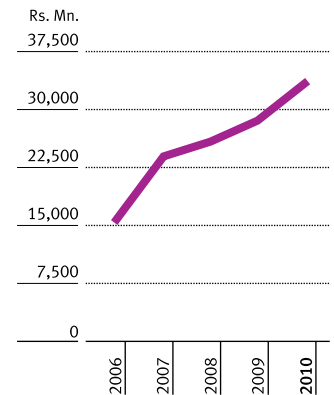
### 8. SHAREHOLDER BASE

The total number of shareholders as at December 31, 2010 was 12,040 compared to the 9,855 as at December 31, 2009.

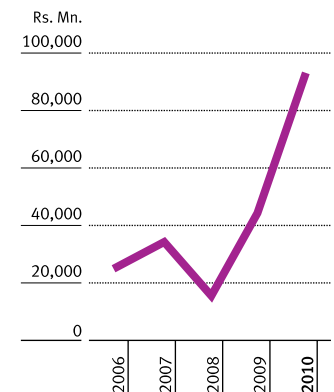
### 9. DISTRIBUTION SCHEDULE OF THE NUMBER OF HOLDERS AND PERCENTAGE OF HOLDING IN EACH CLASS OF EQUITY SECURITIES (AS PER RULE NO. 7.6 (X) OF THE COLOMBO STOCK EXCHANGE)

As at December 31,	2010				2009			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
<b>Ordinary Voting Shares</b>								
Up to 1,000	4,138	50.84	1,288,862	0.36	3,523	51.07	1,029,519	0.44
1,001 - 10,000	2,920	35.87	11,003,306	3.12	2,565	37.18	9,220,771	3.93
10,001 - 100,000	916	11.25	24,977,603	7.07	690	10.00	19,040,329	8.14
100,001 - 1,000,000	131	1.61	39,502,896	11.18	95	1.38	28,203,044	12.06
Over 1,000,000	35	0.44	276,532,720	78.27	25	0.37	176,327,608	75.41
	<b>8,140</b>	<b>100.00</b>	<b>353,305,387</b>	<b>100.00</b>	<b>6,898</b>	<b>100.00</b>	<b>233,821,271</b>	<b>100.00</b>
<b>Ordinary Non-Voting Shares</b>								
Up to 1,000	2,413	61.87	817,660	3.38	1,857	62.80	535,039	3.32
1,001 - 10,000	1,169	29.97	4,042,693	16.72	872	29.49	2,848,022	17.67
10,001 - 100,000	287	7.36	9,092,881	37.60	208	7.03	5,999,634	37.22
100,001 - 1,000,000	29	0.74	7,755,220	32.07	19	0.64	5,026,141	31.18
Over 1,000,000	2	0.05	2,472,741	10.23	1	0.03	1,711,961	10.62
	<b>3,900</b>	<b>100.00</b>	<b>24,181,195</b>	<b>100.00</b>	<b>2,957</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>

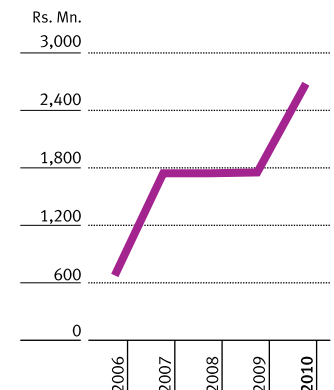
### Shareholders' Funds



### Market Capitalisation - Commercial Bank



### Gross Dividend to Equity Holders of the Parent



## INVESTOR RELATIONS

### 10. COMPOSITION OF SHAREHOLDERS

As at December 31,	2010				2009			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
<b>Ordinary Voting Shares</b>								
Resident	7,872	96.71	199,398,225	56.44	6,658	96.52	158,082,505	67.61
Non-Resident	268	3.29	153,907,162	43.56	240	3.48	75,738,766	32.39
<b>Total</b>	<b>8,140</b>	<b>100.00</b>	<b>353,305,387</b>	<b>100.00</b>	<b>6,898</b>	<b>100.00</b>	<b>233,821,271</b>	<b>100.00</b>
Individuals	7,598	93.34	63,140,217	17.87	6,440	93.36	41,717,214	17.84
Institutions	542	6.66	290,165,170	82.13	458	6.64	192,104,057	82.16
<b>Total</b>	<b>8,140</b>	<b>100.00</b>	<b>353,305,387</b>	<b>100.00</b>	<b>6,898</b>	<b>100.00</b>	<b>233,821,271</b>	<b>100.00</b>
<b>Ordinary Non-Voting Shares</b>								
Resident	3,826	98.10	21,450,715	88.71	2,887	97.63	13,648,210	84.66
Non-Resident	74	1.90	2,730,480	11.29	70	2.37	2,472,587	15.34
<b>Total</b>	<b>3,900</b>	<b>100.00</b>	<b>24,181,195</b>	<b>100.00</b>	<b>2,957</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>
Individuals	3,685	94.49	14,876,913	61.52	2,790	94.35	9,609,490	59.61
Institutions	215	5.51	9,304,282	38.48	167	5.65	6,511,307	40.39
<b>Total</b>	<b>3,900</b>	<b>100.00</b>	<b>24,181,195</b>	<b>100.00</b>	<b>2,957</b>	<b>100.00</b>	<b>16,120,797</b>	<b>100.00</b>

### 11. DIRECTORS' SHAREHOLDING INCLUDING THE CEO'S SHAREHOLDING (AS PER RULE NO. 7.6 (V) OF THE COLOMBO STOCK EXCHANGE)

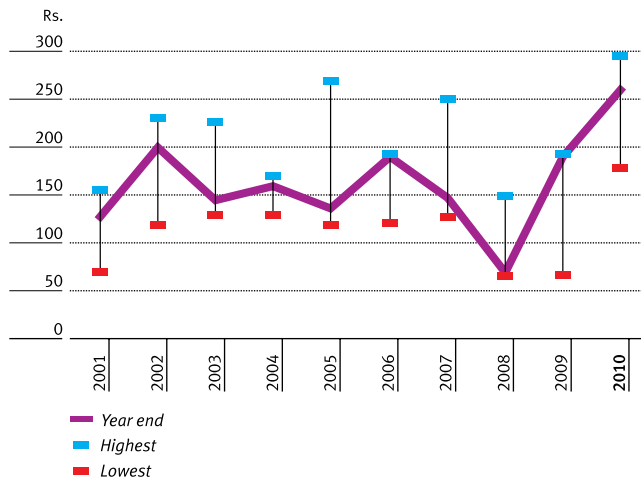
As at December 31,	Ordinary Shares - Voting		Ordinary Shares - Non-Voting	
	2010	2009	2010	2009
<b>Name</b>				
Mr. M.J.C. Amarasuriya - <i>Chairman</i>	670,645	447,097	227,821	151,881
Mr. B.R.L. Fernando - <i>Deputy Chairman</i>	-	-	12,621	8,414
Mr. A.L. Gooneratne - <i>CEO/MD</i>	1,373,620	806,216	57,042	38,028
Dr. H.S. Wanasinghe	-	-	-	-
Mr. D.S. Weerakkody	10,000	1,000	-	-
Mr. P.M. Martelli	-	-	-	-
Mr. R.M.S. Fernando	-	-	-	-
Mr. U.P. Liyanage	-	N/A	-	N/A
Mr. W.M.R.S. Dias	310,349	N/A	-	N/A
Mrs. S.N. Wickramasinghe ( <i>Resigned w.e.f. 26.05.2010</i> )	N/A	-	N/A	-
Ms. J. Kuruppu ( <i>Resigned w.e.f. 15.07.2010</i> )	N/A	-	N/A	-

## INVESTOR RELATIONS

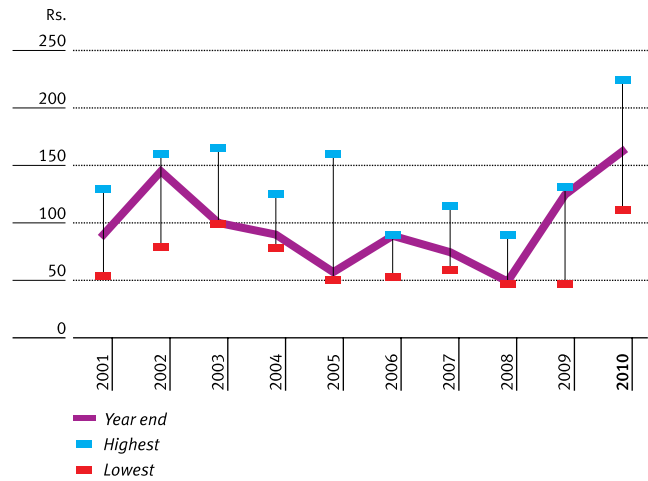
### 12. SHARE PRICE TREND OVER LAST TEN YEARS

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Ordinary Voting Shares</b>										
Highest Price (Rs.)	<b>295.00</b>	192.00	149.75	250.00	192.50	269.00	170.00	226.00	230.00	155.00
Lowest Price (Rs.)	<b>175.00</b>	66.00	66.25	128.00	123.00	120.00	130.00	130.00	120.00	70.50
Last Traded Price (Rs.)	<b>259.90</b>	189.50	67.00	147.00	190.00	135.50	159.75	144.00	200.00	127.00
<b>Ordinary Non-Voting Shares</b>										
Highest Price (Rs.)	<b>226.00</b>	131.25	89.50	114.50	90.00	160.00	126.00	165.00	160.00	130.00
Lowest Price (Rs.)	<b>75.00</b>	48.25	48.00	60.00	54.00	51.00	80.00	100.00	80.00	55.00
Last Traded Price (Rs.)	<b>162.00</b>	124.75	49.00	74.50	89.00	57.50	90.00	100.00	145.00	90.00

#### Ordinary Voting Shares



#### Ordinary Non-voting Shares



### 13. INFORMATION ON SCRIP, RIGHTS ISSUES AND SHARE SPLITS DURING THE PAST DECADE

Year/Month	Details
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
2010 June	Share split of one ordinary share for every two ordinary share held

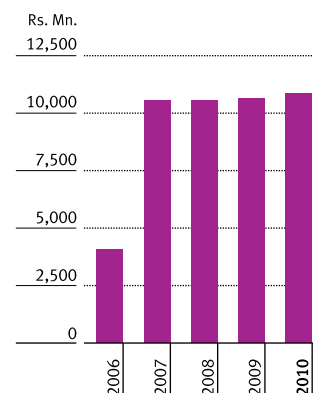
## INVESTOR RELATIONS

### 14. INFORMATION ON MOVEMENT IN NUMBER OF SHARES REPRESENTED BY THE STATED CAPITAL (AS PER RULE NO. 7.6 (IX) OF THE COLOMBO STOCK EXCHANGE)

Year	Details	Basis	No. of Shares Issued/ (Redeemed)	No. of Shares		Cumulative Redeemable Preference	
				Ordinary - Voting	Ordinary - Non-Voting		
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	
	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	-
2009	ESOP	Voting		540,045	233,821,271	16,120,797	-
2010	Share Spilt	Voting	1 for 2	117,402,608	351,223,879	16,120,797	
	Share Spilt	Non-Voting	1 for 2	8,060,398	351,223,879	24,181,195	
	ESOP	Voting		2,081,508	353,305,387	24,181,195	

ESOP - This denotes ordinary voting shares issued under the two employee share option plans to Bank's staff as explained in Note 32 (b) and (c) to the Financial Statements on pages 262 and 263.

### Share Capital



### Profit Retention Ratio



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



## INVESTOR RELATIONS

### 15. 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	Amount Rs. Mn.	Market Values		Year End Rs.
				Highest Rs.	Lowest Rs.	
<b>Fixed Rate</b>						
May 2006/May 2011 - 12.00% p.a.	Not listed	Annually	15.000		Not Applicable	
					Not Applicable	
May 2006/May 2016 - 13.25% p.a.	Not listed	Annually	505.000		Not Applicable	
					Not Applicable	
December 2006/December 2011 - 13.50% p.a.	Listed	Annually	527.800		Not traded during the year	
					Not traded during the year	
December 2006/December 2013 - 13.75% p.a.	Listed	Annually	0.250		Not traded during the year	
					Not traded during the year	
December 2006/December 2016 - 14.00% p.a.	Listed	Annually	467.260		Not traded during the year	
					Not traded during the year	
<b>Floating Rate</b>						
May 2006/May 2011 - 3 Months TB Rate (Net) + 2% p.a.	Not listed	Quarterly	15.000		Not Applicable	
					Not Applicable	
May 2006/May 2011 - 3 Months TB Rate (Gross) + 1% p.a.	Not listed	Quarterly	465.000		Not Applicable	
					Not Applicable	
December 2006/December 2011 - 12 Months TB Rate (Gross) + 1% p.a.	Listed	Annually	131.020		Not traded during the year	
					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	
					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	
					Not traded during the year	
<b>Total</b>						<b>2,127.030</b>

The comparative information for 2009 have been highlighted

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

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

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

Other Ratios	2010	2009
Debt Equity Ratio (%)	6.54	12.50
Interest Cover (Times)	25.89	12.49
Liquid Assets Ratio (%) (Minimum 20%)	29.74	38.80

16. Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Colombo Stock Exchange is discussed in the Section on 'Risk Management' on pages 153 to 169.

17. There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be discussed as per the Rule No. 7.6 (vii) of the Colombo Stock Exchange.

## INVESTOR RELATIONS

Interest Rates		Interest Rate of Comparable Government Security	Other Ratios as at date of Last Trade	
Coupon Rate	Effective Annual Yield		Interest Yield	Yield to Maturity
%	%	%	%	%
12.00	12.00	7.25		
12.00	12.00	9.60		
13.25	13.25	9.30		
13.25	13.25	12.50		
13.50	13.50	7.55	Not traded during the year	
13.50	13.50	10.00	Not traded during the year	
13.75	13.75	8.05	Not traded during the year	
13.75	13.75	11.05	Not traded during the year	
14.00	14.00	9.40	Not traded during the year	
14.00	14.00	12.50	Not traded during the year	
9.25	9.57	7.25		
15.21	16.10	7.73		
9.05	9.36	7.25		
15.67	16.62	9.60		
9.40	9.40	7.55	Not traded during the year	
22.24	22.24	9.60	Not traded during the year	
9.40	9.40	8.05	Not traded during the year	
22.24	22.24	10.00	Not traded during the year	
9.40	9.40	9.40	Not traded during the year	
22.24	22.24	11.05	Not traded during the year	

## US\$ INCOME STATEMENT

For the year ended December 31,	GROUP			BANK		
	2010 US\$. '000	2009 US\$. '000	Change %	2010 US\$. '000	2009 US\$. '000	Change %
<b>Income</b>	<b>373,037</b>	381,246	(2.15)	<b>373,395</b>	382,351	(2.34)
Interest income	311,953	313,936	(0.63)	312,409	314,028	(0.52)
Less : Interest expenses	164,709	205,357	(19.79)	164,824	205,547	(19.81)
Net interest income	147,244	108,579	35.61	147,585	108,481	36.05
Foreign exchange profit	15,656	25,894	(39.54)	15,656	25,894	(39.54)
Fees and commission income	28,956	22,114	30.94	28,957	22,115	30.94
Other income	16,472	19,302	(14.66)	16,373	20,314	(19.40)
<b>Operating Income</b>	<b>208,328</b>	175,889	18.44	<b>208,571</b>	176,804	17.97
Less : Operating Expenses						
Personnel expenses	46,321	40,769	13.62	45,958	40,496	13.49
Premises, equipment and establishment expenses	22,942	19,652	16.74	22,424	19,405	15.56
Fees and commission expenses	2,492	2,169	14.89	2,492	2,169	14.89
Provision for staff retirement benefits	4,305	3,929	9.57	4,290	3,915	9.58
Loan losses and provisions	10,721	13,406	(20.03)	10,721	13,406	(20.03)
Other overhead expenses	38,007	33,675	12.86	38,896	34,548	12.59
	124,788	113,600	9.85	124,781	113,939	9.52
Profit from operations	83,540	62,288	34.12	83,790	62,865	33.29
Add : Share of profit of Associates	97	37	162.16	-	-	-
<b>Profit before taxation</b>	<b>83,637</b>	62,325	34.19	<b>83,790</b>	62,865	33.29
Less : Income Tax Expense	34,087	25,672	32.78	34,120	25,235	35.21
<b>Net Profit for the year</b>	<b>49,550</b>	36,653	35.19	<b>49,670</b>	37,630	32.00
<b>Attributable to:</b>						
Equity holders of the Parent	49,528	36,644	35.16	49,670	37,630	32.00
Minority Interest	22	9	144.44	-	-	-
<b>Net Profit for the year</b>	<b>49,550</b>	36,653	35.19	<b>49,670</b>	37,630	32.00
Basic Earnings per Share (US\$)	0.13	0.10	30.00	0.13	0.10	30.00
Diluted Earnings per Share (US\$)	0.13	0.10	30.00	0.28	0.13	115.38
Dividend per Ordinary Share (US\$)	-	-	-	0.06	0.06	-

## 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 of Financial Statements and do not form part of the Financial Statements.

## US\$ BALANCE SHEET

As at December 31,	GROUP			BANK		
	2010 US\$. '000	2009 US\$. '000	Change %	2010 US\$. '000	2009 US\$. '000	Change %
<b>ASSETS</b>						
Cash and short term funds	95,362	210,285	(54.65)	94,937	210,285	(54.85)
Balances with Central Banks	109,612	103,099	6.32	109,612	103,099	6.32
Government Treasury Bills, Bonds and other Securities	1,030,041	845,023	21.90	1,030,041	845,023	21.90
Securities purchased under resale agreements	616	45,482	(98.65)	616	45,482	(98.65)
Dealing securities	2,548	707	260.40	2,548	707	260.40
Investment securities	21,273	8,962	137.37	21,273	8,962	137.37
Bills of exchange	47,585	24,887	91.20	47,585	24,887	91.20
Lease receivable	97,089	66,029	47.04	99,087	68,127	45.44
Loans and advances	1,805,100	1,410,195	28.00	1,805,113	1,410,219	28.00
	3,209,226	2,714,669	18.22	3,210,812	2,716,791	18.18
Investments in associates	716	635	12.76	399	388	2.84
Investments in subsidiaries	-	-	-	3,183	2,442	30.34
Interest and fees receivable	16,946	15,586	8.73	16,946	15,586	8.73
Property, plant & equipment	59,256	40,292	47.07	53,323	34,220	55.82
Leasehold property	1,031	1,015	1.58	712	700	1.71
Other assets	38,659	43,868	(11.87)	38,733	43,922	(11.81)
Intangible assets	3,824	3,388	12.87	3,771	3,387	11.34
<b>Total Assets</b>	<b>3,329,658</b>	<b>2,819,453</b>	<b>18.10</b>	<b>3,327,879</b>	<b>2,817,436</b>	<b>18.12</b>
<b>LIABILITIES</b>						
Deposits	2,335,832	2,051,842	13.84	2,336,141	2,051,964	13.85
Borrowings	129,235	101,737	27.03	129,235	101,737	27.03
Securities sold under repurchase agreements	410,602	260,255	57.77	411,641	261,403	57.47
Current tax liabilities	22,077	10,586	108.55	22,015	10,512	109.43
Deferred tax liabilities	8,927	6,706	33.12	8,026	5,537	44.95
Debentures	19,128	30,035	(36.31)	19,128	30,035	(36.31)
Other liabilities	102,246	107,009	(4.45)	102,214	107,131	(4.59)
<b>Total Liabilities</b>	<b>3,028,047</b>	<b>2,568,170</b>	<b>17.91</b>	<b>3,028,400</b>	<b>2,568,319</b>	<b>17.91</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT</b>						
Stated capital	97,223	92,725	4.85	97,223	92,725	4.85
Statutory reserves	22,229	18,917	17.51	22,229	18,917	17.51
Other reserves	181,920	139,413	30.49	180,027	137,475	30.95
Shareholders' Funds	301,372	251,055	20.04	299,479	249,117	20.22
Minority interest	239	228	4.82	-	-	-
<b>Total Equity</b>	<b>301,611</b>	<b>251,283</b>	<b>20.03</b>	<b>299,479</b>	<b>249,117</b>	<b>20.22</b>
<b>Total liabilities and equity</b>	<b>3,329,658</b>	<b>2,819,453</b>	<b>18.10</b>	<b>3,327,879</b>	<b>2,817,436</b>	<b>18.12</b>
<b>Commitments and contingencies</b>	<b>1,759,402</b>	<b>1,276,855</b>	<b>37.79</b>	<b>1,759,402</b>	<b>1,276,855</b>	<b>37.79</b>
<b>Net Assets value per ordinary share (US\$)</b>	<b>0.80</b>	<b>0.67</b>	<b>19.40</b>	<b>0.79</b>	<b>0.66</b>	<b>19.70</b>

Exchange Rate of 1 US\$ was Rs. 111.20 as at 31.12.2010 (Rs. 114.40 as at 31.12.2009)

## DECADE AT A GLANCE

### Bank

Year Ended December 31, Rs. Mn.	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR (%)
<b>OPERATING RESULTS</b>											
Income	8,203	8,364	10,059	12,290	16,100	24,470	35,223	44,115	43,741	<b>41,522</b>	21.15
Interest income	6,510	6,613	7,931	9,584	13,034	19,532	30,503	37,188	35,925	<b>34,740</b>	
Interest expenses	(4,174)	(3,747)	(4,218)	(4,878)	(7,226)	(11,955)	(18,951)	(24,336)	(23,515)	<b>(18,328)</b>	
Foreign exchange profit	563	464	397	874	587	1,439	1,545	2,633	2,962	<b>1,741</b>	
Commission & other income	732	1,097	1,731	1,832	2,479	3,499	3,175	4,294	4,854	<b>5,041</b>	
Operating expenses & provisions	(2,306)	(2,902)	(3,887)	(4,908)	(5,232)	(8,301)	(9,567)	(12,259)	(13,035)	<b>(13,876)</b>	
Profit before income tax	1,325	1,525	1,954	2,504	3,642	4,214	6,705	7,520	7,191	<b>9,318</b>	23.27
Income tax on profit	(315)	(321)	(477)	(819)	(1,278)	(2,201)	(2,601)	(3,252)	(2,887)	<b>(3,794)</b>	
Net profit for the year	1,010	1,204	1,477	1,685	2,364	2,013	4,104	4,268	4,304	<b>5,524</b>	19.43

As at December 31,

<b>ASSETS</b>											
Cash and short term funds	4,272	1,835	9,002	12,136	18,663	13,739	16,208	24,115	24,057	<b>10,557</b>	
Balances with Central Banks	3,091	3,244	5,233	6,320	9,045	12,574	11,576	10,322	11,795	<b>12,189</b>	
Government Treasury Bills, Bonds and other securities	5,307	9,436	16,530	19,900	21,218	32,065	49,863	51,633	96,671	<b>114,541</b>	
Commercial paper	1,170	1,080	546	560	408	423	-	-	-	<b>-</b>	
Securities purchased under re-sale agreements	1,064	832	6,184	399	808	4,593	3,804	3,400	5,203	<b>68</b>	
Dealing securities	-	-	-	110	182	145	207	58	81	<b>283</b>	
Investments held for sale	-	-	-	-	-	218	205	-	-	<b>-</b>	
Investments held to maturity	462	905	2,006	2,340	3,091	1,394	1,756	1,197	1,025	<b>2,366</b>	
Bills of Exchange	2,368	2,552	2,495	2,799	2,790	3,204	3,195	3,059	2,847	<b>5,291</b>	
Lease receivable	1,519	1,921	3,364	5,317	7,088	9,482	10,945	9,484	7,794	<b>11,019</b>	19.92
Loans and advances	36,730	47,350	60,585	82,605	108,884	137,846	160,184	167,858	161,329	<b>200,729</b>	
	55,983	69,155	105,945	132,486	172,177	215,683	257,943	271,126	310,802	<b>357,043</b>	
Investments in Associate Companies	78	78	78	109	107	44	44	44	44	<b>44</b>	
Investments in Subsidiary Companies	424	424	429	429	434	434	434	434	279	<b>354</b>	
Other assets	1,251	2,149	2,167	2,553	4,177	4,336	5,751	5,512	6,808	<b>6,191</b>	
Property, Plant & Equipment and Intangible Assets	1,410	1,546	1,661	2,896	3,182	3,477	3,768	4,098	4,382	<b>6,428</b>	
<b>Total Assets</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>370,060</b>	22.26

### LIABILITIES

Deposits from customers	46,306	54,585	75,185	98,730	127,601	157,496	183,110	199,881	234,745	<b>259,779</b>	21.35
Dividends payable	163	118	190	230	230	113	113	-	-	<b>-</b>	
Borrowings	1,862	4,200	5,406	9,090	13,387	18,944	18,752	13,620	11,639	<b>14,371</b>	
Securities sold under re-purchase agreements	228	1,938	10,580	9,050	11,389	14,330	23,342	25,075	29,905	<b>45,774</b>	
Other liabilities	3,263	4,218	4,843	3,735	6,331	9,122	10,308	10,646	12,888	<b>12,259</b>	
Tax payable	79	39	148	483	818	1,446	1,698	1,665	1,203	<b>2,448</b>	
Debentures	500	500	2,244	3,244	4,553	6,680	6,680	4,436	3,436	<b>2,127</b>	
	52,401	65,598	98,596	124,562	164,309	208,131	244,003	255,323	293,816	<b>336,758</b>	

### SHAREHOLDERS' FUNDS

Share capital/Stated capital	1,324	1,324	2,603	2,603	3,327	2,428	10,515	10,548	10,608	<b>10,811</b>	
Statutory Reserve Fund	1,009	1,009	1,009	1,009	1,421	1,429	1,634	1,896	2,164	<b>2,472</b>	
Reserves	4,412	5,421	8,072	10,299	11,020	11,986	11,788	13,447	15,727	<b>20,019</b>	
<b>Total Liabilities &amp; Shareholders' Funds</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>370,060</b>	22.26
Commitments and contingencies	19,749	24,082	38,158	43,942	47,154	56,418	116,212	115,809	146,072	<b>195,646</b>	

CAGR - Compounded Annual Growth Rate

## DECADE AT A GLANCE

Bank	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR
<b>RATIOS</b>											
Return on average shareholders' funds (%)	17.13	16.61	15.20	13.16	15.93	12.73	20.63	17.13	15.83	<b>17.87</b>	
Income growth (%)	34.56	1.96	20.26	22.17	31.00	51.99	43.95	25.25	(0.85)	<b>(5.07)</b>	
Return on average assets (%)	1.86	1.82	1.61	1.35	1.48	1.00	1.67	1.55	1.43	<b>1.60</b>	
Rate of dividend (%)	45.00	50.00	50.00	60.00	45.00	50.00	-	-	-	-	
Dividend per share (Rs.)	-	-	-	-	-	-	7.00	7.00	7.00	<b>7.00</b>	
Ordinary share dividend cover (times)	5.20	5.20	3.70	3.48	3.34	2.54	2.29	2.42	2.46	<b>2.09</b>	
Gross dividends to ordinary shareholders (Rs. Mn.)	188.06	208.95	348.25	420.00	639.36	714.00	1,743.13	1,745.81	1,751.47	<b>2,642.25</b>	
Advances to deposits and refinance (%)	85.51	92.59	86.16	89.52	90.64	92.49	91.75	87.12	70.88	<b>80.97</b>	
Property, Plant & Equipment to shareholders' funds (%)	20.90	19.93	14.22	20.81	20.75	21.33	15.74	15.83	15.38	<b>19.30</b>	
Total assets to shareholders' funds (times)	8.77	9.46	9.44	9.95	11.42	14.14	11.19	10.86	11.31	<b>11.11</b>	
Capital funds to liabilities including contingent liabilities (%)	9.35	8.65	8.54	8.26	7.46	6.05	7.87	6.98	6.48	<b>6.26</b>	
Cost/Income Ratio (%)	55.27	55.46	55.87	56.78	54.28	61.10	47.87	50.46	56.86	<b>54.69</b>	
Liquid assets to liabilities (%)	27.72	27.88	23.95	23.17	24.51	22.64	24.24	24.83	38.80	<b>29.74</b>	
(As specified in the Banking Act No. 30 of 1988)											
Group Capital Adequacy (%) Tier I	15.72	14.94	13.43	10.78	9.68	7.62	10.60	10.55	11.92	<b>10.86</b>	
Tier I & II	16.20	15.07	15.46	13.16	12.08	11.58	13.71	13.13	13.93	<b>12.26</b>	
<b>SHARE INFORMATION</b>											
Market value of a share (Rs.)	127.00	200.00	144.00	159.75	135.50	190.00	147.00	67.00	189.50	<b>259.90</b>	
Earnings per share (Rs.)	4	4	4	5	7	6	11	11	11	<b>15</b>	
Price earnings ratio (times)	5	8	8	8	9	15	9	4	11	<b>18</b>	
Net assets value per share (Rs.)	21	25	31	38	44	47	61	69	76	<b>88</b>	
Earnings yield (%)	18	13	13	13	11	5	11	25	9	<b>6</b>	
Dividend payout ratio (%)	22	18	27	29	30	39	44	41	41	<b>48</b>	
<b>OTHER INFORMATION</b>											
Number of employees	2,259	2,399	2,648	2,863	3,168	3,415	3,745	4,041	4,071	<b>4,321</b>	
Number of delivery points - Sri Lanka	100	109	116	125	134	150	163	170	172	<b>187</b>	9.68
Number of delivery points - Bangladesh	-	-	4	4	5	7	9	11	15	<b>17</b>	
Number of Automated Teller Machines	109	143	166	188	223	278	301	346	368	<b>414</b>	18.02

## GROUP STRUCTURE

		RELATIONSHIP TO BANK				
		SUBSIDIARIES		ASSOCIATES		
	Commercial Development Co. PLC	ONEzero Co. Ltd.	Commex Sri Lanka S.R.L.	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.	
COMPANY PROFILE	Date of Incorporation/ Country	March 14, 1980 (Sri Lanka)	February 17, 2003 (Sri Lanka)	December 02, 2008 (Italy)	August 08, 1990 (Sri Lanka)	August 17, 1987 (Sri Lanka)
	Bank's Holding	94.55%	100.00%	100.00%	22.92%	18.91%
	Principal Business Activity	Property Development	Provision of IT- Related Services	Money transfers and money exchange	Venture Capital Financing	Insurance Brokering
	Business Address	'Commercial House', No. 21, Bristol Street, Colombo 01.	'Commercial House', No. 21, Bristol Street, Colombo 01.	Via Venti Settembre, No. 98/G, Roma, Italy	108 A, 1st Floor, Maya Avenue, Colombo 06.	3-2/2, 2nd Floor, Galle Face Court 1, Colombo 03.
	Contact Numbers	2447300	2430420	+390648905707	5373745, 2507605-6	2447297, 2447299

BOARD OF DIRECTORS	Chairman	B.R.L. Fernando	M.J.C. Amarasuriya	M.J.C. Amarasuriya	M.J.C. Amarasuriya	A.L.Gooneratne
	Directors	A.L. Gooneratne	S.D. Bandaranayake	S.D. Bandaranayake	H.D.S. Amarasuriya	M.P. Jayawardena
		A.T.P.Edirisinghe	K.D.N. Buddhipala	J. Durairatnam	Deshabandu S.E. Captain	D.M.D.K. Thilakaratne (Appointed w.e.f. November 1, 2010)
		L.D.A. Jayasinghe	A.R.M. Muttiah	S.M.R. Rodrigo	YAM. T.T.S.I.I.T. Ja'afar	W.D.K. Jayawadana (Resigned w.e.f. April 19, 2010)
		Dr. H.S. Wanasinghe (Resigned w.e.f. March 26, 2010)	W.T.M.A.I.B. Wijayasundara		E.A.D. Perera (Alternate)	
			A.L. Gooneratne (Resigned w.e.f. March 19, 2010)		J.D. Peiris (Appointed w.e.f. June 1, 2010)	
		W.M.R.S. Dias (Resigned w.e.f. December 15, 2010)		A.L. Gooneratne (Resigned w.e.f. March 19, 2010)		
Company Secretary	L.W.P. Indrajith	M.P. Dharmasiri	Prof. Arturo Cafaro (Commercerlista)	Mrs. R.R. Dunuwille	Mrs. R.A.R.N. Ranasinghe	

	2010 Rs. Mn.	2009 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.
Total Assets	1,085.889	1,126.581	65.996	55.042	67.562	-	239.515	215.150	207.144	189.983
Total Liabilities	383.222	457.492	17.530	9.621	21.434	-	9.070	7.084	27.959	62.167
Net Assets	702.667	669.089	48.466	45.421	46.128	-	230.445	208.066	179.185	127.816
Total Revenue	206.827	180.367	177.579	135.866	0.048	-	47.336	27.109	125.361	91.376
Profit before Tax	62.841	68.929	7.469	8.676	(32.926)	-	36.095	11.725	13.470	8.704
Profit after Tax	69.577	42.163	4.544	5.312	(32.926)	-	35.833	11.226	12.420	8.633
Dividend per Share (Rs.)	3.00	3.00	3.00	6.00	-	-	0.50	0.25	6.00	6.00

# Financial Reports

Annual Report of the Board of Directors **193**

Statement of Directors' Responsibility **202**

Managing Director's and Chief Financial Officer's  
Statement of Responsibility **203**

Directors' Statement on Internal Control **204**

Auditors' Report **205**

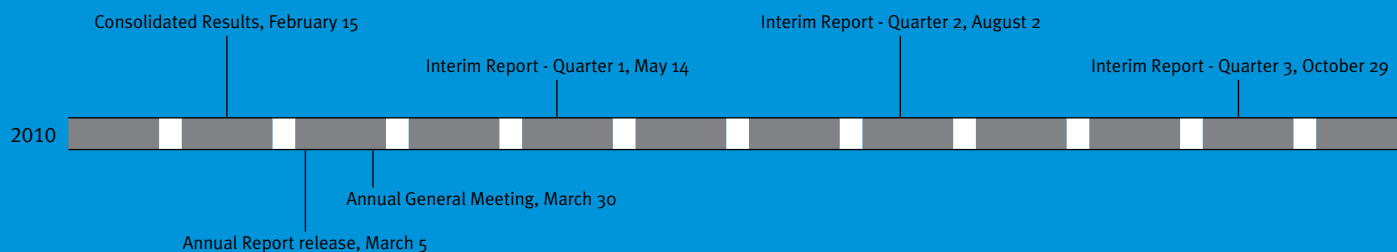
Income Statement **206**

Balance Sheet **207**

Statement of Changes in Equity **208**

Cash Flow Statement **210**

Notes to the Financial Statements **212**



## Financial Calendar - 2010

Final Dividend for 2009 paid on .....April 19, 2010  
 Two Interim Dividends for 2010 paid on ..... November 22, 2010 and December 16, 2010  
 Annual Report and Accounts for 2010 signed on .....February 15, 2011  
 Forty Second Annual General Meeting to be held on ..... March 30, 2011  
 Final Dividend for 2010 to be proposed and paid on March 30, 2011 and April 8, 2011, respectively

## Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange and as per requirements of the Central Bank of Sri Lanka - 2010

For the three months ended March 31, 2010 (unaudited) on ..... May 14, 2010  
 For the quarter and six months ended June 30, 2010 (unaudited) on .....August 2, 2010  
 For the quarter and nine months ended September 30, 2010 (unaudited) on ..... October 29, 2010  
 For the quarter and year ended December 31, 2010 (unaudited) on or before ..... February 28, 2011

## Proposed Financial Calendar - 2011

Interim Dividend for 2011 to be paid in second half 2011  
 Annual Report and Accounts for 2011 to be signed in .....February 2012  
 Forty Third Annual General Meeting to be held in .....March 2012  
 Final Dividend for 2011 to be proposed and paid in March and April 2012, respectively

## Submission of the Interim Financial Statements in terms of Rule 7.4 of the Colombo Stock Exchange and as per requirements of the Central Bank of Sri Lanka - 2011

For the three months ended March 31, 2011 (unaudited) on or before ..... May 13, 2011  
 For the quarter and six months ended June 30, 2011 (unaudited) on or before ..... August 15, 2011  
 For the quarter and nine months ended September 30, 2011 (unaudited) on or before ..... November 15, 2011  
 For the quarter and year ended December 31, 2011 (unaudited) on or before .....February 29, 2012



## 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

#### 1. GENERAL

The Directors of Commercial Bank of Ceylon PLC (the Bank) have pleasure in presenting to the shareholders this Report together with the Audited Financial Statements and the Consolidated Financial Statements for the year ended December 31, 2010 of the Bank and the Group and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Banking Act No. 30 of 1998 & amendments thereto and the Directions issued thereunder.

The Commercial Bank of Ceylon PLC is a Licensed Commercial Bank registered under the Banking Act No. 30 of 1988 and was incorporated as a public limited liability Company in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and was re-registered as per the Companies Act No. 07 of 2007 on

January 23, 2008, under the Company Registration No. PQ 116. The ordinary (voting and non-voting) shares of the Bank are quoted on the main board of the Colombo Stock Exchange since March 1970. The unsecured subordinated redeemable debentures issued by the Bank are also listed on the Colombo Stock Exchange. The Bank's implied long term unsecured senior debt has been assigned AA (lka) by Fitch Ratings Lanka Ltd.

The registered office of the Bank is at No. 21, "Commercial House", Bristol Street, Colombo 1, at which the Bank's Head Office too is situated.

This Report provides the information as required by the Companies Act No. 07 of 2007, Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, Listing Rules of the Colombo Stock Exchange and the recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on February 15, 2011.

This information is disclosed under the Section 168 of the Companies Act No. 07 of 2007, which requires the following information to be published in the Annual Report prepared for the year under review (i.e., for the year ended December 31, 2010):

Information required to be disclosed as per the Companies Act No. 7 of 2007	Reference to the Companies Act	Extent of Compliance by the Bank
(i) The nature of the business of the Bank and its Subsidiaries together with any change thereof during the Accounting Period	Section 168 (1) (a)	Refer Item 2.2.1 below
(ii) Signing of Financial Statements of the Group and the Bank	Section 168 (1) (b)	Refer Item 2.3 below
(iii) Auditors' Report on Financial Statements of the Group and the Bank	Section 168 (1) (c)	Refer Item 2.5 below
(iv) Accounting Policies and any changes therein of the Bank and its Subsidiaries	Section 168 (1) (d)	Refer Item 2.6 below
(v) Entries made in the Interests Register	Section 168 (1) (e)	Refer Item 2.7 below
(vi) Remuneration and other benefits of Directors of the Bank and its Subsidiaries	Section 168 (1) (f)	Refer Item 2.8 below
(vii) Amount of donations made by the Bank and its Subsidiaries	Section 168 (1) (g)	Refer Item 2.9 below
(viii) Information of Directorate of the Bank and its Subsidiaries	Section 168 (1) (h)	Refer Item 11 below
(ix) Amounts payable to the Auditor as Audit Fees and Fees for other services rendered	Section 168 (1) (i)	Refer Item 20 below
(x) Auditors' relationship or any interest with the Bank and its Subsidiaries - 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

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

### 2. REVIEW OF BUSINESS

#### 2.1 Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given on page 05. 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 Letter from the Chairman on page 04, the Managing Director's Review on pages 08 to 11, and the Management Discussion & Analysis on pages 13 to 42, provide an overall assessment on the financial performance and financial position of the Bank and the Group and the state of affairs together with important events that took place during the year in detail as required by the Section 168 of the Companies Act No. 07 of 2007 and the recommended best accounting practices. These Reports form an integral part of the Annual Report.

##### 2.2.1 Principal Activities of the Bank and the Group

The following table provides details on the nature of the principal business activities of the Bank and the Group 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 the principal activities of the Bank and the Group during the financial year under review.

Entity	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, syndicated financing, project financing, development banking, lease financing, rural credit, issuing of local and international debit and credit cards, telebanking facilities, Internet banking, money remittance facilities dealing in Government Securities and treasury-related products, salary remittance package, bullion trading, pawning, export and domestic factoring, margin trading, e-banking services, Bancassurance, etc.
<b>Subsidiaries</b>	
Commercial Development Company PLC	Property development and related ancillary services.
ONEzero Company Ltd.	Providing IT - related services.
Commex Sri Lanka S.R.L.	To act as an agent to the Bank and provide money transfer services, open accounts, issuance and encashment of foreign currencies & travellers' cheques and collecting applications for credit facilities.
<b>Associates</b>	
Equity Investments Lanka Ltd.	Fund management.
Commercial Insurance Brokers (Pvt) Ltd.	Insurance brokering.

#### 2.3 Financial Statements of the Group and the Bank

The Financial Statements of the Group and the Bank which are duly certified by the Chief Financial Officer and approved by the Board of Directors and signed by three members of the Board of Directors together with the Company Secretary in compliance 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 280.

#### 2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Group and the Bank which 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 280 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 & amendments thereto and Listing Rules of the Colombo Stock Exchange. The "Statement of Directors' Responsibility" for Financing Reporting given on page 202 forms an integral part of this Report.

#### 2.5 Auditors' Report

The Bank's Auditors, Messrs Ernst & Young performed the audit on the Consolidated Financial Statements for the year ended December 31, 2010, and the Auditors' Report issued thereon is given on page 205 as required by the Section 168 (1) (c) of the Companies Act No. 07 of 2007.

#### 2.6 Accounting Policies and Changes During the Year

The Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank are given on pages 212 to 228 of the Annual Report as required by the Section 168 (1) (d) of the Companies Act No. 07 of 2007. In the year under review,

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

there were no changes in the Accounting Policies adopted which were 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'.

### 2.7 Entries in the Interests Registers of the Group and the Bank

The Interests Registers are maintained by the Group and the Bank, as required by the Section 168 (1) (e) of Companies Act No. 07 of 2007. All Directors have made declarations as provided for in the Section 192 (2) of the Companies Act aforesaid. The related entries were made in the respective Interests Registers during the year under review. The share ownership of Directors is disclosed on page 199. The Interests Registers are available for inspection as required by the Section 119 (1) (d) of the Companies Act No. 07 of 2007.

### 2.8 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, 2010, are given in Note 7 to the Financial Statements on page 230 as required by the Section 168 (1) (f) of the Companies Act No. 07 of 2007.

### 2.9 Corporate Donations by the Group and the Bank

During the year, the Bank made donations amounting to Rs. 57,378,600/- (Rs. 22,442,458/- in 2009) 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. 1,925,000/- (Rs. 628,250/- in 2009). The information given above on donations forms an integral part of the Report of the Board of Directors as required by the Section 168 (1) (g) of the Companies Act No. 07 of 2007. The Subsidiaries of the Bank did not make any donations during the year under review.

### 3. FUTURE DEVELOPMENTS

During the year, 15 new Branches were opened, bringing the total number of branches to 187 at the end of 2010. In addition, the Bank installed 32 new ATMs during 2010 bringing the total number of ATMs to 400 by the end of the year. Further, as a result of these initiatives taken, the Bank is now able to offer customers in 07 countries and over 210 locations, the ability to transfer funds via the Internet. 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 develop its customer-centric model, for doing business with the objective of delighting our customers. Please refer Sections in the Letter from the Chairman on page 04, Managing Director's Review on pages 08 to 11, and the Management Discussion & Analysis on pages 13 to 42 for further information on future developments.

### 4. GROSS INCOME

The gross income of the Group for 2010 was Rs. 41,481.762 Mn. (Rs. 43,614.562 Mn. in 2009) while the Bank's gross income was Rs. 41,521.531 Mn. (Rs. 43,740.933 Mn. in 2009). Analysis of the income is given in Note 2 to the Financial Statements on page 229.

The sources of external operating income, net operating profit and asset allocation of the Group among substantially different classes of business together with their proportions are given in Note 39 to the Financial Statements on page 272.

### 5. DIVIDENDS AND RESERVES

#### 5.1 Profit and Appropriations

The net profit before tax of the Group and the Bank increased by 30.44% and 29.56% respectively (in comparison to the negative growth of 3.86% and 4.37% in 2009). Further, net profit after tax of the Group and the Bank increased by 31.41% and 28.30% respectively (in comparison to the positive growth of 1.76% and 0.86% in 2009).

Details of profit relating to the Bank are given below:

	2010 Rs.	2009 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses, Financial VAT and contingencies	9,317,393,816	7,191,841,960
Less: provision for taxation	(3,794,100,581)	(2,886,852,463)
Net profit after taxation	5,523,293,235	4,304,989,497
Balance brought forward from previous year	2,217,412	5,873,085
Profit available for appropriation	5,525,510,647	4,310,862,582
<b>Less: Appropriations</b>		
Transfer to the Statutory Reserve Fund	(276,164,412)	(215,249,475)
Transfer to Special Risk Reserve of Primary Dealer Unit	(31,528,615)	(52,982,068)
Transfer to the Special Reserve of Primary Dealer Unit	(94,585,845)	(158,946,205)
Transfer to General Reserve	(2,475,000,000)	(2,130,000,000)
<b>Dividends on Ordinary Shares</b>		
1st Interim Dividend of Rs. 1.50 per share (Rs. 1.50 in 2009)	(566,082,116)	(374,719,050)
2nd Interim Dividend of Rs. 1.50 per share (Rs. 1.50 in 2009)	(566,220,723)	(374,849,180)
Final Dividend of Rs. 4.00 per share (Rs. 4.00 in 2009)	(1,509,946,328)	(1,001,899,192)
<b>Balance carried forward</b>	<b>5,982,608</b>	<b>2,217,412</b>

The dividend payout ratio amounts to 47.84% of the profit after tax of 2010, compared to 40.64% for 2009, which is well above the minimum dividend payout ratio of 25%, stipulated in the Deemed Dividend Tax Rule.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

### 5.2 Provision for Taxation

The Income tax rate applicable on the Bank's domestic operations and on-shore profits of the Off-Shore Banking Centre is 35%. The off-shore profits of the Off-Shore Banking Centre are subjected to an 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 Value Added Tax at the rate applicable for Financial Services which is 20%.

In terms of the Government Budget Proposals announced in November 2010, substantial changes were proposed. However, these changes are yet to be enacted. Salient features related to income tax and Value Added Tax rates on Financial Services of the Sri Lankan operation applicable from January 01, 2011 are given below for information of the shareholders.

- The income tax rate has been reduced to a uniform tax rate of 28% on all profits made in Sri Lanka.
- The Value Added Tax rate on Financial Services has been reduced to 12%. Further, the above tax will be treated as a deductible expense in computing the profit liable for Value Added Tax on Financial Services. Accordingly, the effective Value Added Tax rate on Financial Services will be 10.71%.

The Group has also provided 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 of the Group is given in Notes 11 and 29, to the Financial Statements on pages 232 and 259 respectively.

### 5.3 Dividends on Ordinary Shares

The Directors recommend a dividend of Rs. 4.00 per share (Rs. 2.00 per share in the form of a cash dividend and Rs. 2.00 per share in the form of a scrip dividend) as the final dividend for the year 2010 (a cash dividend of Rs. 4.00 in 2009). Two interim dividends of Rs. 1.50 per share each were paid in November and December 2010 (two interim dividends of Rs. 1.50 per share each were paid in 2009 as well). Information on dividends is given in Note 13 to the Financial Statements on page 235.

The interim dividends were paid out of the profits of the Bank and hence, subjected to a 10% withholding tax.

The Directors have proposed to pay Rs. 2.00 out of the proposed final dividend of Rs. 4.00 per share partly out of dividends received and partly out of taxable profits of the Bank. The dividends paid out of taxable profits of the Bank will be subject to a 10% withholding tax. The balance dividend of Rs. 2.00 per share is proposed to be paid in the form of a scrip dividend, subject to a 10% withholding tax.

The Board of Directors fulfilled that the Bank would meet the requirement of the Solvency Test in terms of the Section 31 (3) of the Companies Act No. 07 of 2007 immediately after the payment of interim dividends and would ensure the compliance of solvency after the payment of the final dividend proposed to be paid in April 2011. The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of each dividend payment conforming to the statutory provision.

### 5.4 Reserves

A summary of the Group's reserves is given below:

	2010 Rs. '000	2009 Rs. '000
Statutory Reserve Fund	2,338,510	2,062,346
Special Risk Reserve of Primary Dealer Unit	133,320	101,791
Revaluation Reserve	2,943,222	1,533,746
Special Reserve of Primary Dealer Unit	682,912	588,327
General Reserve	15,678,306	13,219,440
Foreign Currency Translation Reserve	(549,738)	(371,527)
Retained Profits	1,474,851	978,832
<b>Total</b>	<b>22,701,383</b>	<b>18,112,955</b>

Information on the movement of reserves is given in the Statement of Changes in Equity on pages 208 to 209 and in Note 34 to the Financial Statements on page 264.

## 6. PROPERTY, PLANT & EQUIPMENT, LEASEHOLD PROPERTY AND INTANGIBLE ASSETS

Capital expenditure on Property, Plant & Equipment (including Capital Work-in-Progress), Leasehold Property and Intangible Assets of the Bank amounted to Rs. 862,678 Mn., Rs. Nil and Rs. 116.585 Mn., respectively (Rs. 726.752 Mn., Rs. Nil and Rs. 164.185 Mn., in 2009). Details of these are given in Notes 23, 24 and 26 on pages 250 to 257 to the Financial Statements. Capital expenditure approved and contracted for are given in Note 36.1 to the Financial Statements on page 269.

## 7. MARKET VALUE OF FREEHOLD PROPERTIES

Except for the land and buildings which were revalued during 2010, all other 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. The details of freehold properties owned by the Bank are given in Note 23.3 to the Financial Statements on page 252.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

### 8. ISSUE OF SHARES AND DEBENTURES

#### 8.1 Issue of Shares and Debentures by the Bank

Details of the shares issued by the Bank are given in the table below. No debentures were issued by the Bank during the year under review.

	2010	2009
Class of Share	<b>Voting Ordinary Shares</b>	Voting Ordinary Shares
Number of Shares Issued	<b>2,081,508</b>	540,045
Consideration Received (Rs. '000)	<b>203,401</b>	59,669
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, 2010, was Rs. 10,811.193 Mn., consisting of 353,305,387 Ordinary Voting Shares and 24,181,195 Ordinary Non-Voting Shares (Rs. 10,607.792 Mn. as at December 31, 2009 consisting of 233,821,271 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 262.

The Bank had in issue 2,127,030 unsecured, subordinated, redeemable debentures of Rs. 1,000/- each to the value of Rs. 2,127.030 Mn., as at December 31, 2010 (3,436,030 debentures to the value of Rs. 3,436.030 Mn., as at December 31, 2009). The details of debentures are given in Note 30 to the Financial Statements on page 260.

The debenture issues addressed the current needs in relation to long-term funds required for bridging the maturity gaps and to strengthen the supplementary capital base of the Bank, at the time of issue.

### 9. SHARE INFORMATION

Information relating to earnings, dividend, net assets and market value per share is given in 'Financial Highlights' on page 02. Information on the trading of the shares and movement in the number of shares represented by the Stated Capital is given in the Section on 'Investor Relations' on pages 172 to 190.

### 10. SUBSTANTIAL SHAREHOLDINGS

#### 10.1 Information on the Top Twenty Shareholders

The list of the top twenty shareholders for both voting and non-voting ordinary shares, percentages of their respective holdings

and percentage holdings by the public are given in the Section on 'Investor Relations' on pages 172 and 190.

#### 10.2 Distribution Schedule of Shareholdings

Information on the distribution of shareholding and the respective percentages is given in the Section on 'Investor Relations' on pages 172 to 190.

#### 10.3 Equitable Treatment of Shareholders

All shareholders in each category have been treated equitably in accordance with the original Terms of Issue.

### 11. DIRECTORS

#### 11.1 Information on Directors of the Group and the Bank

##### 11.1.1 List of Directors

The Board of Directors of the Bank as at December 31, 2010 consisted 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 146 and 147.

Names of the Directors, who were the Directors at any time during the year 2010 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 (Chairman)	Non-Executive	Independent
Mr. B.R.L. Fernando (Deputy Chairman)	Non-Executive	Non-Independent
Mr. A.L. Gooneratne (Managing Director)	Executive	Non-independent
Dr. H.S. Wanasinghe	Non-Executive	Independent
Mr. D.S. Weerakkody	Non-Executive	Non-Independent
Mr. P.M. Martelli	Non-Executive	Non-Independent
Mr. R.M.S. Fernando	Non-Executive	Independent
Prof. U.P. Liyanage (Appointed w.e.f. December 14, 2010)	Non-Executive	Non-Independent
Mr. W.M.R.S. Dias (Appointed w.e.f. December 14, 2010)	Executive	Non-independent
Mrs. S.N. Wickramasinghe (Resigned w.e.f. May 26, 2010)	Non-Executive	Non-Independent
Ms. J. Kuruppu (Resigned w.e.f. July 15, 2010)	Non-Executive	Independent

##### 11.1.2 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.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

### **New Appointments during 2010**

Prof. U. P Liyanage (Appointed w.e.f. December 14, 2010)

Mr. W.M.R.S. Dias (Appointed w.e.f. December 14, 2010)

### **Resignations during 2010**

Mrs. S.N. Wickramasinghe (Resigned w.e.f. May 26, 2010)

Ms. J. Kuruppu (Resigned w.e.f. July 15, 2010)

### **11.1.3 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.

### **11.1.4 Recommendations for Re-election**

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

Mr. Amarasuriya reached 70 years of age on December 19, 2010.

The Central Bank has confirmed in writing that Mr. Amarasuriya is entitled to hold office until the end of the year 2011, notwithstanding that he has reached the age of 70 years.

Mr. Amarasuriya will however be required, in terms of Section 210 of the Companies Act No. 07 of 2007, to vacate the Office of Director at the Annual General Meeting to be held on March 30, 2011 and to be re-elected to such Office by the Bank's shareholders. In terms of the written Directions of the Central Bank, as aforementioned, such appointment will be valid only until the end of the year 2011.

In terms of the relevant statute, it is not mandatory for a shareholder to give Special Notice of his intention to move an ordinary resolution for the appointment of Mr. Amarasuriya to the Office of Director. In the absence of a specific statutory prohibition, the adoption of such a course of action will be in order.

#### **2. Dr. H.S. Wanasinghe - Director**

As per the Central Bank's Direction Dr. Wanasinghe too is entitled to hold office until the end of the year 2011.

He too will be required, in terms of Section 210 of the Companies Act No. 07 of 2007 to vacate the Office of Director at the Annual General Meeting to be held on March 30, 2011, and to be re-elected to such Office by the Bank's shareholders. In terms of the said Directions of the Central Bank, such appointment too will be valid only until the end of the year 2011.

#### **3. Professor U.P. Liyanage - Director**

Professor Liyanage was appointed to the Bank's Board in December 2010, under and in terms of Article 92, to fill a casual vacancy. Accordingly, he is required, in terms of the stated Article and of the Banking Act Direction No. 11 of 2007 on Corporate Governance, to retire from the Office of Director at the Annual General Meeting to be

held on March 30, 2011 immediately following his appointment and to be elected thereat by the Bank's shareholders.

Professor Liyanage will, in his capacity as a Non-Executive Director, be subject thereafter to retire by rotation as per provisions contained in the Bank's Articles of Association.

#### **4. Mr. W.M.R.S. Dias - Executive Director**

Mr. Ravi Dias, an employee of the Bank, was appointed to the Board in December, 2010 to fill a casual vacancy. Accordingly, he holds office as an Executive Director of the Bank, until the Annual General Meeting to be held on March 30, 2011 immediately following his appointment.

Mr. Dias will retire, in his capacity as an Executive Director, at the Annual General Meeting to be held on March 30, 2011 and offer himself for election thereat by the Bank's shareholders.

#### **5. Mr. B.R.L. Fernando and Mr. R.M.S. Fernando - Directors**

Mr. B.R.L. Fernando and Mr. R M S Fernando retire in terms of Article 85 and 86 and offer themselves for re-election.

### **11.1.5 Directors' Meetings**

Details of Directors' meetings which comprise Board meetings and Board Sub-Committee meetings of the Audit Committee, the Human Resources and Remuneration Committee, the Integrated Risk Management Committee and the Nomination Committee are presented on page 134.

### **11.1.6 Board Subcommittees**

The Board of Directors have formed four Board subcommittees as required by the Banking Act Direction No. 11 of 2007 issued by the Monetary Board on Corporate Governance for Licensed Commercial Banks. The Committees play a critical role in order to ensure 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. The terms of reference of these Sub-Committees conform to the recommendations made by 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 subcommittees as at December 31, 2010, was as follows:

#### **Board Audit Committee Members:**

Mr. R.M.S. Fernando (*Chairman*)

Mr. B.R.L. Fernando

Dr. H.S. Wanasinghe

Mr. D.S. Weerakkody

Mr. A.L. Gooneratne (*by invitation*)

The Report of the Board Audit Committee is given on pages 135 to 136.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

### 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

The Report of the Board Human Resources and Remuneration Committee is given on pages 137 and 138.

### Board Nomination Committee Members:

Mr. M.J.C. Amarasuriya (*Chairman*)  
 Mr. B.R.L. Fernando  
 Mr. A.L. Gooneratne (*by invitation*)

The Report of the Board Nomination Committee is given on page 139.

### Board Integrated Risk Management Committee Members:

Mr. M.J.C. Amarasuriya (*Chairman*)  
 Mr. B.R.L. Fernando  
 Mr. R.M.S. Fernando  
 Mr. A.L. Gooneratne  
 Mr. W.M.R.S. Dias  
 Mr. K.D.N. Buddhipala  
 Mr. S. Renganathan

The Report of the Board Integrated Risk Management Committee is given on page 140.

## 12. DISCLOSURE OF DIRECTORS' DEALING IN SHARES AND DEBENTURES

### 12.1 Directors' Interests in Ordinary Voting Shares of the Bank

Individual ordinary voting shareholdings of Directors were as follows:

As at December 31,	2010	2009
Mr. M.J.C. Amarasuriya ( <i>Chairman</i> )	670,645	447,097
Mr. B.R.L. Fernando ( <i>Deputy Chairman</i> )	Nil	Nil
Mr. A.L. Gooneratne ( <i>Managing Director</i> )	1,373,620	806,216
Dr. H.S. Wanasinghe	Nil	Nil
Mr. D.S. Weerakkody	10,000	1,000
Mr. P.M. Martelli	Nil	Nil
Mr. R.M.S. Fernando	Nil	Nil
Prof. U.P. Liyanage	Nil	N/A
Mr. W.M.R.S. Dias	310,349	N/A
<b>Percentage Shareholding of the Directors</b>		
Ordinary Voting Shares	0.67%	0.54%

Directors' shareholdings in ordinary voting shares have not changed subsequently to the date of the Balance Sheet up to January 15, 2011, the latter date being one month prior to the date of Notice of the Annual General Meeting.

### 12.2 Directors' Interests in Ordinary Non-Voting Shares

Individual Ordinary Non-Voting shareholdings of Directors were as follows:

As at December 31,	2010	2009
Mr. M.J.C. Amarasuriya ( <i>Chairman</i> )	227,821	151,881
Mr. B.R.L. Fernando ( <i>Deputy Chairman</i> )	12,621	8,414
Mr. A.L. Gooneratne ( <i>Managing Director</i> )	57,042	38,028
Dr. H.S. Wanasinghe	Nil	Nil
Mr. D.S. Weerakkody	Nil	Nil
Mr. P.M. Martelli	Nil	Nil
Mr. R.M.S. Fernando	Nil	Nil
Prof. U.P. Liyanage	Nil	N/A
Mr. W.M.R.S. Dias	Nil	N/A
<b>Percentage Shareholding of the Directors</b>		
Ordinary Non-Voting Shares	1.23%	1.23%

Directors' shareholdings in Ordinary Non-Voting Shares have not changed subsequent to the date of the Balance Sheet and up to January 15, 2011, the latter date 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

In 2009, the Bank implemented a new Employee Share Option Plan for the Corporate Management and the Executive Officers in Grade III and above, based on the Bank achieving certain pre-determined performance criteria. The approval of the shareholders was obtained for this scheme and 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 a 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 262 to 263.

The Group and the Bank do not have any employee profit sharing plan, except the Variable Bonus Scheme.

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

### 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 141 to 143. 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 Non-Executive Directors of the Group and the Bank to acquire shares or debentures of the Bank or its Subsidiaries, other than via the market.

Directors' remuneration and other benefits, in respect of the Group and the Bank for the financial year ended December 31, 2010 are given in Note 7 to the Financial Statements on page 230.

There are no restrictions on the approval of loans to Directors in the Bank's 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 43 to 93.

### 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

No event of material significance that require adjustments to the Financial Statements, other than those disclosed, in Note 41 to the Financial Statements on page 280, has occurred subsequent to the date of the Balance Sheet.

### 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 functioning as the Auditor to the Bank.

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. 7.313 Mn. for the year ended December 31, 2010 (Rs. 6.341 Mn. in 2009) as audit fees by the Bank. In addition, they were paid Rs. 3.477 Mn. (Rs. 1.286 Mn. in 2009) 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.

The Board has taken a decision to change the auditor every 5 years.

### 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 continuously 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 153 to 169 and in the 'Board Integrated Risk Management Committee Report' that appears on page 140.

#### 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 controls 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 of 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 are given in the 'Board Audit Committee Report' on pages 135 and 136.

### 22. CORPORATE GOVERNANCE

Systems and procedures are in place to ensure that Corporate Governance is adequately and practically enforced. The Board of Directors has provided the necessary resources and installed appropriate processes, to ensure that the Bank is compliant with the relevant Codes of Best Practice on Corporate Governance issued by regulatory and professional bodies. The measures taken 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, the Securities and Exchange

## ANNUAL REPORT OF THE BOARD OF DIRECTORS

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 97 to 131.

### 23. HUMAN RESOURCES

The Bank continues to invest in Human Capital Development and implement effective Human Resource Practices and Policies to develop and build an efficient and effective workforce aligned to the Bank's business priorities and to ensure that its employees are developing the skills and knowledge required to ensure the future success of the Bank. Specific measures taken in this regard are detailed in the 'Sustainability Supplement' on pages 43 to 93 and the 'Human Resources and Remuneration Committee Report' on pages 137 and 138.

### 24. COMPLIANCE WITH LAWS AND REGULATIONS

The Bank/Group has not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Audit Committee.

### 25. OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Bank lawyers, litigation currently pending against the Bank will not have a material impact on the reported financial results or future operations of the Bank. Details of litigation pending against the Bank are given on Note 37 to the Financial Statements on page 270.

### 26. NOTICE OF MEETING

Notice relating to the Forty-Second 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 does hereby acknowledge the contents of this Annual Report.

Signed in accordance with a resolution adopted by the Directors.



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



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



**A.L. Gooneratne**  
Managing Director



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



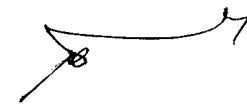
**D.S. Weerakkody**  
Director



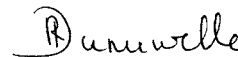
**R.M.S. Fernando**  
Director



**Prof. U.P. Liyanage**  
Director



**W.M.R.S. Dias**  
Director



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

Colombo  
February 15, 2011

## STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors, in relation to the Financial Statements of the Commercial Bank of Ceylon PLC (Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (Group), is set out in the following statement. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the Auditors given on page 205.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) 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 Bank and the Group as at end of each financial year and of the profit & loss of the Bank and the Group for each financial year and place them before a general meeting. The Financial Statements comprise the Balance Sheet as at December 31, 2010, the Income Statement, Statement of Changes in Equity, Cash Flow for the year then ended and Notes thereto.

Accordingly, the Directors confirm that the Financial Statements of the Bank and the Group give a true and fair view of:

- (a) the state of affairs of the Bank and the Group as at Balance Sheet date; and
- (b) the profit of the Bank and the Group for the financial year ended on the Balance Sheet date.

The Financial Statements of the Bank and the Group have been certified by the Bank's Chief Financial Officer, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. In addition, the Financial Statements of the Bank and the Group have been signed by three Directors and the Company Secretary of the Bank on February 15, 2011 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 are maintained and that the Company's financial position, with reasonable accuracy, at any point of time are determined by the Company, enabling the preparation of Financial Statements, in accordance with the Act to facilitate the Financial Statements to be readily and properly audited.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing the Financial Statements exhibited on pages 206 to 280 inclusive, appropriate Accounting Policies have been selected and applied on a consistent basis, while reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected.

The Financial Statements for the year 2010, 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).

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 directly by them at their regular meetings and also through the Board Audit Committee, the Report of which Committee is given on pages 135 and 136. The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the Board Audit Committee.

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 and 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 External 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 in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed their desire to receive a hard copy or to other shareholders a soft copy in a CD containing the Annual Report within the stipulated period of time as required by Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. 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 wishes 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, where applicable.

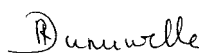
The Bank's External Auditors, Messrs Ernst & Young who were reappointed in terms of the Section 158 of the Companies Act and in accordance with a resolution passed at the last Annual General Meeting, were provided with every opportunity to undertake the inspections they considered appropriate. They carried 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.

### COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Bank and its Subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and its Subsidiaries, and all other known statutory dues as were due and payable by the Bank and its Subsidiaries as at the Balance Sheet date have been paid or, where relevant, provided for, except as specified in Note 37 to the Financial Statements on Litigation against the Bank. 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.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board,



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

Colombo  
February 15, 2011

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

The Financial Statements of the Commercial Bank of Ceylon PLC (Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries (Group) as at December 31, 2010 are prepared and presented 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 - Revenue Recognition and Disclosures in the Financial Statements of Banks. The Group presents the financial results to its shareholders on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group and are consistent with those used in the previous year. Significant Accounting Policies and estimates that involve a high degree of judgement and complexity were discussed with the Bank's External Auditors and the Board 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 as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the Group for the financial period under review and are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and fraud that involves management or other employees. The Bank's Internal Audit Department also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed. We also wish to inform that the Group is well aware

of the changes required to Financial Statements and are in the process of taking appropriate actions to design systems and procedures to meet the new requirements of the new/amended Accounting Standards effective from January 1, 2012. We are confident that we will be able to have all processes in place to address the requirements of these Accounting Standards smoothly while making necessary disclosures in time.

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 Board 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.

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 Significant Accounting Policies and their adherence to Statutory and Regulatory requirements, the details of which are given in the Board Audit Committee Report on pages 135 and 136 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 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. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

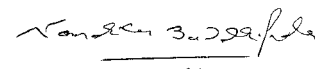
It is also declared and confirmed that the Bank has complied with and ensured compliance by the Auditor with the guidelines for the audit of listed companies where mandatory compliance is required.

We confirm that to the best of our knowledge:

- the Bank and all its Subsidiaries have complied with all applicable laws and regulations and guidelines and there are no material litigations against the Group other than those disclosed in Note 37 on pages 270 and 271 of the Financial Statements.
- all taxes, duties, levies and all statutory payments by the Company and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and the Group as at the Balance Sheet date have been paid, or where relevant provided for.



**A.L. Gooneratne**  
Managing Director



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

Colombo  
February 15, 2011

## DIRECTORS' STATEMENT ON INTERNAL CONTROL

### RESPONSIBILITY

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors presents this Report on Internal Control.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the Commercial Bank of Ceylon PLC's ('the Bank') system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

### KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the Internal audit are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committees of the Bank review internal control issues identified by the respective Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report appearing on pages 135 and 136.
- In assessing the internal control system, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. The assessment did not include subsidiaries of the Bank.
- Comments made by the External Auditors in connection with internal control system will be deal with in the future.

### CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

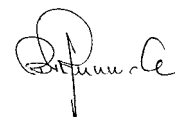
### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Bank for the year ended December 31, 2010 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank.

By order of the Board,



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



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



**A.L. Gooneratne**  
Managing Director



**Mr. R.M.S. Fernando**  
Chairman - Board Audit Committee

Colombo  
February 15, 2011

## AUDITORS' REPORT



### 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, 2010 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, 2010 and the financial statements give a true and fair view of the Bank's state of affairs as at December 31, 2010 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, 2010 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. 07 of 2007.

February 28, 2011

Colombo.

Partners: A D B Talawatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA 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)  
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,	Note	GROUP			BANK		
		2010 Rs. '000	2009 Rs. '000	Change %	2010 Rs. '000	2009 Rs. '000	Change %
<b>Income</b>	2	<b>41,481,762</b>	43,614,562	(4.89)	<b>41,521,531</b>	43,740,933	(5.07)
Interest income	3	<b>34,689,151</b>	35,914,314	(3.41)	<b>34,739,889</b>	35,924,842	(3.30)
Less: Interest expenses	4	<b>18,315,650</b>	23,492,852	(22.04)	<b>18,328,457</b>	23,514,525	(22.05)
<b>Net interest income</b>		<b>16,373,501</b>	12,421,462	31.82	<b>16,411,432</b>	12,410,317	32.24
Foreign exchange profit		<b>1,740,949</b>	2,962,221	(41.23)	<b>1,740,949</b>	2,962,221	(41.23)
Fees and commission income	5	<b>3,219,925</b>	2,529,829	27.28	<b>3,220,002</b>	2,529,920	27.28
Other income	6	<b>1,831,737</b>	2,208,198	(17.05)	<b>1,820,691</b>	2,323,950	(21.66)
<b>Operating income</b>		<b>23,166,112</b>	20,121,710	15.13	<b>23,193,074</b>	20,226,408	14.67
<b>Less: Operating expenses</b>	7						
Personnel expenses		<b>5,150,878</b>	4,663,991	10.44	<b>5,110,531</b>	4,632,705	10.31
Premises, equipment and establishment expenses		<b>2,551,201</b>	2,248,232	13.48	<b>2,493,594</b>	2,219,952	12.33
Fees and commission expenses		<b>277,146</b>	248,084	11.71	<b>277,146</b>	248,084	11.71
Provision for staff retirement benefits	8	<b>478,710</b>	449,490	6.50	<b>477,048</b>	447,826	6.53
Loan losses and provisions	9	<b>1,192,138</b>	1,533,698	(22.27)	<b>1,192,138</b>	1,533,698	(22.27)
Other overhead expenses		<b>4,226,381</b>	3,852,584	9.70	<b>4,325,224</b>	3,952,301	9.44
		<b>13,876,454</b>	12,996,079	6.77	<b>13,875,681</b>	13,034,566	6.45
<b>Profit from operations</b>		<b>9,289,658</b>	7,125,631	30.37	<b>9,317,393</b>	7,191,842	29.56
Add: Share of profit of Associates	10	<b>10,808</b>	4,218	156.24	-	-	-
<b>Profit before taxation</b>		<b>9,300,466</b>	7,129,849	30.44	<b>9,317,393</b>	7,191,842	29.56
Less: Income tax expense	11	<b>3,790,472</b>	2,936,832	29.07	<b>3,794,100</b>	2,886,853	31.43
<b>Net profit for the year</b>		<b>5,509,994</b>	4,193,017	31.41	<b>5,523,293</b>	4,304,989	28.30
<b>Attributable to:</b>							
Equity holders of the parent		<b>5,507,500</b>	4,191,935	31.38	<b>5,523,293</b>	4,304,989	28.30
Minority interest		<b>2,494</b>	1,082	130.50	-	-	-
<b>Net profit for the year</b>		<b>5,509,994</b>	4,193,017	31.41	<b>5,523,293</b>	4,304,989	28.30
Basic Earnings per Share (Rs.)	12	<b>14.63</b>	11.19	30.74	<b>14.67</b>	11.49	27.68
Diluted Earnings per Share (Rs.)	12	<b>14.52</b>	11.09	30.93	<b>14.56</b>	11.39	27.83
Dividend per Ordinary Share (Rs.)	13				<b>7.00</b>	7.00	-

The Accounting Policies and the Notes from pages 212 to 280 form an integral part of these Financial Statements.

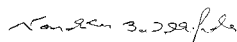
## BALANCE SHEET

As at December 31,	Note	GROUP			BANK			Note	Page
		2010 Rs. '000	2009 Rs. '000	Change %	2010 Rs. '000	2009 Rs. '000	Change %		
<b>ASSETS</b>									
Cash and short term funds	15	10,604,206	24,056,659	(55.92)	10,556,990	24,056,639	(56.12)	1. Accounting Policies	212
Balances with Central Banks	16	12,188,834	11,794,557	3.34	12,188,834	11,794,557	3.34	2. Income	229
Government Treasury Bills, Bonds and other securities	17	114,540,612	96,670,662	18.49	114,540,612	96,670,662	18.49	3. Interest Income	229
Securities purchased under resale agreements		68,453	5,203,120	(98.68)	68,453	5,203,120	(98.68)	4. Interest Expenses	229
Dealing Securities	18	283,391	80,905	250.28	283,391	80,905	250.28	5. Fees and Commission Income	229
Investment Securities	19	2,365,596	1,025,293	130.72	2,365,596	1,025,293	130.72	6. Other Income	230
Bills of Exchange	20.1	5,291,424	2,847,047	85.86	5,291,424	2,847,047	85.86	7. Operating Expenses	230
Lease receivable	20.2	10,796,324	7,553,739	42.93	11,018,519	7,793,704	41.38	8. Provision for Staff Retirement Benefits	231
Loans & advances	20.3	200,727,147	161,326,294	24.42	200,728,513	161,329,061	24.42	9. Loan Losses and Provisions	231
		356,865,987	310,558,276	14.91	357,042,332	310,800,988	14.88	10. Share of Profit of Associates	231
Investments in Associates	21	79,581	72,633	9.57	44,331	44,331	-	11. Income Tax Expense	232
Investments in Subsidiaries	22	-	-	-	353,898	279,393	26.67	12. Earnings Per Share	234
Interest and fees receivable		1,884,366	1,783,095	5.68	1,884,366	1,783,095	5.68	13. Dividends	235
Property, Plant & Equipment	23	6,589,228	4,609,457	42.95	5,929,561	3,914,750	51.47	14. Retained Earnings	235
Leasehold Property	24	114,680	116,132	(1.25)	79,188	80,130	(1.18)	15. Cash and Short Term Funds	236
Other assets	25	4,298,847	5,018,289	(14.34)	4,307,155	5,024,523	(14.28)	16. Balances with Central Banks	236
Intangible assets	26	425,255	387,560	9.73	419,311	387,515	8.21	17. Government Treasury Bills, Bonds and Other Securities	236
<b>Total Assets</b>		<b>370,257,944</b>	<b>322,545,442</b>	<b>14.79</b>	<b>370,060,142</b>	<b>322,314,725</b>	<b>14.81</b>	18. Dealing Securities	238
<b>LIABILITIES</b>									
Deposits	27	259,744,567	234,730,680	10.66	259,778,911	234,744,706	10.66	19. Investment Securities	241
Borrowings	28	14,370,975	11,638,714	23.48	14,370,975	11,638,714	23.48	20. Bills of Exchange, Lease Receivable and Loans & Advances	243
Securities sold under repurchase agreements		45,658,890	29,773,150	53.36	45,774,453	29,904,527	53.07	21. Investments in Associates	249
Tax liabilities		2,455,002	1,211,050	102.72	2,448,039	1,202,607	103.56	22. Investments in Subsidiaries	250
Deferred tax	29	992,710	767,117	29.41	892,441	633,382	40.90	23. Property, Plant & Equipment	250
Debentures	30	2,127,030	3,436,030	(38.10)	2,127,030	3,436,030	(38.10)	24. Leasehold Property	256
Other liabilities	31	11,369,593	12,241,886	(7.13)	11,366,241	12,255,779	(7.26)	25. Other Assets	257
<b>Total Liabilities</b>		<b>336,718,767</b>	<b>293,798,627</b>	<b>14.61</b>	<b>336,758,090</b>	<b>293,815,745</b>	<b>14.62</b>	26. Intangible Assets	257
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS' OF THE PARENT</b>									
Stated capital	32	10,811,193	10,607,792	1.92	10,811,193	10,607,792	1.92	27. Deposits	258
Statutory reserves	33	2,471,830	2,164,137	14.22	2,471,830	2,164,137	14.22	28. Borrowings	258
Reserves	34	20,229,553	15,948,818	26.84	20,019,029	15,727,051	27.29	29. Deferred Tax	259
<b>Shareholders' Funds</b>		<b>33,512,576</b>	<b>28,720,747</b>	<b>16.68</b>	<b>33,302,052</b>	<b>28,498,980</b>	<b>16.85</b>	30. Debentures	260
<b>Minority Interest</b>		<b>26,601</b>	<b>26,068</b>	<b>2.04</b>	<b>-</b>	<b>-</b>	<b>-</b>	31. Other Liabilities	261
<b>Total Equity</b>		<b>33,539,177</b>	<b>28,746,815</b>	<b>16.67</b>	<b>33,302,052</b>	<b>28,498,980</b>	<b>16.85</b>	32. Stated Capital	262
<b>Total Liabilities and Equity</b>		<b>370,257,944</b>	<b>322,545,442</b>	<b>14.79</b>	<b>370,060,142</b>	<b>322,314,725</b>	<b>14.81</b>	33. Statutory Reserves	263
<b>Commitments and Contingencies</b>	36	<b>195,645,504</b>	<b>146,072,241</b>	<b>33.94</b>	<b>195,645,504</b>	<b>146,072,241</b>	<b>33.94</b>	34. Reserves	264
Net assets value per Ordinary Share (Rs.)		88.78	76.61	15.89	88.22	76.01	16.06	35. Maturity Analysis	265

The Accounting Policies and other Notes to the Financial Statements from pages 212 to 280 form an integral part of these Financial Statements.

### Certification

These Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



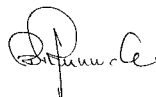
**K.D.N. Buddhipala**  
Chief Financial Officer

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



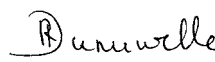
**M.J.C. Amarasuriya**  
Chairman



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



**A.L. Gooneratne**  
Managing Director



**(Mrs.) R.R. Dunuwille**  
Company Secretary

Colombo  
February 15, 2011

## 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 31.12.2008</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 Plans (Refer Note 32)	59,669	-	-
Net Unrealised Loss from Translation of Financial Statements of Foreign Operations (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
Interim 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>
Final Dividend for 2009	-	-	-
Issue of Ordinary Shares Under Employee Share Option Plans (Refer Note 32)	203,401	-	-
Surplus on Revaluation of Freehold Land & Buildings	-	-	-
Deferred Tax Effect on Revaluation Surplus on Freehold Buildings	-	-	-
Transfer of Translation Gains/(Losses)	-	-	-
Net Unrealised Loss from Translation of Financial Statements of Foreign Operations (Refer Note 34.3)	-	-	-
Net Profit for 2010	-	-	-
Transfers during the year (Refer Notes 33 and 34.2)	-	276,164	31,529
Interim Dividends for 2010 (Refer Note 13)	-	-	-
<b>Balance as at 31.12.2010</b>	<b>10,811,193</b>	<b>2,338,510</b>	<b>133,320</b>
<b>Bank</b>			
<b>Balance as at 31.12.2008</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 Plans (Refer Note 32)	59,669	-	-
Net Unrealised Loss from Translation of Financial Statements of Foreign Operations (Refer Note 34.3)	-	-	-
Net Profit for 2009	-	-	-
Transfers during the Year (Refer Notes 33 and 34.2)	-	215,249	52,982
Interim 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>
Final Dividend for 2009	-	-	-
Issue of Ordinary Shares Under Employee Share Option Plans (Refer Note 32)	203,401	-	-
Surplus of Revaluation of Freehold Land & Buildings	-	-	-
Deferred Tax Effect on Revaluation Surplus on Freehold Buildings	-	-	-
Transfer of Translation Gains/(Losses)	-	-	-
Net Unrealised Loss from Translation of Financial Statements of Foreign Operations (Refer Note 34.3)	-	-	-
Net Profit for 2010	-	-	-
Transfers During the Year (Refer Notes 33 and 34.2)	-	276,164	31,529
Interim Dividends for 2010 (Refer Note 13)	-	-	-
<b>Balance as at 31.12.2010</b>	<b>10,811,193</b>	<b>2,338,510</b>	<b>133,320</b>

\* Composition of the Retained Earnings is given in Note 14 to the Financial Statements.

Other Reserves

Revaluation Reserve Rs. '000	General Reserve Rs. '000	Foreign Currency Translation Reserve Rs. '000	Retained Earnings* Rs. '000	Total Rs. '000	Minority Interest Rs. '000	Total Equity Rs. '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>
-	-	-	(1,001,899)	(1,001,899)	-	(1,001,899)
-	-	-	-	203,401	-	203,401
1,738,877	-	-	-	1,738,877	-	1,738,877
(329,401)	-	-	-	(329,401)	-	(329,401)
-	(16,135)	16,135	-	-	-	-
-	-	(194,346)	-	(194,346)	-	(194,346)
-	-	-	5,507,500	5,507,500	2,494	5,509,994
-	2,569,586	-	(2,877,279)	-	-	-
-	-	-	(1,132,303)	(1,132,303)	(1,961)	(1,134,264)
<b>2,943,222</b>	<b>16,361,218</b>	<b>(549,738)</b>	<b>1,474,851</b>	<b>33,512,576</b>	<b>26,601</b>	<b>33,539,177</b>
<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>
-	-	-	(1,001,899)	(1,001,899)	-	(1,001,899)
-	-	-	-	203,401	-	203,401
1,738,877	-	-	-	1,738,877	-	1,738,877
(329,401)	-	-	-	(329,401)	-	(329,401)
-	(16,135)	16,135	-	-	-	-
-	-	(198,896)	-	(198,896)	-	(198,896)
-	-	-	5,523,293	5,523,293	-	5,523,293
-	2,569,586	-	(2,877,279)	-	-	-
-	-	-	(1,132,303)	(1,132,303)	-	(1,132,303)
<b>2,696,171</b>	<b>16,361,218</b>	<b>(554,288)</b>	<b>1,515,928</b>	<b>33,302,052</b>	<b>-</b>	<b>33,302,052</b>

## CASH FLOW STATEMENT

For the year ended December 31,	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Cash Flows from Operating Activities</b>				
Interest received	34,014,950	36,136,343	34,065,688	36,150,287
Fees and commission receipts	3,219,925	2,529,829	3,220,002	2,529,920
Interest payments	(19,274,001)	(22,890,981)	(19,286,808)	(22,912,654)
Recoveries on loans previously provided/written-off	1,107,918	1,319,363	1,107,918	1,319,363
Foreign exchange profit and other receipts	1,869,645	3,083,217	1,824,322	3,052,052
Cash payments to employees and suppliers	(11,969,554)	(10,808,336)	(12,060,706)	(10,922,585)
<b>Operating profit before changes in operating assets and liabilities [Refer Note (a)]</b>	<b>8,968,883</b>	<b>9,369,435</b>	<b>8,870,416</b>	<b>9,216,383</b>
(Increase)/Decrease in operating assets:				
Balances with Central Banks	(394,277)	(1,472,146)	(394,277)	(1,472,146)
Funds advanced to customers	(46,279,953)	6,936,330	(46,260,782)	6,897,645
Other operating assets	719,442	(1,779,625)	717,368	(1,856,273)
Increase/(Decrease) in operating liabilities:				
Deposits	25,013,887	34,865,477	25,034,205	34,863,720
Other operating liabilities	86,058	1,546,095	68,813	1,550,626
<b>Net cash inflow from operating activities before income tax</b>	<b>(11,885,960)</b>	<b>49,465,566</b>	<b>(11,964,257)</b>	<b>49,199,955</b>
Income tax paid	(2,068,646)	(2,951,835)	(2,037,598)	(2,916,142)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(13,954,606)</b>	<b>46,513,731</b>	<b>(14,001,855)</b>	<b>46,283,813</b>
<b>Cash Flows from Investing Activities</b>				
Dividends received	68,123	149,553	106,889	187,896
Interest received	91,624	21,313	91,624	21,313
Government Treasury Bills, Bonds and other securities	(17,527,425)	(44,276,345)	(17,527,425)	(44,511,438)
Securities purchased under resale agreements	5,134,667	(1,802,665)	5,134,667	(1,802,665)
Securities sold under repurchase agreements	15,885,740	4,813,506	15,869,926	4,829,436
(Additions)/Disposals of Dealing Securities	(125,676)	33,286	(125,676)	33,286
Net additions to Investment Securities	(1,651,380)	(93,121)	(1,651,380)	(93,121)
Net cash effect on disposal of Subsidiaries [Refer Note (b)]	-	-	-	269,810
Investment made in Foreign Subsidiary	-	-	(74,505)	-
Income from Associates	3,590	1,703	-	-
Proceeds from matured investments	311,077	264,967	311,077	264,967
Purchase of Property, Plant & Equipment	(903,870)	(898,762)	(845,112)	(727,091)
Purchase of Intangible Assets	(122,539)	(162,898)	(116,585)	(164,185)
Proceeds from sale of Property, Plant & Equipment	53,316	57,566	46,389	28,036
<b>Net cash inflow/(outflow) from investing activities</b>	<b>1,217,247</b>	<b>(41,891,897)</b>	<b>1,219,889</b>	<b>(41,663,756)</b>

## CASH FLOW STATEMENT

For the year ended December 31,	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Cash Flows from Financing Activities</b>				
Dividends paid to minority shareholders	(1,961)	(1,962)	–	–
Proceeds from issue of shares under ESOPs	203,401	59,669	203,401	59,669
Redemption of Debentures	(1,309,000)	(1,000,000)	(1,309,000)	(1,000,000)
Net increase/(decrease) in other borrowings	2,526,668	(1,990,617)	2,522,118	(1,990,617)
Dividends paid to equity holders of the parent	(2,134,202)	(1,747,176)	(2,134,202)	(1,747,176)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(715,094)</b>	<b>(4,680,086)</b>	<b>(717,683)</b>	<b>(4,678,124)</b>
<b>Net change in cash and cash equivalents</b>	<b>(13,452,453)</b>	<b>(58,252)</b>	<b>(13,499,649)</b>	<b>(58,067)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>24,056,659</b>	<b>24,114,911</b>	<b>24,056,639</b>	<b>24,114,706</b>
<b>Cash and cash equivalents at end of the period (Refer Note 15)</b>	<b>10,604,206</b>	<b>24,056,659</b>	<b>10,556,990</b>	<b>24,056,639</b>
<b>Note (a): Reconciliation of Operating Profit</b>				
<b>Profit before taxation</b>	<b>9,300,466</b>	<b>7,129,849</b>	<b>9,317,393</b>	<b>7,191,842</b>
<b>Add/(Less):</b>				
Accrued interest on loans & advances	(101,271)	557,938	(101,271)	557,938
Accrued interest on deposits & borrowings	(958,351)	601,871	(958,351)	601,871
Investment income	(171,819)	(182,265)	(206,995)	(218,905)
Share of profit of Associates	(10,808)	(4,218)	–	–
Notional tax credit on interest on Government Treasury Bills and Bonds	(572,930)	(335,909)	(572,930)	(332,493)
Capital (gain)/loss on sale of shares	(58,468)	14,555	(58,468)	(100,967)
(Profit)/Loss on sale of Property, Plant & Equipment	(7,559)	(5,403)	(3,070)	1,545
Depreciation of Property, Plant & Equipment	629,050	580,057	537,657	504,805
Amortisation of Intangible Assets	84,260	72,061	84,238	72,061
Amortisation of Leasehold Property	1,452	1,452	942	942
Donation of Property, Plant & Equipment	–	475	–	475
Loan losses & provisions	1,192,138	1,533,698	1,192,138	1,533,698
Gain on Marked to Market Valuation on Treasury Bills & Bonds	(181,062)	(119,259)	(181,062)	(119,259)
(Gain)/loss on Marked to Market Valuation on shares	(18,342)	(70,456)	(18,342)	(70,456)
Capital gain on sale of Treasury Bills & Bonds	(161,463)	(406,714)	(161,463)	(406,714)
Dividends received from Associates	3,590	1,703	–	–
<b>Operating profit before changes in operating assets and liabilities</b>	<b>8,968,883</b>	<b>9,369,435</b>	<b>8,870,416</b>	<b>9,216,383</b>

### Note (b): Net identifiable assets/liabilities of liquidated subsidiaries as at the date of liquidation - 2009

	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 Bank was re-registered under the Companies Act No. 07 of 2007. The registered office of the Bank is situated 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, 2010 was 4,321 (4,071 as at December 31, 2009).

##### A 2 Consolidated Financial Statements

The Consolidated Financial Statements of the Bank for the year ended December 31, 2010, comprise 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, 2010 were authorised for issue on February 15, 2011.

#### 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, syndicated financing, project financing, development banking, 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, margin trading, e-banking services and Bank assurance etc.

##### B 2 Subsidiaries

The principal activities of the Bank's Subsidiaries, namely, Commercial Development Company PLC and ONEzero Company Ltd., are property development & related ancillary services and providing IT-related services, respectively.

During the year under review, the Bank formed a subsidiary in the name of Commex Sri Lanka SRL in Italy in order to provide money transfer business, open accounts, issuance of encashment of foreign currencies & travellers' cheques and collecting applications for credit facilities.

##### 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, 202 and 207 respectively.

These Financial Statements include the following components:

- an Income Statement providing the information on the financial performance of the Group and the Bank for the year under review (Refer page 206);
- a Balance Sheet providing the information on the financial position of the Group and the Bank as at the year-end (Refer page 207);
- a Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Group and the Bank (Refer pages 208 and 209);
- a Cash Flow Statement providing the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and the needs to utilisation of those cash flows (Refer pages 210 and 211); and
- Notes to the Financial Statements comprising Accounting Policies used and other Notes (Refer pages 212 to 280).

#### D. Statement of Compliance

The Consolidated Financial Statements of the Group and the Separate Financial Statements of the Bank, which comprise 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

## NOTES TO THE FINANCIAL STATEMENTS

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 Group and the Bank 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 in order to provide a better presentation.

### F. Changes to the Accounting Policies and Effect of Accounting Standards Issued but not yet Effective

#### F1 Changes to the Accounting Policies

There were no changes to the Accounting Policies adopted by the Group during the year under review.

#### F2 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 to be effective for the financial periods beginning on or after January 1, 2012.

- Sri Lanka Accounting Standard - SLAS 44 on 'Financial Instruments; Presentation'
- Sri Lanka Accounting Standard - SLAS 45 on 'Financial Instruments; Recognition and Measurement'
- Sri Lanka Accounting Standard - SLAS 46 on 'Financial Instruments; Disclosures'
- Sri Lanka Accounting Standard - SLAS 39 on 'Share-based Payment'

Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, all existing Sri Lanka Accounting Standards will be prefixed as SLFRS or LKAS which refer to Sri Lanka Accounting Standards corresponding to IFRS or IAS, respectively. The Council of the Institute of Chartered Accountants of Sri Lanka has mandated all specified business enterprises to adopt these new Accounting Standards effective for financial periods beginning on or after January 1, 2012.

The effect of application of these new Accounting Standards will be substantially different to the effect of application of existing Accounting Standards.

### 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, which are categorised under the Trading Portfolio, Dealing Securities and Land & Buildings which are stated at valuations as explained in Notes 17, 18 and 23 on pages 236, 238 and 250 respectively, to the Financial Statements. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. Where appropriate, the Significant Accounting Policies are disclosed in the succeeding Notes. No adjustments have been made for inflationary factors affecting the Financial Statements.

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 in US Dollars in the section on 'Stewardship' on pages 186 and 187 does not form part of the Financial Statements 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

## NOTES TO THE FINANCIAL STATEMENTS

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, Lease Receivable and Loans & Advances**

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

The 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 adverse movement in country risk, industry and technological obsolescence, borrower's financial situation, strategies adopted, the net realisable value of any underlying collateral 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 223.

### **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 224. 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 except Commex Sri Lanka SRL in Italy.

A listing of the Bank's Subsidiaries is set out in Note 22 to the Financial Statements on page 250.

### 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 up to 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 36.3 (a) to the Financial Statements on pages 249 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.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS

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 of, 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.

### 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 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 the 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 of, 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 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 232. 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 carried forward can be utilised, except:

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

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each Balance Sheet date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement.

Deferred tax assets and liabilities are set-off if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Details of deferred tax assets and liabilities as at the Balance Sheet date are given in Note 29 to the Financial Statements on page 259.

#### 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 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, have attracted a 10% deduction at source.

## NOTES TO THE FINANCIAL STATEMENTS

### **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 230.

### **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 280, where necessary.

### **K 1 Approval of Financial Statements by Board of Directors**

The Financial Statements for the year ended December 31, 2010, were authorised for issue on February 15, 2011, in accordance with a resolution of the Board of Directors passed on February 15, 2011.

### **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 loans at call and 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 236.

### **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% in 2009). The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement of 19% on time and demand liabilities, inclusive of 6% 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 236.

### **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 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 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 236.

#### **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 236.

#### **L 3.3 Investments in Central Bank Securities Held to Maturity**

These 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 236.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 aforesaid predetermined price and the purchase price represents interest income and is recognised in the Income Statement over the period of the Resale Agreement based on a pattern reflecting a constant periodic rate of return.

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 238.

#### 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.

#### 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 241.

#### 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 Note H 2 on page 215.

Details of the Investments in Associates are given in Note 21 to the Financial Statements on page 249.

#### 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 250.

#### 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 241, 249 and 250 respectively.

### L 6 Loans and Advances to Customers

Loans and advances to customers which include Bills of Exchange, Lease Receivable and Loans & Advances 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 246.

### L 6.2 Provision for Loan Losses

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.

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 that 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 makes provisions on a case-by-case basis.

When a loan is uncollectible, it is written-off against the related provision after completion of all necessary procedures as well in determining the amount of the loss. Subsequent recoveries of the amounts previously written-off are included in Note 6 on 'Other Income' in the Income Statement on page 230.

#### L 6.2.2 Statutory General Provisions

General provision is reduced at the rate of 0.1% per quarter 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, over 5 quarters commencing from fourth quarter 2010, as per paragraph 6 (1) (I) of the Direction No. 03 of 2010, issued by the Central Bank of Sri Lanka. Accordingly, the Bank will fulfill the above requirement to reduce the general provision to 0.5% on total performing and special mention loans and advances portfolio by January 1, 2012.

Details of the Provision for Loan Losses are given in Note 20.2 (b) to the Financial Statements on page 244.

### 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 net 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 245.

#### L 6.3.1 Provision for Lease Receivable

Specific provisions have been made in relation to possible losses on leases as stated in Note L 6.2.1 on page 220.

## NOTES TO THE FINANCIAL STATEMENTS

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	Minimum provisioning requirement	Bank's provisioning policy	
			General Provision (%)	Specific Provision (%)
Less than 90	Regular	0.9	3	
More than 90 but less than 120	Special mention	0.9	3	
More than 120 but less than 180	Substandard	25		35
More than 180 but less than 240	Doubtful	50		100
More than 240	Loss	100		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.

#### 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, Lease Receivable (including provisions for pawning and credit card receivable) and Loans & Advances as at the Balance Sheet date are given in Note 20.4 (c) to the Financial Statements on page 247.

## 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 which 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 to ensure that the carrying amounts do not differ materially from the fair values at the Balance Sheet date.

On revaluation of an asset, any increase in the carrying amount is credited directly to Equity, under Revaluation Reserve or used to reverse a previous loss on revaluation of the same asset, which was debited to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited directly to the 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 reserve 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 revalued amount 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:

Class of Asset	% 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 commence 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 or 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 the end of the year are given in Note 23 to the Financial Statements on page 250.

### L 8 Leasehold Property

Leasehold property is stated at recorded carrying value. 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 256.

### 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 charged to the Income Statement 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 as an expense.

##### 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

## NOTES TO THE FINANCIAL STATEMENTS

the category of intangible assets and carried at cost, less accumulated amortisation and accumulated impairment losses, if any.

### L 9.3.1.2 Copyright

Copyrights purchased is stated at cost, less accumulated amortisation and 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:

Class of Asset	% 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.

The Group has only acquired intangible assets, a list of which with the reconciliation of carrying amounts, accumulated amortisation at the beginning and the end of the year is given in Note 26 to the Financial Statements on page 257.

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.

### 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. If any such indication exists at the time of an annual impairment testing, 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 under 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 to determine 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 certificates of deposit. 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 258.

### 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 258.

## NOTES TO THE FINANCIAL STATEMENTS

### **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 aforesaid predetermined price and the sale price represents interest expense and is recognised in the Income Statement evenly over the period of the Repurchase 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 amounts expected to be payable at the Balance Sheet date.

Details of Debentures are given in Note 30 to the Financial Statements on page 260.

### **M 6 Other Liabilities**

Other liabilities include interest, fees and expenses and amounts payable for gratuity/pensions and other provisions. These liabilities are recorded at amounts expected to be payable at the Balance Sheet date.

Details of Other Liabilities are given in Note 31 to the Financial Statements on page 261.

### **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 obligation 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.

### **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. Commodity hedges denominated in foreign currency are 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 the Balance Sheet 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:

- (a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 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

## NOTES TO THE FINANCIAL STATEMENTS

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 226, 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.

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

### M 9.1.2 Principal Actuarial Assumptions

The principal assumptions used in the valuation were as follows:

Parameter	2010 (%)	2009 (%)
Discount Rate	10	11
Rate of Salary Increase	9	9

The demographic assumptions underlying the valuation are 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, 2010, by Messrs Actuarial and Management Consultants (Pvt) Ltd., are summarised below:

- (a) The liability on account of employees who are covered by the pension fund referred to in M 9.1.1(a) above 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. 12.505 Mn. (Rs. 9.183 Mn. in 2009), and the Bank provided this shortfall in full in its Financial Statements as at December 31, 2010.

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.

- (b) The liability on account of the pensions payable to those employees referred to in M 9.1.1(b) above 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. 129.309 Mn. by Rs. 29.382 Mn. (Rs. 119.072 Mn. by Rs. 32.785 Mn. in 2009). The Bank provided this shortfall in full in its Financial Statements as at December 31, 2010.
- (c) The provision kept for the Gratuity Liability in the Financial Statements referred to in M 9.1.1(c) above was insufficient to meet the present value of the promised retirement benefits amounting to Rs. 185.076 Mn. by Rs. 65.441 Mn. (Rs. 124.003 Mn. by Rs. 63.392 Mn. in 2009). The Bank provided this shortfall too in full in its Financial Statements as at December 31, 2010.

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 231, 261 and 271 respectively.

## NOTES TO THE FINANCIAL STATEMENTS

### **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 231.

#### **M 10.1 Defined Contribution Pension Plans**

As explained in Note M 9.1.1, during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and a future service package. The shortfall on account of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied for 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 entities of the Group and their employees contribute at the same percentages as above to the Employees' Provident Fund managed by the Central Bank of Sri Lanka.

#### **M 10.3 Employees' Trust Fund**

The Bank and other entities of the Group contribute at the rate of 3.0% of the salaries of each employee to the Employees Trust Fund managed by the Central Bank of Sri Lanka.

### **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 224. 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 36 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 220. Thereafter such income is recognised on cash basis, until the facility is re-classified as performing as is settled in full. 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 220, interest ceases to be recognised on such Loans and Advances. Thereafter, interest income on these Loans and advances is recognised on a cash basis, until the facility is reclassified as performing as is settled in full. 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.

## NOTES TO THE FINANCIAL STATEMENTS

### ***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.

### ***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 Operations***

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 224 and retiring gratuity paid, are treated 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 218.

The Cash Flow Statement is given on pages 210 and 211.

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

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 Overseas 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 272.

### 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 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 280.

### S. Equity Compensation Benefits

The details of Employee Share Option Plans are given in Note 32 (b) and 32 (c) to the Financial Statements on pages 262 and 263.

### T. Earnings Per Share

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 dividing the profit or loss attributable to the Ordinary Shareholders by the weighted average number of Ordinary Shares outstanding adjusted 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 234.

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>2. INCOME</b>				
Interest income (Refer Note 3)	34,689,151	35,914,314	34,739,889	35,924,842
Foreign exchange profit	1,740,949	2,962,221	1,740,949	2,962,221
Fees and commission income (Refer Note 5)	3,219,925	2,529,829	3,220,002	2,529,920
Other income (Refer Note 6)	1,831,737	2,208,198	1,820,691	2,323,950
<b>Total</b>	<b>41,481,762</b>	<b>43,614,562</b>	<b>41,521,531</b>	<b>43,740,933</b>
<b>3. INTEREST INCOME</b>				
Customer advances	23,551,507	26,583,446	23,602,293	26,628,131
Treasury Bills, Bonds, Central Bank Securities and other Money Market instruments	10,867,268	8,909,082	10,867,268	8,874,925
Loans at call	55,026	128,635	55,026	128,635
Interest rate Swaps	45,841	93,755	45,841	93,755
Placements with banks	169,461	199,396	169,461	199,396
Other	48	-	-	-
<b>Total</b>	<b>34,689,151</b>	<b>35,914,314</b>	<b>34,739,889</b>	<b>35,924,842</b>
<p>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.</p>				
<b>4. INTEREST EXPENSES</b>				
Customer deposits	14,142,249	18,353,992	14,144,252	18,355,676
Repurchase agreements and other Money Market instruments	3,156,382	3,785,567	3,167,186	3,805,556
Deposits at call	59,808	71,131	59,808	71,131
Interest rate Swaps	43,301	77,956	43,301	77,956
Due to banks	68,020	100,911	68,020	100,911
Debentures	374,319	625,759	374,319	625,759
Refinance borrowings	471,571	477,536	471,571	477,536
<b>Total</b>	<b>18,315,650</b>	<b>23,492,852</b>	<b>18,328,457</b>	<b>23,514,525</b>
<b>5. FEES AND COMMISSION INCOME</b>				
Trade and other related activities	1,402,233	992,458	1,402,233	992,458
Personal banking	233,450	233,546	233,527	233,637
Foreign remittances	162,336	162,552	162,336	162,552
Electronic banking	666,177	537,070	666,177	537,070
Professional services	98,705	46,774	98,705	46,774
Other	657,024	557,429	657,024	557,429
<b>Total</b>	<b>3,219,925</b>	<b>2,529,829</b>	<b>3,220,002</b>	<b>2,529,920</b>

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>6. OTHER INCOME</b>				
Income from investments [Refer Note 6 (a)]	367,633	370,277	406,399	408,620
Bad debts recovered (including recovery of loans written off)	1,107,918	1,319,363	1,107,918	1,319,363
Other operating income [Refer Note 6 (b)]	356,186	518,558	306,374	595,967
<b>Total</b>	<b>1,831,737</b>	<b>2,208,198</b>	<b>1,820,691</b>	<b>2,323,950</b>
<b>6 (a) Income from Investments</b>				
Income from investment securities (quoted)	29,642	15,996	29,642	15,996
Income from investment securities (unquoted)	134,094	163,167	134,094	163,167
Income from investments in Associates (unquoted)	3,590	1,703	3,158	1,028
Income from investments in Subsidiaries (quoted)	–	–	34,108	34,037
Income from investments in Subsidiaries (unquoted)	–	–	1,500	3,278
Income from investments in Dealing Securities	4,493	1,399	4,493	1,399
Gain on Marked to Market Valuation on shares	18,342	70,456	18,342	70,456
Gain on Marked to Market Valuation on Treasury Bills and Bonds	181,062	119,259	181,062	119,259
Less: Dividends received from Associates transferred to the Investments in Associates	(3,590)	(1,703)	–	–
<b>Total</b>	<b>367,633</b>	<b>370,277</b>	<b>406,399</b>	<b>408,620</b>
<b>6 (b) Other Operating Income</b>				
Capital gain/(loss) on sale of shares	58,468	(14,555)	58,468	100,967
Capital gain on sale of Treasury Bills and Bonds	161,463	406,714	161,463	406,714
Profit/(loss) on sale of Property, Plant & Equipment	7,559	5,403	3,070	(1,545)
Rentals and other income	128,696	120,996	83,373	89,831
<b>Total</b>	<b>356,186</b>	<b>518,558</b>	<b>306,374</b>	<b>595,967</b>
<b>7. OPERATING EXPENSES</b>				
Operating expenses include the following:				
Directors' Remuneration	52,550	47,807	51,860	47,199
Auditors' Remuneration	12,301	7,639	7,587	7,176
Non-Audit fees	3,724	1,459	3,477	1,286
Pensions provided to Past Employees	41,887	34,607	41,887	34,607
Depreciation of Property, Plant & Equipment	629,050	580,057	537,657	504,805
Amortisation of Leasehold Property	1,452	1,452	942	942
Amortisation of Intangible Assets	84,260	72,061	84,238	72,061
Professional and legal expenses	182,270	178,207	181,427	177,793
Advertising and marketing expenses	188,050	174,489	187,764	174,358
Donation to Corporate Social Responsibility (CSR) Trust	55,000	20,800	55,000	20,800
Donations to Approved and Unapproved Charities	3,290	1,642	3,290	1,642
Employer's contribution to Employees' Provident Fund	275,473	252,174	272,433	249,784
Employer's contribution to Employees' Trust Fund	66,091	60,476	65,331	59,879
Financial Value Added Tax (VAT) on profits	2,708,918	2,264,116	2,708,918	2,264,116
Loss on Oil Hedging transactions	–	368,251	–	368,251

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>8. PROVISION FOR STAFF RETIREMENT BENEFITS</b>				
Gratuity expense [Refer Note 31 (a) (i)]	79,287	78,327	77,625	76,663
Provision made to Unfunded Pension Scheme [Refer Note 31 (b) (i)]	29,382	32,785	29,382	32,785
Contribution made to Defined Pension Plans	370,011	338,350	370,011	338,350
Contribution made to Widows' & Orphans' Pension Fund	30	28	30	28
<b>Total</b>	<b>478,710</b>	<b>449,490</b>	<b>477,048</b>	<b>447,826</b>
<b>9. LOAN LOSSES AND PROVISIONS</b>				
<b>Provision for Bad &amp; Doubtful Debts:</b>				
Specific provision on Bills of Exchange [Refer Note 20.1 (a)]	3,607	15,869	3,607	15,869
Specific provision on loans & advances	828,649	926,934	828,649	926,934
Specific provision on credit card receivables	49,127	155,556	49,127	155,556
Specific provision on lease receivable [Refer Note 20.2 (d)]	147,685	399,799	147,685	399,799
<b>Total [Refer Note 20.4 (a)]</b>	<b>1,029,068</b>	<b>1,498,158</b>	<b>1,029,068</b>	<b>1,498,158</b>
General provision on Bills of Exchange [Refer Note 20.1 (a)]	5,700	1,542	5,700	1,542
General provision on loans & advances	125,383	24,186	125,383	24,186
General provision on credit card receivables	3,116	(6,496)	3,116	(6,496)
General provision on lease receivable [Refer Note 20.2 (d)]	22,832	(7,104)	22,832	(7,104)
<b>Total [Refer Note 20.4 (b)]</b>	<b>157,031</b>	<b>12,128</b>	<b>157,031</b>	<b>12,128</b>
Total provisions made during the year	1,186,099	1,510,286	1,186,099	1,510,286
Direct write-offs	6,039	23,412	6,039	23,412
<b>Total</b>	<b>1,192,138</b>	<b>1,533,698</b>	<b>1,192,138</b>	<b>1,533,698</b>
<b>10. SHARE OF PROFIT OF ASSOCIATES</b>				
Equity Investments Lanka Ltd.	8,273	2,687	-	-
Commercial Insurance Brokers (Pvt) Ltd.	2,535	1,531	-	-
<b>Total</b>	<b>10,808</b>	<b>4,218</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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Bank</b>				
Income tax expense of Domestic Banking Unit	3,007,452	2,155,967	3,007,452	2,155,967
Income tax expense of Off-Shore Banking Centre	228,617	214,396	228,617	214,396
Income tax expense of Bangladesh Operation	629,173	457,471	629,173	457,471
Over provision for taxes in respect of prior years	-	(31,829)	-	(31,829)
Deferred tax (reversal)/charge	(71,142)	90,848	(71,142)	90,848
	<b>3,794,100</b>	<b>2,886,853</b>	<b>3,794,100</b>	<b>2,886,853</b>
<b>Subsidiaries</b>				
Income tax expense of Commercial Development Company PLC	(6,946)	26,593	-	-
Income tax expense of ONEzero Company Ltd.	3,048	3,240	-	-
Income tax expense of Commercial Bank Primary Dealer Ltd.	-	18,299	-	-
Income tax expense of X-pertise Ltd.	-	977	-	-
<b>Associates</b>				
Share of Income tax expense of Equity Investments Lanka Ltd.	60	114	-	-
Share of Income tax expense of Commercial Insurance Brokers (Pvt) Ltd.	210	756	-	-
<b>Total</b>	<b>3,790,472</b>	<b>2,936,832</b>	<b>3,794,100</b>	<b>2,886,853</b>
Effective tax rate (excluding deferred tax)			<b>41.48%</b>	<b>38.88%</b>

Income tax for 2010 and 2009 has been provided on the taxable income at the rates shown below: (The proposed Income tax rates as announced in the Government Budget Proposals applicable from January 01, 2011 is also indicated for information of the Shareholders. Deferred tax for 2010 has been provided at the rate of 28% as at December 31, 2010.)

	2010 %	2009 %	Proposed Tax Rates %
Domestic banking operations of the Bank	35	35	28
On-shore banking operations of the Off-Shore Banking Centre of the Bank	35	35	28
Off-shore banking operations of the Off-Shore Banking Centre of the Bank	20	20	28
Banking operation in Bangladesh	42.5	42.5	42.5
Commercial Development Company PLC	35	35	28
ONEzero Company Ltd.	35	35	28
Commercial Bank Primary Dealer Ltd.	N/A	35	N/A
X-pertise Ltd.	N/A	35	N/A

## NOTES TO THE FINANCIAL STATEMENTS

### 11.2 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	Tax rate	GROUP		BANK	
		2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Accounting profit before tax from operations		9,289,658	7,125,631	9,317,393	7,191,842
Tax effect at the statutory income tax rates					
Domestic banking operations of the Bank	35.0%	2,553,399	1,942,890	2,553,399	1,942,890
On-Shore banking operations of the Off-Shore Banking Centre of the Bank	35.0%	126,731	132,708	126,731	132,708
Off-Shore banking operations of the Off-Shore Banking Centre of the Bank	20.0%	33,851	36,176	33,851	36,176
Banking operation in Bangladesh	42.5%	680,707	459,290	680,707	459,290
Subsidiaries	35.0%	24,085	38,688	-	-
		3,418,773	2,609,752	3,394,688	2,571,064
Tax effect of exempt income		(534,441)	(542,608)	(534,441)	(542,372)
Tax effect of non-deductible expenses		3,407,358	3,035,471	3,362,784	2,998,496
Tax effect of deductible expenses		(2,456,799)	(2,270,197)	(2,407,129)	(2,236,531)
Share of Income tax expense of Associates		346	870	-	-
Social Responsibility Levy at 1.5% of Income tax		49,774	38,223	49,340	37,177
(Over)/Under provision of taxes in respect of prior years		98	(25,770)	-	(31,829)
Deferred tax charge/(reversal) [Refer Note 29]		(94,637)	91,091	(71,142)	90,848
<b>Income tax expense reported in the Income Statement at the effective income tax rate</b>		<b>3,790,472</b>	<b>2,936,832</b>	<b>3,794,100</b>	<b>2,886,853</b>

### 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 Bank from the secondary market transactions in Government Securities for the year, has been grossed up in these Financial Statements and the resulting notional tax credit amounted to Rs. 572.930 Mn. The notional tax credit of the Group and Bank for 2009 was Rs. 335.909 Mn. and Rs. 332.493 Mn. respectively.

## 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 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 by the weighted average number of ordinary shares outstanding during the year (both voting and non-voting) adjusted for the effects of all dilutive potential weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ESOPs into ordinary shares.

The following table shows the earnings and number of shares used in the basic and dilutive Earnings Per Share calculation.

	GROUP		BANK	
	2010	2009	2010	2009
<b>Amounts Used as the Numerator:</b>				
Net Profit attributable to equity holders of the Parent for basic and diluted earnings per share (Rs. '000)	5,507,500	4,191,935	5,523,293	4,304,989
<b>Number of Ordinary Shares used as the Denominator:</b>				
Weighted Average Number of Ordinary Shares	250,959,985	249,547,749	250,959,985	249,547,749
Addition to number of shares in issue due to share split in June 2010	125,463,006	124,971,034	125,463,006	124,971,034
Weighted Average Number of Ordinary Shares used for Basic EPS calculation	376,422,991	374,518,783	376,422,991	374,518,783
<b>Effect of Dilution:</b>				
Number of outstanding options under ESOP 2002, as at the year end [Refer Note 32 (b)]	762,171	2,428,899	762,171	2,428,899
Number of outstanding options under ESOP 2008, as at the year end [Refer Note 32 (c)]	2,180,373	1,026,845	2,180,373	1,026,845
<b>Weighted Average Number of Ordinary Shares adjusted for the effect of dilution</b>	<b>379,365,535</b>	<b>377,974,527</b>	<b>379,365,535</b>	<b>377,974,527</b>
<b>Basic Earnings per Share (Rs.)</b>	<b>14.63</b>	<b>11.19</b>	<b>14.67</b>	<b>11.49</b>
<b>Diluted Earnings per Share (Rs.)</b>	<b>14.52</b>	<b>11.09</b>	<b>14.56</b>	<b>11.39</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 13. DIVIDENDS

	GROUP		BANK	
	2010 Interim Rs. 3.00 (Paid during 2010) Rs. '000	2009 Interim Rs. 3.00 (Paid during 2009) Rs. '000	2010 Interim Rs. 3.00 (Paid during 2010) Rs. '000	2009 Interim Rs. 3.00 (Paid during 2009) Rs. '000
<b>On Ordinary Shares</b>				
Net dividend paid to the Ordinary Shareholders	1,026,085	685,138	1,026,085	685,138
Withholding tax deducted at source	106,218	64,430	106,218	64,430
<b>Gross ordinary dividend paid</b>	<b>1,132,303</b>	<b>749,568</b>	<b>1,132,303</b>	<b>749,568</b>

Two interim dividends of Rs. 1.50 per share each, totalling to Rs. 3.00 per share was paid in November and December 2010 to both the voting and non-voting ordinary shareholders of the Bank (The total interim dividends paid for the year 2009 was Rs. 3.00 per share).

The Board of Directors of the Bank have recommended the payment of a final dividend of **Rs. 4.00 per share which consist of a cash dividend of Rs. 2.00 per share and a scrip dividend of Rs. 2.00 per share to both the voting and non-voting ordinary shareholders of the Bank** for the year ended December 31, 2010 (a cash dividend of Rs. 4.00 for each share was paid for 2009 in April 2010), which will be declared at the forthcoming Annual General Meeting to be held on March 30, 2011. 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 2010 amounts to Rs. 1,509.946 Mn. (Rs. 1,001.899 Mn. in 2009).

### 14. RETAINED EARNINGS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Commercial Bank of Ceylon PLC</b>	<b>1,441,717</b>	929,905	<b>1,515,928</b>	1,004,116
Retained Earnings	1,515,928	1,004,116	-	-
Goodwill Written Off on Acquisition of Commercial Development Company PLC	(74,211)	(74,211)	-	-
<b>Subsidiaries</b>				
Commercial Development Company PLC	(11,098)	(18,466)	-	-
Retained Earnings	51,627	21,890	-	-
Depreciation/Amortisation on re-classification of Investment Property	(62,725)	(40,356)	-	-
ONEzero Company Ltd.	43,466	40,545	-	-
Commex - Sri Lanka S.R.L.	(32,927)	-	-	-
<b>Associates</b>				
Equity Investments Lanka Ltd.	8,407	3,352	-	-
Commercial Insurance Brokers (Pvt) Ltd.	25,286	23,496	-	-
<b>Total</b>	<b>1,474,851</b>	<b>978,832</b>	<b>1,515,928</b>	<b>1,004,116</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 15. CASH AND SHORT TERM FUNDS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Coins and notes held in local currency	5,610,040	4,847,771	5,562,824	4,847,751
Coins and notes held in foreign currency	573,927	708,331	573,927	708,331
Due from Banks	3,840,297	17,288,490	3,840,297	17,288,490
Loans at call and at short notice	579,942	1,212,067	579,942	1,212,067
<b>Total</b>	<b>10,604,206</b>	<b>24,056,659</b>	<b>10,556,990</b>	<b>24,056,639</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 Exchange Controller 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.

### 16. BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Current Account with the Central Bank of Sri Lanka	10,110,850	10,016,148	10,110,850	10,016,148
Current Account with the Bangladesh Bank	2,077,984	1,778,409	2,077,984	1,778,409
<b>Total</b>	<b>12,188,834</b>	<b>11,794,557</b>	<b>12,188,834</b>	<b>11,794,557</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, 2010 the minimum cash reserve requirement was 7.00% of the rupee deposit liabilities. (7.00% in 2009). 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 19.00% (18.00% in 2009) on time and demand liabilities, which includes a 6.00% (5.00% in 2009) 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>17.1 Government Treasury Bills and Treasury Bonds held for Trading</b>				
Government Treasury Bills and Bonds held for Trading (Gross)	14,564,615	10,541,014	14,564,615	10,541,014
Gain on Marked to Market Valuation	232,207	119,259	232,207	119,259
<b>Total (Net)</b>	<b>14,796,822</b>	<b>10,660,273</b>	<b>14,796,822</b>	<b>10,660,273</b>
<b>17.2 Government Treasury Bills and Treasury Bonds held to Maturity</b>				
Government Treasury Bills and Bonds held to Maturity	74,975,107	47,340,029	74,975,107	47,340,029
Treasury Bonds Maturing after one year	24,768,683	20,525,683	24,768,683	20,525,683
<b>Total</b>	<b>99,743,790</b>	<b>67,865,712</b>	<b>99,743,790</b>	<b>67,865,712</b>

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>17.3 Other Securities</b>				
Central Bank Securities held to Maturity	-	18,144,677	-	18,144,677
<b>Total</b>	<b>-</b>	<b>18,144,677</b>	<b>-</b>	<b>18,144,677</b>
<b>Total Government Treasury Bills, Bonds and Other Securities</b>	<b>114,540,612</b>	<b>96,670,662</b>	<b>114,540,612</b>	<b>96,670,662</b>
<b>17.4 Assets Pledged</b>				
<b>Nature of Assets</b>	<b>Nature of Liability</b>			
Government Treasury Bills and Bonds	Secured against the Repo instruments			
	46,788,861	31,491,466	46,788,861	31,491,466
	<b>46,788,861</b>	<b>31,491,466</b>	<b>46,788,861</b>	<b>31,491,466</b>

17.5 Details of Government Treasury Bills and Treasury Bonds held to Maturity - Bank

Year of Maturity	2010		2009	
	Face Value Rs. '000	Market Value Rs. '000	Face Value Rs. '000	Market Value Rs. '000
<b>17.5 (a) Government Treasury Bills</b>				
2010	-	-	34,437,152	33,588,917
2011	63,782,214	61,805,599	-	-
<b>Sub Total</b>	<b>63,782,214</b>	<b>61,805,599</b>	<b>34,437,152</b>	<b>33,588,917</b>
<b>17.5 (b) Government Treasury Bonds</b>				
2010	-	-	4,283,063	4,396,372
2011	5,300,000	5,349,103	3,425,000	3,616,408
2012	2,000,000	2,055,632	550,000	587,104
2013	1,760,600	1,858,938	1,084,338	1,063,552
2014	2,050,000	2,144,017	481,378	495,015
2015	850,000	904,012	-	-
2016	812,777	785,561	600,000	600,000
2020	250,000	197,585	-	-
<b>Sub Total</b>	<b>13,023,377</b>	<b>13,294,848</b>	<b>10,423,779</b>	<b>10,758,451</b>
<b>17.5 (c) Sri Lanka Development Bonds/ Sovereign Bonds</b>				
2010	-	-	22,410,960	22,410,960
2011	7,784,000	7,840,990	-	-
2012	9,229,600	9,375,660	1,144,000	1,207,354
2013	5,560,000	5,650,350	-	-
<b>Total</b>	<b>22,573,600</b>	<b>22,867,000</b>	<b>23,554,960</b>	<b>23,618,314</b>
<b>Total of Note 17.5 (a)+(b)+(c)</b>	<b>99,379,191</b>	<b>97,967,447</b>	<b>68,415,891</b>	<b>67,965,682</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 18. DEALING SECURITIES

	GROUP				BANK			
	As at December 31, 2010		As at December 31, 2009		As at December 31, 2010		As at December 31, 2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>Quoted: SHARES</b>								
Hemas Holdings PLC (91,500 Ordinary Shares) (18,300 Ordinary Shares as at Dec. 31, 2009)	3,642	4,072 (@ Rs. 44.50)	2,199	2,246 (@ Rs. 122.75)	3,642	4,072 (@ Rs. 44.50)	2,199	2,246 (@ Rs. 122.75)
Tokyo Cement Company (Lanka) PLC (470,450 Non-Voting Ordinary Shares) (50,000 Non-Voting Ordinary Shares as at Dec. 31, 2009)	14,865	18,934 (@ Rs. 40.30)	843	988 (@ Rs. 19.75)	14,865	18,934 (@ Rs. 40.30)	843	988 (@ Rs. 19.75)
Dipped Products PLC (87,100 Ordinary Shares) (87,100 Ordinary Shares as at Dec. 31, 2009)	10,539	10,452 (@ Rs. 120.00)	8,734	7,491 (@ Rs. 86.00)	10,539	10,452 (@ Rs. 120.00)	8,734	7,491 (@ Rs. 86.00)
Lanka IOC PLC (250,000 Ordinary Shares) (250,000 Ordinary Shares as at Dec. 31, 2009)	4,925	4,725 (@ Rs. 18.90)	12,167	4,313 (@ Rs. 17.25)	4,925	4,725 (@ Rs. 18.90)	12,167	4,313 (@ Rs. 17.25)
Dialog Telekom PLC (1,759,600 Ordinary Shares) (330,000 Ordinary Shares as at Dec. 31, 2009)	20,930	20,796 (@ Rs. 11.80)	8,842	2,393 (@ Rs. 7.25)	20,930	20,796 (@ Rs. 11.80)	8,842	2,393 (@ Rs. 7.25)
ACL Cables PLC (10,800 Ordinary Shares) (10,800 Ordinary Shares as at Dec. 31, 2009)	983	919 (@ Rs. 85.10)	589	829 (@ Rs. 76.75)	983	919 (@ Rs. 85.10)	589	829 (@ Rs. 76.75)
Pelwatte Sugar Industries PLC (12,300 Ordinary Shares) (12,300 Ordinary Shares as at Dec. 31, 2009)	351	337 (@ Rs. 27.40)	443	369 (@ Rs. 30.00)	351	337 (@ Rs. 27.40)	443	369 (@ Rs. 30.00)
Chemical Industries Colombo PLC (41,140 Ordinary Shares) (13,140 Ordinary Shares as at Dec. 31, 2009)	5,102	5,723 (@ Rs. 139.10)	777	828 (@ Rs. 63.00)	5,102	5,723 (@ Rs. 139.10)	777	828 (@ Rs. 63.00)
Overseas Reality Ceylon PLC (500,000 Ordinary Shares) (103,100 Ordinary Shares as at Dec. 31, 2009)	8,056	7,650 (@ Rs. 15.30)	1,424	1,598 (@ Rs. 15.50)	8,056	7,650 (@ Rs. 15.30)	1,424	1,598 (@ Rs. 15.50)
Distilleries Company of Sri Lanka PLC (151,800 Ordinary Shares) (52,000 Ordinary Shares as at Dec. 31, 2009)	21,909	27,020 (@ Rs. 178.00)	6,225	5,473 (@ Rs. 105.25)	21,909	27,020 (@ Rs. 178.00)	6,225	5,473 (@ Rs. 105.25)
Ceylinco Insurance PLC (42,100 Non-Voting Ordinary Shares) (2009 - Nil)	9,169	11,367 (@ Rs. 270.00)	-	-	9,169	11,367 (@ Rs. 270.00)	-	-

NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2010		As at December 31, 2009		As at December 31, 2010		As at December 31, 2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Citizen Development Bank PLC (20,000 Ordinary Shares) (2009 - Nil)	1,051	1,048 (@ Rs. 52.40)	-	-	1,051	1,048 (@ Rs. 52.40)	-	-
Lanka Milk Foods (CWE) PLC (20,000 Ordinary Shares) (2009 - Nil)	27,866	28,250 (@ Rs. 113.00)	-	-	27,866	28,250 (@ Rs. 113.00)	-	-
Chemical Industries Colombo PLC (201,400 Non-Voting Ordinary Shares) (2009 - Nil)	14,590	19,556 (@ Rs. 97.10)	-	-	14,590	19,556 (@ Rs. 97.10)	-	-
Haycarb Limited (7,100 Ordinary Shares) (2009 - Nil)	1,251	1,196 (@ Rs. 168.50)	-	-	1,251	1,196 (@ Rs. 168.50)	-	-
Ceylon Hospitals PLC (5,500 Non-Voting Ordinary Shares) (2009 - Nil)	411	456 (@ Rs. 82.90)	-	-	411	456 (@ Rs. 82.90)	-	-
Sri Lanka Telecom PLC (286,600 Ordinary Shares) (2009 - Nil)	13,543	13,757 (@ Rs. 48.00)	-	-	13,543	13,757 (@ Rs. 48.00)	-	-
COCO Lanka PLC (55,600 Ordinary Shares) (2009 - Nil)	3,087	3,364 (@ Rs. 60.50)	-	-	3,087	3,364 (@ Rs. 60.50)	-	-
Lanka Walltile PLC (32,100 Ordinary Shares) (2009 - Nil)	3,431	4,234 (@ Rs. 131.90)	-	-	3,431	4,234 (@ Rs. 131.90)	-	-
Laugfs Gas Ltd. (50,000 Non-Voting Ordinary Shares) (2009 - Nil)	750	935 (@ Rs. 18.70)	-	-	750	935 (@ Rs. 18.70)	-	-
Merchant Bank of Sri Lanka PLC (2010 - Nil) (125,421 Ordinary Shares as at Dec. 31, 2009)	-	-	3,020	2,446 (@ Rs. 19.50)	-	-	3,020	2,446 (@ Rs. 19.50)
The HDFC Bank of Sri Lanka (2010 - Nil) (38,000 Ordinary Shares as at Dec. 31, 2009)	-	-	8,493	5,615 (@ Rs. 147.75)	-	-	8,493	5,615 (@ Rs. 147.75)

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2010		As at December 31, 2009		As at December 31, 2010		As at December 31, 2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
John Keells Holdings PLC (2010 - Nil) (177,553 Ordinary Shares as at Dec. 31, 2009)	-	-	28,912	30,450 (@ Rs. 171.50)	-	-	28,912	30,450 (@ Rs. 171.50)
Richard Pieris & Company PLC (2010 - Nil) (87,266 Ordinary Shares as at Dec. 31, 2009)	-	-	7,121	3,403 (@ Rs. 39.00)	-	-	7,121	3,403 (@ Rs. 39.00)
Asian Hotels & Properties PLC (2010 - Nil) (40,100 Ordinary Shares as at Dec. 31, 2009)	-	-	2,041	3,789 (@ Rs. 94.50)	-	-	2,041	3,789 (@ Rs. 94.50)
Dankotuwa Porcelain PLC (2010 - Nil) (41,667 Ordinary Shares as at Dec. 31, 2009)	-	-	1,348	469 (@ Rs. 11.25)	-	-	1,348	469 (@ Rs. 11.25)
Ceylon Guardian Investment Trust PLC (2010 - Nil) (701 Ordinary Shares as at Dec. 31, 2009)	-	-	95	315 (@ Rs. 450.00)	-	-	95	315 (@ Rs. 450.00)
DFCC Bank PLC (2010 - Nil) (18,840 Ordinary Shares as at Dec. 31, 2009)	-	-	2,851	3,146 (@ Rs. 167.00)	-	-	2,851	3,146 (@ Rs. 167.00)
Nawaloka Hospitals PLC (2010 - Nil) (12,900 Ordinary Shares as at Dec. 31, 2009)	-	-	39	40 (@ Rs. 3.10)	-	-	39	40 (@ Rs. 3.10)
eChanneling PLC (2010 - Nil) (425,000 Ordinary Shares as at Dec. 31, 2009)	-	-	10,432	4,144 (@ Rs. 9.75)	-	-	10,432	4,144 (@ Rs. 9.75)
Colombo Dockyard PLC (2010 - Nil) (310 Ordinary Shares as at Dec. 31, 2009)	-	-	12	76 (@ Rs. 244.75)	-	-	12	76 (@ Rs. 244.75)
Asiri Medical Services PLC (2010 - Nil) (44,000 Ordinary Shares as at Dec. 31, 2009)	-	-	350	484 (@ Rs. 11.00)	-	-	350	484 (@ Rs. 11.00)
	<b>166,451</b>	<b>184,791</b>	106,957	80,905	<b>166,451</b>	<b>184,791</b>	106,957	80,905
Appreciation/(Provision for diminution) in value	<b>18,340</b>		(26,052)		<b>18,340</b>		(26,052)	
<b>Sub Total</b>	<b>184,791</b>		80,905		<b>184,791</b>		80,905	

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2010		As at December 31, 2009		As at December 31, 2010		As at December 31, 2009	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
<b>Quoted:</b>								
<b>DEBENTURE</b>								
Urban Development Authority (1,000,000 Debentures of Rs. 100.00 each) (2009 - Nil)	100,000	98,600	-	-	100,000	98,600	-	-
		(@ Rs. 98.60)		-		(@ Rs. 98.60)		-
	100,000	98,600	-	-	100,000	98,600	-	-
Provision for diminution in value	(1,400)		-		(1,400)		-	
<b>Sub Total</b>	<b>98,600</b>		<b>-</b>		<b>98,600</b>		<b>-</b>	
<b>Total</b>	<b>283,391</b>		<b>80,905</b>		<b>283,391</b>		<b>80,905</b>	

### 19. INVESTMENT SECURITIES

	GROUP				BANK			
	As at December 31, 2010		As at December 31, 2009		As at December 31, 2010		As at December 31, 2009	
	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000
<b>Quoted:</b>								
<b>SHARES</b>								
Hatton National Bank PLC (7,700 Ordinary Shares) (7,700 Ordinary Shares as at Dec. 31, 2009)	315	3,079	315	1,311	315	3,079	315	1,311
		(@ Rs. 399.90)		(@ Rs. 170.25)		(@ Rs. 399.90)		(@ Rs. 170.25)
Sampath Bank PLC (3,446 Ordinary Shares) (1,554 Ordinary Shares as at Dec. 31, 2009)	72	937	72	317	72	937	72	317
		(@ Rs. 271.90)		(@ Rs. 204.25)		(@ Rs. 271.90)		(@ Rs. 204.25)
Seylan Bank PLC (1,000 Ordinary Shares) (1,000 Ordinary Shares as at Dec. 31, 2009)	24	98	24	37	24	98	24	37
		(@ Rs. 97.80)		(@ Rs. 37.00)		(@ Rs. 97.80)		(@ Rs. 37.00)
DFCC Bank PLC (3,496 Ordinary Shares) (1,748 Ordinary Shares as at Dec. 31, 2009)	155	700	155	292	155	700	155	292
		(@ Rs. 200.20)		(@ Rs. 167.00)		(@ Rs. 200.20)		(@ Rs. 167.00)
Nations Trust Bank PLC (1,333 Ordinary Shares) (1,333 Ordinary Shares as at Dec. 31, 2009)	22	111	22	49	22	111	22	49
		(@ Rs. 83.40)		(@ Rs. 36.75)		(@ Rs. 83.40)		(@ Rs. 36.75)
NDB Bank PLC (2,712 Ordinary Shares) (2,712 Ordinary Shares as at Dec. 31, 2009)	215	948	215	559	215	948	215	559
		(@ Rs. 349.50)		(@ Rs. 206.00)		(@ Rs. 349.50)		(@ Rs. 206.00)

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2010		As at December 31, 2009		As at December 31, 2010		As at December 31, 2009	
	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000
<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 Dec. 31, 2009)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)
Nations Trust Bank PLC (20.53% - 2013) (95,000 Debentures of Rs. 1,000.00 each) (95,000 Debentures of Rs. 1,000.00 each as at Dec. 31, 2009)	95,000	95,000	95,000	95,000	95,000	95,000	95,000	95,000
		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)
Urban Development Authority (11% - 2015) (3,357,400 Debentures of Rs. 100.00 each) (2009- Nil)	335,740	335,740	-	-	335,740	335,740	-	-
		(@ Rs. 100.00)		-		(@ Rs. 100.00)		-
<b>Sub Total</b>	<b>441,543</b>	<b>446,613</b>	105,803	107,565	<b>441,543</b>	<b>446,613</b>	105,803	107,565
<b>Unquoted: SHARES</b>								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares) (4,400 Ordinary Shares as at Dec. 31, 2009)	440	440	440	440	440	440	440	440
		(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares) (62,500 Ordinary Shares as at Dec. 31, 2009)	625	625	625	625	625	625	625	625
		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares) (1,000,000 Ordinary Shares as at Dec. 31, 2009)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
Lanka Financial Services Bureau Ltd. (225,000 Ordinary Shares) (225,000 Ordinary Shares as at Dec. 31, 2009)	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250
		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
Dialog Telekom PLC (585,000,000 Preference Shares) (877,500,000 Preference Shares as at Dec. 31, 2009)	585,000	585,000	877,500	877,500	585,000	585,000	877,500	877,500
		(@ Rs. 1.00)		(@ Rs. 1.00)		(@ Rs. 1.00)		(@ Rs. 1.00)
Central Depository of Bangladesh Ltd. (1,541,666 Shares of Bangladesh Taka 17.19 each. Converted @ Rs. 1.56741 per Taka) (1,200,000 Shares of Bangladesh Taka 5 each. Converted @ Rs. 1.65689 per Taka as at Dec. 31, 2009)	41,536	41,536	9,941	9,941	41,536	41,536	9,941	9,941

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP				BANK			
	As at December 31, 2010		As at December 31, 2009		As at December 31, 2010		As at December 31, 2009	
	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000	Cost Rs. '000	Market Value/ Manager's Buying Price Rs. '000
<b>LEASE BACKED SECURITIES</b>								
People's Leasing Company PLC	448,100	448,100	-	-	448,100	448,100	-	-
Senkadagala Finance PLC	-	-	18,577	18,577	-	-	18,577	18,577
<b>TRUST CERTIFICATES/BONDS</b>								
People's Leasing Company PLC	250,000	250,000	-	-	250,000	250,000	-	-
LB Finance PLC	428,700	428,700	-	-	428,700	428,700	-	-
Government of Bangladesh Bonds	157,402	157,402	157	157	157,402	157,402	157	157
<b>Sub Total</b>	<b>1,924,053</b>	<b>1,924,053</b>	<b>919,490</b>	<b>919,490</b>	<b>1,924,053</b>	<b>1,924,053</b>	<b>919,490</b>	<b>919,490</b>
<b>Total</b>	<b>2,365,596</b>	<b>2,370,666</b>	<b>1,025,293</b>	<b>1,027,055</b>	<b>2,365,596</b>	<b>2,370,666</b>	<b>1,025,293</b>	<b>1,027,055</b>

### 20. BILLS OF EXCHANGE, LEASE RECEIVABLE AND LOANS & ADVANCES

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>20.1 Bills of Exchange</b>				
Export bills	4,606,419	2,594,298	4,606,419	2,594,298
Import bills	789,074	369,913	789,074	369,913
	<b>5,395,493</b>	<b>2,964,211</b>	<b>5,395,493</b>	<b>2,964,211</b>
Less: Loan loss provision [Refer Note 20.1 (a)]	56,807	60,997	56,807	60,997
Interest in suspense [Refer Note 20.1 (b)]	47,262	56,167	47,262	56,167
<b>Total</b>	<b>5,291,424</b>	<b>2,847,047</b>	<b>5,291,424</b>	<b>2,847,047</b>

#### 20.1 (a) Movement in the Provision for Bad & Doubtful Bills of Exchange

<b>Specific Provision</b>				
Opening balance	33,430	26,401	33,430	26,401
Amount provided	3,607	15,869	3,607	15,869
Amount reversed	(13,497)	(8,840)	(13,497)	(8,840)
<b>Closing balance</b>	<b>23,540</b>	<b>33,430</b>	<b>23,540</b>	<b>33,430</b>
<b>General Provision</b>				
Opening balance	27,567	26,025	27,567	26,025
Amount provided	5,700	1,542	5,700	1,542
<b>Closing balance</b>	<b>33,267</b>	<b>27,567</b>	<b>33,267</b>	<b>27,567</b>
<b>Total provision</b>	<b>56,807</b>	<b>60,997</b>	<b>56,807</b>	<b>60,997</b>

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>20.1 (b) Movement in the Interest in Suspense on Bills of Exchange</b>				
Opening balance	56,167	50,033	56,167	50,033
Interest suspended during the year	–	6,134	–	6,134
Amount recovered during the year	(8,905)	–	(8,905)	–
<b>Closing balance</b>	<b>47,262</b>	<b>56,167</b>	<b>47,262</b>	<b>56,167</b>
<b>20.2 Lease Receivable</b>				
<b>20.2 (a) Lease Receivable within one year</b>				
Total lease rentals receivable within one year	5,796,767	4,979,011	5,897,027	5,077,575
Less: Unearned lease income	1,714,562	1,402,927	1,754,275	1,449,835
Loan loss provision	136,436	220,400	136,436	217,223
Interest in Suspense [Refer Note 20.2 (e)]	268,408	135,497	268,408	135,497
<b>Sub Total</b>	<b>3,677,361</b>	<b>3,220,187</b>	<b>3,737,908</b>	<b>3,275,020</b>
<b>20.2 (b) Lease Receivable from one to five years</b>				
Total lease rentals receivable from one to five years	8,781,282	5,620,196	8,987,022	5,880,736
Less: Unearned lease income	1,417,705	1,004,255	1,461,797	1,076,486
Loan loss provision	246,642	284,489	246,642	287,670
<b>Sub Total</b>	<b>7,116,935</b>	<b>4,331,452</b>	<b>7,278,583</b>	<b>4,516,580</b>
<b>20.2 (c) Lease Receivable after five years</b>				
Total lease rentals receivable after five years	2,211	2,427	2,211	2,427
Less: Unearned lease income	114	189	114	189
Loan loss provision	69	138	69	134
<b>Sub Total</b>	<b>2,028</b>	<b>2,100</b>	<b>2,028</b>	<b>2,104</b>
<b>Net Lease Receivable</b>	<b>10,796,324</b>	<b>7,553,739</b>	<b>11,018,519</b>	<b>7,793,704</b>
<b>20.2 (d) Movement in the Provision for Bad and Doubtful Lease Receivable</b>				
<b>Specific Provision</b>				
Opening balance	425,963	353,370	425,963	353,370
Amount provided	147,685	399,799	147,685	399,799
Amount reversed	(292,398)	(327,206)	(292,398)	(327,206)
<b>Closing balance</b>	<b>281,250</b>	<b>425,963</b>	<b>281,250</b>	<b>425,963</b>
<b>General Provision</b>				
Opening balance	79,062	86,166	79,062	86,166
Amount provided	22,832	(7,104)	22,832	(7,104)
<b>Closing balance</b>	<b>101,894</b>	<b>79,062</b>	<b>101,894</b>	<b>79,062</b>
<b>Total provision</b>	<b>383,144</b>	<b>505,025</b>	<b>383,144</b>	<b>505,025</b>

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>20.2 (e) Movement in the Interest in Suspense Account on Lease Receivable</b>				
Opening balance	135,497	87,171	135,497	87,171
Interest suspended during the year	269,287	90,048	269,287	90,048
Amount recovered during the year	(136,376)	(41,722)	(136,376)	(41,722)
<b>Closing balance</b>	<b>268,408</b>	<b>135,497</b>	<b>268,408</b>	<b>135,497</b>
<b>20.3 Loans &amp; Advances</b>				
Sri Lankan Rupee and foreign currency loans & advances [Refer Note 20.3 (a)]	211,306,000	171,583,401	211,307,366	171,586,168
Less: Loan loss provision [Refer Note 20.3 (b)]	4,459,678	4,448,582	4,459,678	4,448,582
Interest in suspense [Refer Note 20.3 (c)]	6,119,175	5,808,525	6,119,175	5,808,525
<b>Total</b>	<b>200,727,147</b>	<b>161,326,294</b>	<b>200,728,513</b>	<b>161,329,061</b>
<b>20.3 (a) Sri Lankan Rupee and Foreign Currency Loans &amp; Advances</b>				
<b>Sri Lankan Rupee Loans &amp; Advances</b>				
Overdrafts	41,393,678	29,560,434	41,393,678	29,560,434
Loans	119,598,598	93,873,460	119,599,964	93,876,227
Preshipment loans	143,027	242,494	143,027	242,494
Staff loans	4,221,556	3,410,349	4,221,556	3,410,349
Local Bills Purchased	8,790	38,900	8,790	38,900
Interest receivable	4,154,264	3,899,474	4,154,264	3,899,474
<b>Sub Total</b>	<b>169,519,913</b>	<b>131,025,111</b>	<b>169,521,279</b>	<b>131,027,878</b>
<b>Foreign Currency Loans &amp; Advances</b>				
Overdrafts	7,500,784	7,470,908	7,500,784	7,470,908
Loans	27,171,066	27,210,789	27,171,066	27,210,789
Preshipment loans	6,915,659	5,682,754	6,915,659	5,682,754
Interest receivable	198,578	193,839	198,578	193,839
<b>Sub Total</b>	<b>41,786,087</b>	<b>40,558,290</b>	<b>41,786,087</b>	<b>40,558,290</b>
<b>Total</b>	<b>211,306,000</b>	<b>171,583,401</b>	<b>211,307,366</b>	<b>171,586,168</b>
<b>20.3 (b) Movement in the Provision for Bad &amp; Doubtful Loans &amp; Advances</b>				
<b>Specific Provision</b>				
Opening balance	2,994,659	3,029,052	2,994,659	3,029,052
Amount provided	877,776	1,082,490	877,776	1,082,490
Exchange rate variance on foreign currency provision	(14,018)	15,249	(14,018)	15,249
Amount reversed	(973,057)	(1,132,132)	(973,057)	(1,132,132)
<b>Closing balance</b>	<b>2,885,360</b>	<b>2,994,659</b>	<b>2,885,360</b>	<b>2,994,659</b>

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>General Provision</b>				
Opening balance	1,453,923	1,433,760	1,453,923	1,433,760
Amount provided	128,498	17,690	128,498	17,690
Exchange rate variance on foreign currency provision	(8,103)	2,473	(8,103)	2,473
<b>Closing balance</b>	<b>1,574,318</b>	<b>1,453,923</b>	<b>1,574,318</b>	<b>1,453,923</b>
<b>Total provision</b>	<b>4,459,678</b>	<b>4,448,582</b>	<b>4,459,678</b>	<b>4,448,582</b>

### 20.3 (c) Movement in the Interest in Suspense on Loans & Advances

Opening balance	5,808,525	4,400,341	5,808,525	4,400,341
Interest suspended during the year	2,110,392	3,504,566	2,119,297	3,504,566
Amount recovered during the year	(1,799,742)	(2,096,382)	(1,808,647)	(2,096,382)
<b>Closing balance</b>	<b>6,119,175</b>	<b>5,808,525</b>	<b>6,119,175</b>	<b>5,808,525</b>

The maturity analysis of Bills of Exchange, Lease Receivable and Loans & Advances is given in Note 35.

### 20.4 Non-Performing Bills of Exchange, Lease Receivable and Loans & Advances

Net exposure on non-performing Bills of Exchange, Lease Receivable and Loans & Advances as at December 31, before discounting the value of the securities obtained is given below:

	GROUP				BANK			
	2010 Rs. '000	%	2009 Rs. '000	%	2010 Rs. '000	%	2009 Rs. '000	%
Bills of Exchange	37,186		60,777		37,186		60,777	
Lease receivable	323,152		603,864		323,152		603,864	
Loans & advances	10,213,842		13,349,859		10,213,842		13,349,859	
Non-performing loans & advances	10,574,180	4.72	14,014,500	7.83	10,574,180	4.72	14,014,500	7.83
Add: Interest receivable on non-performing loans & advances	4,352,842		4,093,313		4,352,842		4,093,313	
Gross non-performing loans & advances	14,927,022		18,107,813		14,927,022		18,107,813	
Less: Interest in suspense on loans and advances	5,557,298		6,000,189		5,557,298		6,000,189	
Net non-performing loans & advances	9,369,724	4.22	12,107,624	6.84	9,369,724	4.22	12,107,624	6.84
Less: Specific provision for bad & doubtful debts [Refer Note 20.4 (a)]	3,190,150		3,454,052		3,190,150		3,454,052	
<b>Net exposure (*)</b>	<b>6,179,574</b>	<b>2.78</b>	<b>8,653,572</b>	<b>4.89</b>	<b>6,179,574</b>	<b>2.78</b>	<b>8,653,572</b>	<b>4.89</b>

\* The Net exposure of Rs. 6,179,574 Mn. (Rs. 8,653,572 Mn. as at December 31, 2009) is covered by securities valued over Rs. 6,179,574 Mn.

(Over Rs. 8,653,572 Mn. as at December 31, 2009) excluding machinery and stocks.

NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>20.4 (a) Specific Provision for Bad &amp; Doubtful Debts - Summary:</b>				
<b>Specific Provision</b>				
Opening balance	3,454,052	3,408,823	3,454,052	3,408,823
Amount provided (Refer Note 9)	1,029,068	1,498,158	1,029,068	1,498,158
Exchange rate variance on foreign currency provisions	(14,018)	15,249	(14,018)	15,249
Amount reversed	(1,278,952)	(1,468,178)	(1,278,952)	(1,468,178)
<b>Closing balance</b>	<b>3,190,150</b>	<b>3,454,052</b>	<b>3,190,150</b>	<b>3,454,052</b>
<b>20.4 (b) General Provision for Bad &amp; Doubtful Debts - Summary</b>				
<b>General Provision</b>				
Opening balance	1,560,552	1,545,951	1,560,552	1,545,951
Amount provided (Refer Note 9)	157,031	12,128	157,031	12,128
Exchange rate variance on foreign currency provisions	(8,104)	2,473	(8,104)	2,473
<b>Closing balance</b>	<b>1,709,479</b>	<b>1,560,552</b>	<b>1,709,479</b>	<b>1,560,552</b>
<b>Total</b>	<b>4,899,629</b>	<b>5,014,604</b>	<b>4,899,629</b>	<b>5,014,604</b>
<b>20.4 (c) Provision for Bad &amp; Doubtful debts - Summary</b>				
Bills of Exchange [Refer Note 20.1 (a)]	56,807	60,997	56,807	60,997
Lease Receivable [Refer Note 20.2 (d)]	383,144	505,025	383,144	505,025
Loans & Advances [Refer Note 20.3 (b)]	4,459,678	4,448,582	4,459,678	4,448,582
<b>Closing balance</b>	<b>4,899,629</b>	<b>5,014,604</b>	<b>4,899,629</b>	<b>5,014,604</b>
<b>20.4 (d) Interest in Suspense - Summary</b>				
Opening balance	6,000,189	4,537,545	6,000,189	4,537,545
Interest suspended during the year	2,379,679	3,600,748	2,388,584	3,600,748
Amount recovered during the year	(1,945,023)	(2,138,104)	(1,953,928)	(2,138,104)
<b>Closing balance</b>	<b>6,434,845</b>	<b>6,000,189</b>	<b>6,434,845</b>	<b>6,000,189</b>

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>20.4 (e) Provision Cover - Gross</b>				
Specific provision to non-performing loans and advances	3,190,150 x 100	3,454,052 x 100	3,190,150 x 100	3,454,052 x 100
	10,574,180	14,014,500	10,574,180	14,014,500
<b>Provision cover (Gross)</b>	<b>30.17%</b>	<b>24.65%</b>	<b>30.17%</b>	<b>24.65%</b>
<b>20.4 (f) Provision Cover - Net</b>				
Specific provision to Net non-performing loans and advances	3,190,150 x 100	3,454,052 x 100	3,190,150 x 100	3,454,052 x 100
	9,369,724	12,107,624	9,369,724	12,107,624
<b>Provision cover (Net)</b>	<b>34.05%</b>	<b>28.53%</b>	<b>34.05%</b>	<b>28.53%</b>

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>20.4 (g) Open Credit Exposure Ratio</b>				
Net Exposure to Capital Base (Regulatory Capital as per the Basel II Computation)	6,179,574 x 100	8,653,572 x 100	6,179,574 x 100	8,653,572 x 100
	33,171,295	30,149,539	33,204,392	30,175,603
<b>Open Credit Exposure</b>	<b>18.63%</b>	<b>28.70%</b>	<b>18.61%</b>	<b>28.68%</b>

### 20.5 Bills of Exchange, Lease Receivable and Loans & Advances - Summary

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Bills of Exchange (Refer Note 20.1)	5,395,493	2,964,211	5,395,493	2,964,211
Lease receivable [Refer Notes 20.2 (a), (b) and (c)]	11,447,876	8,194,261	11,670,071	8,434,226
Loans & advances (Refer Note 20.3)	211,306,000	171,583,401	211,307,366	171,586,168
Gross Bills of Exchange, lease receivable and loans & advances	228,149,369	182,741,873	228,372,930	182,984,605
Less: Provision for bad & doubtful debts [Refer Note 20.4 (c)]	(4,899,629)	(5,014,604)	(4,899,629)	(5,014,604)
Interest in suspense [Refer Note 20.4 (d)]	(6,434,845)	(6,000,189)	(6,434,845)	(6,000,189)
<b>Net Bills of Exchange, lease receivable and loans &amp; advances</b>	<b>216,814,895</b>	<b>171,727,080</b>	<b>217,038,456</b>	<b>171,969,812</b>

### 20.6 Concentration of Credit Risk

Sector-wise analysis of Bills of Exchange, lease receivable and loans & advances portfolio reflecting the exposure to credit risk in the various sectors is given below:

	GROUP				BANK			
	2010 Rs. '000	%	2009 Rs. '000	%	2010 Rs. '000	%	2009 Rs. '000	%
Exports	22,579,887	10.09	17,461,926	9.77	22,579,887	10.08	17,461,926	9.76
Tourism & allied	7,237,790	3.23	5,526,476	3.09	7,237,790	3.23	5,526,476	3.09
Industrial	31,881,878	14.25	29,277,295	16.39	31,881,878	14.23	29,277,295	16.37
Agriculture & fishing	10,561,887	4.72	8,788,994	4.92	10,561,887	4.71	8,788,994	4.91
Commercial trading	19,285,423	8.62	17,456,240	9.77	19,285,423	8.61	17,456,240	9.76
Imports	23,492,741	10.50	21,220,217	11.88	23,492,741	10.49	21,220,217	11.86
Consumption	13,470,589	6.02	9,682,392	5.42	13,470,589	6.01	9,682,392	5.41
Services	28,374,640	12.68	22,311,277	12.49	28,596,837	12.77	22,551,241	12.61
Housing & construction	17,248,312	7.71	16,853,677	9.43	17,248,312	7.70	16,853,677	9.42
Others	49,663,376	22.18	30,070,066	16.84	49,664,744	22.17	30,072,834	16.81
<b>Bills of Exchange, lease receivable and loans &amp; advances</b>	<b>223,796,523</b>	<b>100.00</b>	<b>178,648,560</b>	<b>100.00</b>	<b>224,020,088</b>	<b>100.00</b>	<b>178,891,292</b>	<b>100.00</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 21. INVESTMENTS IN ASSOCIATES

	Holding (%)	GROUP				BANK			
		December 31, 2010		December 31, 2009		December 31, 2010		December 31, 2009	
		Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000
<b>Unquoted:</b>									
Equity Investments Lanka Ltd. (Incorporated in Sri Lanka)	22.92	44,331	52,738	44,331	47,683	44,331	52,738	44,331	47,683
(4,110,938 Ordinary Shares)									
(4,110,938 Ordinary Shares as at December 31, 2009)									
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		3,352		1,807					
Current year's share of profit after tax		8,213		2,573					
Less: Dividend received during the year		(3,158)		(1,028)					
Current year's retained profit		5,055		1,545					
		8,407		3,352					
<b>Balance at the end of the year</b>		<b>52,738</b>	<b>52,738</b>	<b>47,683</b>	<b>47,683</b>	<b>44,331</b>	<b>52,738</b>	<b>44,331</b>	<b>47,683</b>
Commercial Insurance Brokers (Pvt) Ltd. (Incorporated in Sri Lanka)	18.91	100	26,843	100	24,950	-	-	-	-
(120,000 Ordinary Shares)									
(120,000 Ordinary Shares as at December 31, 2009)									
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		24,850		24,750					
Current year's share of profit after tax		2,325		775					
Less: Dividend received during the year		(432)		(675)					
Current year's retained profit		1,893		100					
		26,743		24,850					
<b>Balance at the end of the year</b>		<b>26,843</b>	<b>26,843</b>	<b>24,950</b>	<b>24,950</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total value of investments in unquoted Associates at carrying value on equity basis		79,581		72,633		44,331		44,331	
Total Market Value/Directors' Valuation of Investments in Associate Companies			79,581		72,633		52,738		47,683

## NOTES TO THE FINANCIAL STATEMENTS

### 22. INVESTMENTS IN SUBSIDIARIES

	Holding (%)	GROUP				BANK			
		December 31, 2010		December 31, 2009		December 31, 2010		December 31, 2009	
		Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/ Directors' Valuation Rs. '000
<b>Quoted:</b>									
Commercial Development Company PLC (Incorporated in Sri Lanka) (11,345,705 Ordinary Shares) (11,345,705 Ordinary Shares as at December 31, 2009)	94.55	-	-	-	-	274,393	612,668	274,393	589,977
						(@ Rs. 54.00)		(@ Rs. 52.00)	
<b>Unquoted:</b>									
ONEzero Company Ltd. (Incorporated in Sri Lanka) (500,000 Ordinary Shares) (500,000 Ordinary Shares as at December 31, 2009)	100.00	-	-	-	-	5,000	5,000	5,000	5,000
						(@ Rs. 10.00)		(@ Rs. 10.00)	
Commex Sri Lanka S.R.L. (Incorporated in Italy)	100.00	-	-	-	-	74,505	74,505	-	-
<b>Total</b>		-	-	-	-	<b>353,898</b>	<b>692,173</b>	279,393	594,977

### 23. PROPERTY, PLANT & EQUIPMENT

#### 23.1 Group

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs. '000	Office Equipment & Furniture Rs. '000	Capital Work-in- Progress Rs. '000	31.12.10 Total Rs. '000	31.12.09 Total Rs. '000
<b>Cost/Valuation</b>									
As at the beginning 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
Additions during the year	-	4,549	2,713	233,690	66,879	409,689	203,916	921,436	898,423
Transfer of accumulated depreciation on assets revalued	-	(159,575)	-	-	-	-	-	(159,575)	-
Surplus on revaluation of property	994,023	744,853	-	-	-	-	-	1,738,876	-
Disposals during the year	-	-	-	(8,408)	(21,294)	(31,665)	-	(61,367)	(168,927)
Exchange rate variance	-	-	-	(5,381)	(964)	(11,188)	-	(17,533)	3,268
Transfers/Adjustments	-	-	-	1,053	-	(1,053)	(41,452)	(41,452)	(22,857)
As at the end of the year	2,151,957	1,544,529	621,745	2,656,294	422,826	2,562,847	317,603	10,277,801	7,897,416
<b>Accumulated Depreciation</b>									
As at the beginning of the year	-	184,076	57,593	1,580,078	156,638	1,309,574	-	3,287,959	2,844,864
Charge for the year	-	37,202	26,629	261,143	77,573	226,503	-	629,050	580,057
Transfer of accumulated depreciation on assets revalued	-	(159,575)	-	-	-	-	-	(159,575)	-
Disposals during the year	-	-	-	(8,124)	(18,862)	(30,759)	-	(57,745)	(139,891)
Exchange rate variance	-	-	-	(3,991)	(869)	(6,107)	-	(10,967)	2,929
Transfers/Adjustments	-	-	-	14	-	(163)	-	(149)	-
As at the end of the year	-	61,703	84,222	1,829,120	214,480	1,499,048	-	3,688,573	3,287,959
<b>Net Book Value as at 31.12.10</b>	<b>2,151,957</b>	<b>1,482,826</b>	<b>537,523</b>	<b>827,174</b>	<b>208,346</b>	<b>1,063,799</b>	<b>317,603</b>	<b>6,589,228</b>	
Net Book Value as at 31.12.09	1,157,934	770,626	561,439	855,262	221,567	887,490	155,139		4,609,457

## NOTES TO THE FINANCIAL STATEMENTS

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	2010			2009		
	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	397,314	-	397,314
Freehold buildings	645,422	209,861	435,561	640,873	192,196	448,677
Leasehold buildings	238,214	76,766	161,448	238,214	74,100	164,114
<b>Total</b>	<b>1,280,950</b>	<b>286,627</b>	<b>994,323</b>	<b>1,276,401</b>	<b>266,296</b>	<b>1,010,105</b>

### 23.2 Bank

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs. '000	Office Equipment & Furniture Rs. '000	Capital Work-in- Progress Rs. '000	31.12.10 Total Rs. '000	31.12.09 Total Rs. '000
<b>Cost/Valuation</b>									
As at the beginning 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
Additions during the year	-	4,549	-	233,401	26,485	409,034	189,209	862,678	726,752
Transfer of accumulated depreciation on assets revalued	-	(159,575)	-	-	-	-	-	(159,575)	-
Surplus on revaluation of property	994,023	744,853	-	-	-	-	-	1,738,876	-
Disposals during the year	-	-	-	(8,382)	-	(31,659)	-	(40,041)	(109,496)
Exchange rate variance	-	-	-	(5,381)	(964)	(11,188)	-	(17,533)	3,268
Transfers/Adjustments	-	-	-	-	-	-	(41,452)	(41,452)	(22,857)
As at the end of the year	2,151,957	1,544,529	104,625	2,653,279	88,771	2,505,072	302,896	9,351,129	7,008,176
<b>Accumulated Depreciation</b>									
As at the beginning of the year	-	184,076	16,441	1,579,283	46,532	1,267,094	-	3,093,426	2,688,734
Charge for the year	-	37,202	3,481	260,829	13,059	223,086	-	537,657	504,805
Transfer of accumulated depreciation on assets revalued	-	(159,575)	-	-	-	-	-	(159,575)	-
Disposals during the year	-	-	-	(8,100)	-	(30,757)	-	(38,857)	(103,042)
Exchange rate variance	-	-	-	(3,991)	(869)	(6,107)	-	(10,967)	2,929
Transfers/Adjustments	-	-	-	(116)	-	-	-	(116)	-
As at the end of the year	-	61,703	19,922	1,827,905	58,722	1,453,316	-	3,421,568	3,093,426
<b>Net Book Value as at 31.12.10</b>	<b>2,151,957</b>	<b>1,482,826</b>	<b>84,703</b>	<b>825,374</b>	<b>30,049</b>	<b>1,051,756</b>	<b>302,896</b>	<b>5,929,561</b>	
Net Book Value as at 31.12.09	1,157,934	770,626	88,184	854,358	16,718	871,791	155,139		3,914,750

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	2010			2009		
	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	397,314	-	397,314
Freehold buildings	645,422	209,861	435,561	640,873	192,196	448,677
Leasehold buildings	102,995	31,195	71,800	102,995	28,529	74,466
<b>Total</b>	<b>1,145,731</b>	<b>241,056</b>	<b>904,675</b>	<b>1,141,182</b>	<b>220,725</b>	<b>920,457</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 23.3 Information on the Freehold Land and Buildings of the Bank

Location	Extent (Perches)	Buildings (Square Feet)	Cost or Revaluation of Land Rs. '000	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	207	4,533	5,188	1,313	6,500	315	6,185	0.17
<b>Holiday Bungalow - Bandarawela</b> Ambatenne Estate, Bandarawela	423	5,546	8,468	3,032	11,500	587	10,913	0.30
<b>CEO's Bungalow</b> No. 27, Queens Road, Colombo 3	64	5,616	352,550	7,450	360,000	–	360,000	9.90
<b>Union Place</b> No. 1, Union Place, Colombo 2	30	63,385	300,000	575,000	875,000	–	875,000	24.07
<b>Kandy</b> No. 120, Kotugodella Veediya, Kandy	45	44,500	333,832	196,168	530,000	–	530,000	14.58
<b>Galle Fort</b> No. 22, Church Street, Fort, Galle	100	11,625	90,000	35,000	125,000	–	125,000	3.44
<b>Jaffna</b> No. 474, Hospital Road, Jaffna	77	5,146	137,135	12,865	150,000	–	150,000	4.13
<b>Matara</b> No. 18, Station Road, Matara	37	8,137	16,893	9,607	26,500	2,135	24,365	0.67
<b>Matale</b> No. 70, Kings Street, Matale	51	6,000	8,000	15,000	23,000	4,286	18,714	0.51
<b>Galewela</b> No. 49/57, Matale Road, Galewela	99	6,380	10,454	2,904	13,358	830	12,528	0.34
<b>Wellawatte</b> No. 343, Galle Road, Colombo 6	45	15,050	187,375	37,625	225,000	–	225,000	6.19
<b>Kollupitiya</b> No. 285, Galle Road, Colombo 3	17	16,254	82,000	60,000	142,000	–	142,000	3.91
<b>Kotahena</b> No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	29,546	85,000	205,000	290,000	–	290,000	7.98
<b>Negombo</b> No. 24, 26, Fernando Avenue, Negombo	37	14,439	16,000	29,800	45,800	11,175	34,625	0.95
<b>Hikkaduwa</b> No. 217, Galle Road, Hikkaduwa	37	6,713	1,303	8,585	9,889	3,739	6,150	0.17
<b>Kurunegala</b> No. 4, Suratissa Mawatha, Kurunegala	35	8,916	39,481	13,750	53,231	2,750	50,481	1.39
<b>Maharagama</b> No. 154, High Level Road, Maharagama	18	8,000	12,425	16,475	28,900	2,535	26,365	0.73
<b>Borella</b> No. 92, D S Senanayake Mawatha, Borella	16	12,566	23,000	37,000	60,000	6,001	53,999	1.49

## NOTES TO THE FINANCIAL STATEMENTS

Location	Extent (Perches)	Buildings (Square Feet)	Cost or Revaluation of Land Rs. '000	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</b> No. 100, Stanley Tillakaratne Mawatha, Nugegoda	39	11,138	39,000	22,050	61,050	4,814	56,236	1.55
<b>Kegalle</b> No. 186, Main Street, Kegalle	85	–	100,000	–	100,000	–	100,000	2.75
<b>Narahenpita</b> No. 201, Kirula Road, Narahenpita	22	11,193	88,200	61,800	150,000	–	150,000	4.13
<b>Mutwal</b> No. 160, St. James Street, Colombo 15	17	–	20,592	–	20,592	–	20,592	0.57
<b>Pettah</b> People's Park Shopping Complex, Colombo 11	–	3,183	–	11,000	11,000	2,357	8,643	0.24
<b>Pettah - Stores</b> People's Park Shopping Complex, Colombo 11	–	218	–	3,376	3,376	225	3,151	0.09
<b>Wennappuwa</b> No. 262, 264, Colombo Road, Wennappuwa	36	8,852	8,665	19,000	27,665	3,678	23,987	0.66
<b>Galle City</b> No. 130, Main Street, Galle	7	3,675	5,063	7,409	12,471	2,764	9,707	0.27
<b>Battaramulla</b> No. 213, Kaduwela Road, Battaramulla	14	11,216	11,208	38,792	50,000	6,291	43,709	1.20
<b>Minuwangoda</b> No. 42, Siriwardena Mawatha, Minuwangoda	25	4,310	8,575	5,397	13,972	799	13,173	0.36
<b>Nuwara Eliya</b> No. 36, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	61,800	63,200	125,000	–	125,000	3.44
<b>Trincomalee</b> No. 474, Power House Road, Trincomalee	100	Bare Land	27,500	–	27,500	–	27,500	0.76
<b>Keyzer Street</b> No. 32, Keyzer Street, Colombo 11	7	5,608	14,940	8,060	23,000	1,422	21,578	0.59
<b>Panadura</b> No. 375, Galle Road, Panadura	12	6,168	8,930	14,490	23,420	2,321	21,099	0.58
<b>Chilaw</b> No. 44, Colombo Road, Chilaw	35	Bare Land	25,850	–	25,850	–	25,850	0.71
<b>Narammala</b> No. 55, Negombo Road, Narammala	42.5	5,760	11,510	5,284	16,794	793	16,002	0.44
<b>Ja-Ela</b> No. 140, Negombo Road, Ja-Ela	13	7,755	11,022	18,096	29,118	1,887	27,231	0.75
<b>Total</b>			2,151,957	1,544,529	3,696,486	61,703	3,634,783	100.00

## NOTES TO THE FINANCIAL STATEMENTS

### 23.4 Revaluation

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. Further, the Bank carried out a revaluation of a few selected freehold lands and buildings by professionally qualified independent valuers as at December 31, 2010 too. The details of the above revaluations are given below. The Bank was of the view that the fair value of these lands and buildings were substantially different from their carrying values.

#### Year of Valuation 2010

Location	Address	Professional Valuer	Method of Valuation	Net Book Value before Revaluation of Buildings Rs. '000	Net Book Value before Revaluation of Land Rs. '000	Revalued Amount of Buildings Rs. '000	Revalued Amount of Land Rs. '000	Revaluation Gain/(Loss) Recognised on Buildings Rs. '000	Revaluation Gain/(Loss) Recognised on Land Rs. '000
CEO's Bungalow	No. 27, Queens Road, Colombo 03	Siri Nissanka	Depreciated Replacement Cost Method	900	192,300	7,450	352,550	6,550	160,250
Union Place	No.1, Union Place, Colombo 02	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	259,736	60,000	575,000	300,000	315,264	240,000
Narahenpita	No. 201, Kirula Road, Narahenpita	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	33,261	49,613	61,800	88,200	28,539	38,587
Kandy	No. 120, Kotugodella Veediya, Kandy	Sarath G. Fernando	Income Method	72,876	84,871	196,168	333,832	123,292	248,961
Kegalle	No. 186, Main Street, Kegalle	Sarath G. Fernando	Income Method	–	73,605	–	100,000	–	26,395
Nuwara Eliya	No. 36, Buddha Jayanthi Mawatha, Nuwara Eliya	Sarath G. Fernando	Comparative Method	45,312	16,579	63,200	61,800	17,888	45,221
Galle Fort	No. 22, Church Street, Fort, Galle	S.A.S. Fernando	Comparison Method	4,359	57,563	35,000	90,000	30,641	32,437
Jaffna	No. 474, Hospital Road, Jaffna	S.T. Sanmuganathan	Depreciated Replacement Cost Method	2,478	76,000	12,865	137,135	10,387	61,135
Wellawatte	No. 343, Galle Road, Colombo 6	K.C.B. Condegama	Land & Building Method	26,999	105,768	37,625	187,375	10,626	81,607
Kollupitiya	No. 285, Galle Road, Colombo 3	P.B. Kalugalagedara	Investment Method	45,595	37,500	60,000	82,000	14,405	44,500
Kotahena	No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	P.B. Kalugalagedara	Investment Method	17,739	70,071	205,000	85,000	187,261	14,929
<b>Sub Total</b>				<b>509,255</b>	<b>823,870</b>	<b>1,254,108</b>	<b>1,817,892</b>	<b>744,853</b>	<b>994,022</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Year of Valuation 2004

Location	Address	Professional Valuer	Method of Valuation	Net Book Value before Revaluation of Buildings Rs. '000	Net Book Value before Revaluation of Land Rs. '000	Revalued Amount of Buildings Rs. '000	Revalued Amount of Land Rs. '000	Revaluation Gain/(Loss) Recognised on Buildings Rs. '000	Revaluation Gain/(Loss) Recognised on Land Rs. '000
Battaramulla	No. 213, Kaduwela Road, Battaramulla	Siri Nissanka	Depreciated Replacement Cost Method	20,704	4,527	38,792	11,208	18,088	6,681
Matara	No. 18, Station Road, Matara	S.A.S. Fernando	Comparison Method/ Investment Method	6,723	2,770	9,607	16,893	2,884	14,123
Borella	No. 92, D.S. Senanayake Mawatha, Borella	P.B. Kalugalagedara	Investment Method	43,863	17,880	37,000	23,000	(6,863)	5,120
Trincomalee	No. 474, Power House Road, Trincomalee	R.W.M.S.B. Rajapakse	Comparison Method	–	1,984	–	27,500	–	25,516
Kurunegala	No. 4, Suratissa Mawatha, Kurunegala	R.W.M.S.B. Rajapakse	Depreciated Replacement Cost Method	13,726	1,891	13,750	26,250	24	24,359
Maharagama	No. 154, High Level Road, Maharagama	P. Mahanama	Contractor's Basis	25,659	18,262	16,475	12,425	(9,184)	(5,837)
Keyzer Street	No. 32, Keyzer Street, Colombo 11	Ranjan J. Samarakone	Contractor's Basis	11,055	12,359	8,060	14,940	(2,995)	2,581
Nugegoda	No. 100, Stanley Tilakaratne Mawatha, Nugegoda	Ranjan J. Samarakone	Contractor's Basis	7,904	4,057	20,000	39,000	12,096	34,943
Pettah	People's Park Shopping Complex, Colombo 11	Ranjan J. Samarakone	Investment Method	3,476	–	11,000	–	7,524	–
Holiday Bungalow - Haputale	No. 23, Lily Avenue, Welimada Road, Haputale	W.D.P. Rupananda	Land & Building Method	1,892	696	1,313	5,188	(579)	4,492
Holiday Bungalow - Bandarawela	Ambatenne Estate, Bandarawela	W.D.P. Rupananda	Land & Building Method	6,631	3,215	3,032	8,468	(3,599)	5,253
Galewela	No. 49/57, Matale Road, Galewela	M.B. Kalawanegama	Land & Building Method	4,189	1,640	2,904	10,454	(1,285)	8,814
Narammala	No. 55, Negombo Road, Narammala	M.B. Kalawanegama	Land & Building Method	8,921	–	2,000	7,500	(6,921)	7,500
Minuwangoda	No. 42, Siriwardena Mawatha, Minuwangoda	D.H.W. Dissanayake	Contractor's Method	7,251	4,578	4,675	8,575	(2,576)	3,997
Negombo	No. 24, 26, Fernando Avenue, Negombo	Leon M.P. Perera	Land & Building Method	16,323	8,919	29,800	16,000	13,477	7,081
Wennappuwa	No. 262, 264, Colombo Road, Wennappuwa	Leon M.P. Perera	Land & Building Method	10,008	3,005	19,000	9,000	8,992	5,995
Matale	No. 70, King Street, Matale	R.C. Wijesuriya	Investment Method	4,535	6,843	15,000	8,000	10,465	1,157
<b>Sub Total</b>				<b>192,860</b>	<b>92,626</b>	<b>232,408</b>	<b>244,401</b>	<b>39,548</b>	<b>151,775</b>
<b>Grand Total</b>				<b>702,115</b>	<b>916,496</b>	<b>1,486,516</b>	<b>2,062,293</b>	<b>784,401</b>	<b>1,145,797</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 23.5 Title Restriction on Property, Plant & Equipment

There were no restrictions that existed on the title of Property, Plant & Equipment of the Group as at the Balance Sheet date.

### 23.6 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of Property, Plant & Equipment pledged as securities for liabilities.

### 23.7 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.

### 23.8 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:

	2010 Rs. '000	2009 Rs. '000
Computer equipment	1,436,314	910,523
Motor vehicles	22,176	19,302
Equipment, furniture and fixtures	746,719	516,956

### 23.9 Temporarily Idle Property, Plant & Equipment

Following Property, Plant & Equipment of the Bank were temporarily idle as at the Balance Sheet date:

	2010 Rs. '000	2009 Rs. '000
Computer equipment	98,714	81,267
Equipment, furniture and fixtures	45,651	29,679

### 23.10 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:

	2010 Rs. '000	2009 Rs. '000
Computer equipment	41,917	40,134
Equipment, furniture and fixtures	9,293	9,018

## 24. LEASEHOLD PROPERTY

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 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	12,568	11,116	4,710	3,768
Amortisation for the year	1,452	1,452	942	942
As at the end of the year	14,020	12,568	5,652	4,710
<b>Net book value</b>	<b>114,680</b>	<b>116,132</b>	<b>79,188</b>	<b>80,130</b>

## NOTES TO THE FINANCIAL STATEMENTS

The leasehold rights to land is disclosed under Leasehold Property as per a revised ruling issued by the 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.

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>25. OTHER ASSETS</b>				
Refundable deposits and prepayments	507,342	437,323	510,925	423,710
Clearing account balance	2,599,857	2,285,199	2,599,857	2,285,199
Receivables on oil hedging transactions	186,172	1,913,597	186,172	1,913,597
Other accounts	1,005,476	382,170	1,010,201	402,017
<b>Total</b>	<b>4,298,847</b>	<b>5,018,289</b>	<b>4,307,155</b>	<b>5,024,523</b>

## 26. INTANGIBLE ASSETS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>26.1 Computer Software and Copyrights</b>				
<b>Cost/Valuation</b>				
As at the beginning of the year	796,289	685,307	796,243	685,261
Additions during the year	162,195	110,982	161,915	110,982
Disposals during the year	(1,973)	-	(1,973)	-
Exchange rate variance	(33)	-	(33)	-
Transfers/Adjustments	-	-	-	-
As at the end of the year	<b>956,478</b>	<b>796,289</b>	<b>956,152</b>	<b>796,243</b>
<b>Accumulated Amortisation</b>				
As at the beginning of the year	551,042	478,981	551,041	478,980
Amortisation for the year	84,260	72,061	84,238	72,061
Disposals during the year	(1,290)	-	(1,290)	-
Exchange rate variance	(281)	-	(281)	-
Transfers/Adjustments	149	-	116	-
As at the end of the year	<b>633,880</b>	<b>551,042</b>	<b>633,824</b>	<b>551,041</b>
<b>Net book value</b>	<b>322,598</b>	<b>245,247</b>	<b>322,328</b>	<b>245,202</b>
<b>26.2 Software Under Development</b>				
<b>Cost/Valuation</b>				
As at the beginning of the year	142,313	90,397	142,313	89,110
Additions during the year	138,847	71,308	133,173	71,308
Transfers/Adjustments during the year	(178,503)	(19,392)	(178,503)	(18,105)
Disposals during the year	-	-	-	-
As at the end of the year	<b>102,657</b>	<b>142,313</b>	<b>96,983</b>	<b>142,313</b>
<b>Total net book value</b>	<b>425,255</b>	<b>387,560</b>	<b>419,311</b>	<b>387,515</b>

There were no restrictions that existed 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Local Currency Deposits</b>				
Current account deposits	22,434,884	17,411,728	22,434,909	17,423,009
Savings deposits	92,191,237	69,587,683	92,225,556	69,590,428
Time deposits	71,404,319	75,846,631	71,404,319	75,846,631
Certificates of deposit	4,859,237	4,216,279	4,859,237	4,216,279
<b>Sub total</b>	<b>190,889,677</b>	<b>167,062,321</b>	<b>190,924,021</b>	<b>167,076,347</b>
<b>Foreign Currency Deposits</b>				
Current account deposits	6,124,912	5,193,079	6,124,912	5,193,079
Savings deposits	25,522,035	23,584,225	25,522,035	23,584,225
Time deposits	37,207,943	38,891,055	37,207,943	38,891,055
Sub total	68,854,890	67,668,359	68,854,890	67,668,359
<b>Total deposits</b>	<b>259,744,567</b>	<b>234,730,680</b>	<b>259,778,911</b>	<b>234,744,706</b>

#### 27 (a) Analysis of Deposits

	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Deposits from banks	59,614	2,165,283	59,614	2,165,283
Deposits from finance companies	2,538,293	3,010,590	2,538,293	3,010,590
Deposits from other customers	257,146,660	229,554,807	257,181,004	229,568,833
<b>Total</b>	<b>259,744,567</b>	<b>234,730,680</b>	<b>259,778,911</b>	<b>234,744,706</b>

The maturity analysis of deposits is given in Note 35.

The Foreign Currency Deposits as at December 31, 2009, included 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 US\$ 15.0 Mn. held by the Bank in settlement of the outstanding due to the Bank on the oil hedging transaction. 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, the Bank duly set off the US\$ 15.0 Mn. deposit against the amount due from the People's Bank in 2010.

### 28. BORROWINGS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Call money borrowings	3,390,000	–	3,390,000	–
Borrowings from banks abroad	1,614,521	2,608,547	1,614,521	2,608,547
Re-finance borrowings	8,254,454	7,886,167	8,254,454	7,886,167
Long term borrowings	1,112,000	1,144,000	1,112,000	1,144,000
<b>Total</b>	<b>14,370,975</b>	<b>11,638,714</b>	<b>14,370,975</b>	<b>11,638,714</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			
	2010		2009		2010		2009	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
As at the beginning of the year	2,384,452	767,117	2,059,619	661,470	2,002,354	633,382	1,718,141	542,527
Amount originating/(reversing) during the year	(356,981)	(94,637)	283,265	91,091	24,796	(71,142)	284,213	90,848
Deferred tax effect on revaluation surplus on property	1,547,949	319,354	41,568	14,549	1,176,431	329,401	-	-
Deferred tax effect on re-classification of revaluation surplus to retained earnings	-	-	-	-	-	-	-	-
Exchange rate variance	-	876	-	7	-	800	-	7
As at the end of the year	3,575,420	992,710	2,384,452	767,117	3,203,581	892,441	2,002,354	633,382

#### 29 (b) Reconciliation of Net Deferred Tax Liability

	GROUP				BANK			
	Balance Sheet		Income Statement		Balance Sheet		Income Statement	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Deferred Tax Liabilities on:</b>								
Accelerated Depreciation for tax purposes - Own Assets	257,840	323,247	65,407	(14,388)	246,310	289,648	43,338	(10,678)
Accelerated Depreciation for tax purposes - Leased Assets	433,777	461,838	28,061	(54,503)	433,777	461,838	28,061	(54,503)
Revaluation surplus on freehold buildings	448,811	129,457	-	-	329,401	-	-	-
Deferred tax on re-classification of revaluation surplus to retained earnings	(19,231)	(19,231)	-	-	-	-	-	-
	1,121,197	895,311	93,468	(68,891)	1,009,488	751,486	71,399	(65,181)
<b>Deferred Tax Assets on:</b>								
Finance leases	9,152	7,527	1,625	3,644	-	-	-	-
Defined Benefit Plans	110,446	106,139	4,307	29,963	108,158	103,576	4,582	30,140
General provision on loans and advances	8,898	14,535	(5,637)	115	8,898	14,535	(5,637)	115
Reversal o/a brought forward deferred tax assets on general provision	-	-	-	(55,737)	-	-	-	(55,737)
	128,496	128,201	295	(22,015)	117,056	118,111	(1,055)	(25,482)
Effect of exchange rate variance	9	7	874	(185)	9	7	798	(185)
<b>Deferred income tax on income/(expenses)</b>			94,637	(91,091)			71,142	(90,848)
<b>Net deferred tax liability</b>	<b>992,710</b>	<b>767,117</b>			<b>892,441</b>	<b>633,382</b>		

## NOTES TO THE FINANCIAL STATEMENTS

### 30. DEBENTURES

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
As at the beginning of the year	3,436,030	4,436,030	3,436,030	4,436,030
Redemptions during the year	(1,309,000)	(1,000,000)	(1,309,000)	(1,000,000)
As at the end of the year	2,127,030	3,436,030	2,127,030	3,436,030

As at December 31, 2010, debentures consisted of 2,127,030 Unsecured Subordinated Redeemable Debentures of Rs. 1,000/- each issued by the Bank in 2006, details of which are given below:

Debenture Categories	BANK							
	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		Value as at December 31,	
					2010 %	2009 %	2010 Rs. '000	2009 Rs. '000
<b>Fixed Rate Debentures</b>								
2006/2011 - 12.00% p.a.	Not listed	Annually	16.05.2006	16.05.2011	12.00	12.00	15,000	15,000
2006/2016 - 13.25% p.a.	Not listed	Annually	16.05.2006	16.05.2016	13.25	13.25	505,000	505,000
2006/2011 - 13.50% p.a.	Listed	Annually	18.12.2006	18.12.2011	13.50	13.50	527,800	527,800
2006/2013 - 13.75% p.a.	Listed	Annually	18.12.2006	18.12.2013	13.75	13.75	250	250
2006/2016 - 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	14.00	14.00	467,260	467,260
<b>Debenture Redeemed on October 10, 2010</b>								
2005/2010 - 12.00% p.a.	Not listed	Annually	10.10.2005	10.10.2010	-	12.00	-	284,000
							1,515,310	1,799,310
<b>Floating Rate Debentures</b>								
2006/2011 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	9.25	16.10	15,000	15,000
2006/2011 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	9.05	16.62	465,000	465,000
2006/2011 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2011	9.40	22.24	131,020	131,020
2006/2013 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2013	9.40	22.24	300	300
2006/2016 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2016	9.40	22.24	400	400
<b>Debenture Redeemed on October 10, 2010</b>								
2005/2010 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	10.10.2005	10.10.2010	-	16.10	-	120,000
2005/2010 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	10.10.2005	10.10.2010	-	16.62	-	905,000
							611,720	1,636,720
<b>Total debentures</b>							<b>2,127,030</b>	<b>3,436,030</b>

#### Notes

**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.

## NOTES TO THE FINANCIAL STATEMENTS

### 31. OTHER LIABILITIES

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Accrued interest	4,178,471	5,136,822	4,178,471	5,136,822
Accrued expenditure	1,598,329	1,443,436	1,586,976	1,441,595
Cheques sent on clearing	2,490,740	2,606,622	2,490,740	2,606,622
Provision for gratuity payable [Refer Note 31 (a)]	242,841	176,201	232,441	167,463
Provision for un-funded pension scheme [Refer Note 31 (b)]	129,309	119,072	129,309	119,072
Payable on oil hedging transactions	689,881	709,734	689,881	709,734
Other accounts	2,040,022	2,049,999	2,058,423	2,074,471
<b>Total</b>	<b>11,369,593</b>	<b>12,241,886</b>	<b>11,366,241</b>	<b>12,255,779</b>
<b>31 (a) Provision for Gratuity Payable</b>				
At the beginning of the year	176,201	103,280	167,463	94,681
Expense recognised in the Income Statement [Refer Note 31 (a) (i)]	79,287	78,327	77,625	76,663
Exchange difference	(2,766)	333	(2,766)	333
Benefits paid by the plan	(9,881)	(5,739)	(9,881)	(4,214)
<b>At the end of the year</b>	<b>242,841</b>	<b>176,201</b>	<b>232,441</b>	<b>167,463</b>
<b>31 (a) (i) Expense Recognised in the Income Statement</b>				
Interest cost	14,446	10,686	13,640	9,846
Current service cost	34,360	25,134	33,397	25,082
Provision made during the year	12,999	13,913	12,184	13,271
Actuarial gain	17,482	28,594	18,404	28,464
<b>At the end of the year</b>	<b>79,287</b>	<b>78,327</b>	<b>77,625</b>	<b>76,663</b>
<b>31 (b) Provision for Un-funded Pension Scheme</b>				
At the beginning of the year	119,072	106,350	119,072	106,350
Expense recognised in the Income Statement [Refer Note 31 (b) (i)]	29,382	32,785	29,382	32,785
Benefits paid by the plan	(19,145)	(20,063)	(19,145)	(20,063)
<b>At the end of the year</b>	<b>129,309</b>	<b>119,072</b>	<b>129,309</b>	<b>119,072</b>
<b>31 (b) (i) Expense Recognised in the Income Statement</b>				
Interest cost	13,098	17,016	13,098	17,016
Current service cost	12,394	–	12,394	–
Provision made during the year	–	–	–	–
Actuarial gain	3,890	15,769	3,890	15,769
<b>At the end of the year</b>	<b>29,382</b>	<b>32,785</b>	<b>29,382</b>	<b>32,785</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 32. STATED CAPITAL

As at December 31,	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Opening balance	10,607,792	10,548,123	10,607,792	10,548,123
Issue of ordinary shares under Employee Share Option Plans	203,401	59,669	203,401	59,669
<b>Closing Balance</b>	<b>10,811,193</b>	<b>10,607,792</b>	<b>10,811,193</b>	<b>10,607,792</b>

#### 32 (a) Movement in Number of Ordinary Shares

	No. of Ordinary Voting Shares		No. of Ordinary Non-Voting Shares	
	2010	2009	2010	2009
Opening balance	233,821,271	233,281,226	16,120,797	16,120,797
Issue of one ordinary share for every two ordinary shares held consequent to the share split made in June 2010	117,402,608	–	8,060,398	–
Issue of shares under the Employee Share Option Plans	2,081,508	540,045	–	–
<b>Closing balance</b>	<b>353,305,387</b>	<b>233,821,271</b>	<b>24,181,195</b>	<b>16,120,797</b>

The above shares are quoted in the Colombo Stock Exchange. The non-voting shares rank pari passu in respect of all rights with the ordinary voting shares of the Bank except voting rights on resolutions passed at general meetings.

#### 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 2002 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	74.25	
Exercisable between	April 01, 2004 to March 31, 2008	April 01, 2005 to March 31, 2009	April 01, 2006 to March 31, 2010	April 01, 2007 to March 31, 2011	
Original number of options - (**)	650,000	812,500	1,637,947	1,659,756	<b>4,760,203</b>
Additions consequent to scrip issues	–	17,922	241,051	1,163,990	<b>1,422,963</b>
Options cancelled due to non-acceptance and resignations	(25,057)	(28,293)	(42,327)	(161,882)	<b>(257,559)</b>
Number of options exercised up to December 31, 2010	(624,943)	(802,129)	(1,836,671)	(1,899,693)	<b>(5,163,436)</b>
<b>Number of options outstanding as at December 31, 2010</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>762,171</b>	<b>762,171</b>

(\*) Determined on the basis of the weighted average market 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, share split or/and rights issue of shares during the vesting period, the number of unused/unexercised 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.) - (*)	95.73	95.73	95.73	
Exercisable between	April 30, 2009 to April 29, 2013	April 30, 2010 to April 29, 2014	April 30, 2011 to April 29, 2015	
Original number of options - (**)	777,308	777,308	777,308	2,331,924
Additions consequent to scrip issues	255,811	256,720	307,332	819,863
Options cancelled due to resignations, retirements and deaths	(54,174)	-	-	(54,174)
Options vested/to be vested	978,945	1,034,028	1,084,640	3,097,613
Options cancelled due to non-acceptance and resignations	-	(11,696)	(48,629)	(60,325)
Number of options exercised up to December 31, 2010	(435,243)	(407,514)	(14,158)	(856,915)
<b>Number of options outstanding as at December 31, 2010</b>	<b>543,702</b>	<b>614,818</b>	<b>1,021,853</b>	<b>2,180,373</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 unused/unexercised 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 55,404.

### 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Opening balance	2,062,346	1,847,916	2,062,346	1,847,097
Add: Transfers during the year	276,164	215,249	276,164	215,249
(Less): Reversals during the year consequent to liquidation of CBPD Ltd.	-	(819)	-	-
<b>Closing balance</b>	<b>2,338,510</b>	<b>2,062,346</b>	<b>2,338,510</b>	<b>2,062,346</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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Opening balance	101,791	48,809	101,791	48,809
Transfer from the Income Statement	31,529	52,982	31,529	52,982
<b>Closing balance</b>	<b>133,320</b>	<b>101,791</b>	<b>133,320</b>	<b>101,791</b>
<b>Total Statutory Reserves</b>	<b>2,471,830</b>	<b>2,164,137</b>	<b>2,471,830</b>	<b>2,164,137</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 34. OTHER RESERVES

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Capital Reserves</b>				
Revaluation Reserve [Refer Note 34.1]	2,943,222	1,533,746	2,696,171	1,286,695
<b>Sub Total</b>	<b>2,943,222</b>	<b>1,533,746</b>	<b>2,696,171</b>	<b>1,286,695</b>
<b>Revenue Reserves</b>				
General Reserve [Refer Note 34.2]	16,361,218	13,807,767	16,361,218	13,807,767
Foreign Currency Translation Reserve [Refer Note 34.3]	(549,738)	(371,527)	(554,288)	(371,527)
Retained Earnings (Refer Note 14)	1,474,851	978,832	1,515,928	1,004,116
<b>Sub Total</b>	<b>17,286,331</b>	<b>14,415,072</b>	<b>17,322,858</b>	<b>14,440,356</b>
<b>Total</b>	<b>20,229,553</b>	<b>15,948,818</b>	<b>20,019,029</b>	<b>15,727,051</b>

#### 34.1 Revaluation Reserve

Opening balance	1,533,746	1,533,746	1,286,695	1,286,695
Surplus on revaluation of Freehold Land and Buildings [Refer Note 23]	1,738,877	-	1,738,877	-
Deferred tax effect on revaluation surplus on Freehold Building	(329,401)	-	(329,401)	-
<b>Closing balance</b>	<b>2,943,222</b>	<b>1,533,746</b>	<b>2,696,171</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 and buildings at the date of revaluation.

The Licensed Commercial Banks are allowed to carry out revaluation of their land and 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.

#### 34.2 General Reserve

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Opening balance	13,807,767	11,518,821	13,807,767	11,518,821
Transfer of Translation Gains/(Losses)	(16,135)	-	(16,135)	-
Transfer from the Income Statement	2,569,586	2,288,946	2,569,586	2,288,946
<b>Closing Balance</b>	<b>16,361,218</b>	<b>13,807,767</b>	<b>16,361,218</b>	<b>13,807,767</b>

#### 34.3 Foreign Currency Translation Reserve

Opening balance	(371,527)	(361,796)	(371,527)	(361,796)
Transfer of Translation Gains/(Losses)	16,135	-	16,135	-
Net unrealised gains/(losses) for the year from the translation of Financial Statements of the foreign operations	(194,346)	(9,731)	(198,896)	(9,731)
<b>Closing balance</b>	<b>(549,738)</b>	<b>(371,527)</b>	<b>(554,288)</b>	<b>(371,527)</b>

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation and Commex - Sri Lanka S.R.L. Italy, the newly incorporated subsidiary of the Bank are translated in to the presentation currency (Sri Lankan Rupees) at the rate of exchange ruling at the Balance Sheet date and the Income Statement is translated at the average exchange rate for the period. The exchange differences arising on the translation are taken directly to Foreign Currency Translation Reserve, which 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 31.12.2010 Rs. '000	Total as at 31.12.2009 Rs. '000
<b>Interest Earning Assets:</b>							
Cash and short term funds	2,631,589	-	-	-	-	2,631,589	16,619,017
Balances with Central Banks	643,040	19,426	-	-	-	662,466	579,155
Dealing Securities	-	-	-	98,600	-	98,600	-
Government Treasury Bills, Bonds and other securities	16,229,638	64,768,413	-	-	-	80,998,051	76,144,979
Securities purchased under resale agreements	34,835	33,618	-	-	-	68,453	5,203,120
Investment Securities	40,560	510,500	1,184,200	574,681	-	2,309,941	1,001,076
Treasury Bonds maturing after one year	-	-	25,538,256	5,280,215	2,724,090	33,542,561	20,525,683
Bills of Exchange, Lease Receivable and Loans & Advances	97,763,662	36,412,497	45,916,789	23,494,186	13,227,761	216,814,895	171,727,080
<b>As at 31.12.2010</b>	<b>117,343,324</b>	<b>101,744,454</b>	<b>72,639,245</b>	<b>29,447,682</b>	<b>15,951,851</b>	<b>337,126,556</b>	
As at 31.12.2009	137,954,496	67,174,410	56,247,608	17,443,916	12,979,680		291,800,110
<b>Non-Interest Earning Assets:</b>							
Cash and short term funds	7,972,617	-	-	-	-	7,972,617	7,437,642
Balances with Central Banks	8,367,161	2,371,632	354,595	165,084	267,896	11,526,368	11,215,402
Dealing Securities	184,791	-	-	-	-	184,791	80,905
Investment Securities	-	-	-	-	55,655	55,655	24,217
Investments in Associates	-	-	-	-	79,581	79,581	72,633
Interest and fees receivable	1,811,630	42,397	27,917	2,422	-	1,884,366	1,783,095
Property, Plant & Equipment	-	-	-	-	6,589,228	6,589,228	4,609,457
Leasehold Property	-	-	-	-	114,680	114,680	116,132
Other assets	4,271,175	-	-	-	27,672	4,298,847	5,018,289
Intangible assets	-	-	-	-	425,255	425,255	387,560
<b>As at 31.12.2010</b>	<b>22,607,374</b>	<b>2,414,029</b>	<b>382,512</b>	<b>167,506</b>	<b>7,559,967</b>	<b>33,131,388</b>	
As at 31.12.2009	22,213,951	2,529,394	313,536	193,342	5,495,109		30,745,332
<b>Total Assets - As at 31.12.2010</b>	<b>139,950,698</b>	<b>104,158,483</b>	<b>73,021,757</b>	<b>29,615,188</b>	<b>23,511,818</b>	<b>370,257,944</b>	
Total Assets - As at 31.12.2009	160,168,448	69,703,804	56,561,144	17,637,258	18,474,789		322,545,442
<b>Percentage - As at 31.12.2010</b>	<b>37.80</b>	<b>28.13</b>	<b>19.72</b>	<b>8.00</b>	<b>6.35</b>	<b>100.00</b>	
Percentage - As at 31.12.2009	49.65	21.61	17.54	5.47	5.73		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 31.12.2010 Rs. '000	Total as at 31.12.2009 Rs. '000
<b>Interest-Bearing Liabilities:</b>							
Deposits	160,471,406	54,951,938	7,073,803	3,127,786	5,625,142	231,250,075	213,362,392
Borrowings	4,441,807	3,200,183	2,731,667	2,075,830	1,921,488	14,370,975	11,492,504
Securities sold under repurchase agreements	33,907,544	11,751,346	-	-	-	45,658,890	29,773,150
Debentures	-	1,153,820	550	-	972,660	2,127,030	3,436,030
<b>As at 31.12.2010</b>	<b>198,820,757</b>	<b>71,057,287</b>	<b>9,806,020</b>	<b>5,203,616</b>	<b>8,519,290</b>	<b>293,406,970</b>	
As at 31.12.2009	170,703,753	63,862,160	10,721,381	5,251,791	7,524,991		258,064,076
<b>Non-Interest Bearing Liabilities:</b>							
Deposits	28,494,492	-	-	-	-	28,494,492	21,368,288
Borrowings	-	-	-	-	-	-	146,210
Tax liabilities	941,052	1,506,987	6,963	-	-	2,455,002	1,211,050
Deferred tax	-	-	992,710	-	-	992,710	767,117
Other liabilities	11,369,593	-	-	-	-	11,369,593	12,241,886
Stated capital	-	-	-	-	10,811,193	10,811,193	10,607,792
Statutory reserves	-	-	-	-	2,471,830	2,471,830	2,164,137
Reserves	-	-	-	-	20,229,553	20,229,553	15,948,818
Minority Interest	-	-	-	-	26,601	26,601	26,068
<b>As at 31.12.2010</b>	<b>40,805,137</b>	<b>1,506,987</b>	<b>999,673</b>	<b>-</b>	<b>33,539,177</b>	<b>76,850,974</b>	
As at 31.12.2009	34,561,756	374,930	664,130	133,735	28,746,815		64,481,366
<b>Total Liabilities and Equity - As at 31.12.2010</b>	<b>239,625,894</b>	<b>72,564,274</b>	<b>10,805,693</b>	<b>5,203,616</b>	<b>42,058,467</b>	<b>370,257,944</b>	
Total Liabilities and Equity - As at 31.12.2009	205,265,509	64,237,090	11,385,511	5,385,526	36,271,806		322,545,442
<b>Percentage - As at 31.12.2010</b>	<b>64.71</b>	<b>19.60</b>	<b>2.92</b>	<b>1.41</b>	<b>11.36</b>	<b>100.00</b>	
Percentage - As at 31.12.2009	63.63	19.92	3.53	1.67	11.25		100.00

## NOTES TO THE FINANCIAL STATEMENTS

### 35 (b) 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 31.12.2010 Rs. '000	Total as at 31.12.2009 Rs. '000
<b>Interest-Earning Assets:</b>							
Cash and short term funds	2,631,589	-	-	-	-	2,631,589	16,619,017
Balances with Central Banks	643,040	19,426	-	-	-	662,466	579,155
Dealing Securities	-	-	-	98,600	-	98,600	-
Government Treasury Bills, Bonds and other securities	16,229,638	64,768,413	-	-	-	80,998,051	76,144,979
Securities purchased under resale agreements	34,835	33,618	-	-	-	68,453	5,203,120
Investment Securities	40,560	510,500	1,184,200	574,681	-	2,309,941	1,001,076
Treasury Bonds maturing after one year	-	-	25,538,256	5,280,215	2,724,090	33,542,561	20,525,683
Bills of Exchange, Lease Receivable and Loans & Advances	97,779,233	36,460,118	46,038,234	23,533,110	13,227,761	217,038,456	171,969,812
<b>As at 31.12.2010</b>	<b>117,358,895</b>	<b>101,792,075</b>	<b>72,760,690</b>	<b>29,486,606</b>	<b>15,951,851</b>	<b>337,350,117</b>	
As at 31.12.2009	137,964,981	67,213,362	56,359,741	17,525,078	12,979,680		292,042,842
<b>Non-Interest Earning Assets:</b>							
Cash and short term funds	7,925,401	-	-	-	-	7,925,401	7,437,622
Balances with Central Banks	8,367,161	2,371,632	354,595	165,084	267,896	11,526,368	11,215,402
Dealing Securities	184,791	-	-	-	-	184,791	80,905
Investment Securities	-	-	-	-	55,655	55,655	24,217
Investments in Associates	-	-	-	-	44,331	44,331	44,331
Investments in Subsidiaries	-	-	-	-	353,898	353,898	279,393
Interest and fees receivable	1,811,630	42,397	27,917	2,422	-	1,884,366	1,783,095
Property, Plant & Equipment	-	-	-	-	5,929,561	5,929,561	3,914,750
Leasehold Property	-	-	-	-	79,188	79,188	80,130
Other assets	4,263,351	-	-	-	43,804	4,307,155	5,024,523
Intangible assets	-	-	-	-	419,311	419,311	387,515
<b>As at 31.12.2010</b>	<b>22,552,334</b>	<b>2,414,029</b>	<b>382,512</b>	<b>167,506</b>	<b>7,193,644</b>	<b>32,710,025</b>	
As at 31.12.2009	22,220,165	2,529,394	313,536	193,342	5,015,446		30,271,883
<b>Total Assets - As at 31.12.2010</b>	<b>139,911,229</b>	<b>104,206,104</b>	<b>73,143,202</b>	<b>29,654,112</b>	<b>23,145,495</b>	<b>370,060,142</b>	
Total Assets - As at 31.12.2009	160,185,146	69,742,756	56,673,277	17,718,420	17,995,126		322,314,725
<b>Percentage - As at 31.12.2010</b>	<b>37.81</b>	<b>28.16</b>	<b>19.77</b>	<b>8.01</b>	<b>6.25</b>	<b>100.00</b>	
Percentage - As at 31.12.2009	49.70	21.64	17.58	5.50	5.58		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 31.12.2010 Rs. '000	Total as at 31.12.2009 Rs. '000
<b>Interest-Bearing Liabilities:</b>							
Deposits	160,508,590	54,951,938	7,073,803	3,127,786	5,625,142	231,287,259	213,362,392
Borrowings	4,441,807	3,200,183	2,731,667	2,075,830	1,921,488	14,370,975	11,492,504
Securities sold under repurchase agreements	34,023,107	11,751,346	-	-	-	45,774,453	29,904,527
Debentures	-	1,153,820	550	-	972,660	2,127,030	3,436,030
<b>As at 31.12.2010</b>	<b>198,973,504</b>	<b>71,057,287</b>	<b>9,806,020</b>	<b>5,203,616</b>	<b>8,519,290</b>	<b>293,559,717</b>	
As at 31.12.2009	170,736,691	63,960,599	10,721,381	5,251,791	7,524,991		258,195,453
<b>Non-Interest Bearing Liabilities:</b>							
Deposits	28,491,652	-	-	-	-	28,491,652	21,382,314
Borrowings	-	-	-	-	-	-	146,210
Tax liabilities	941,052	1,506,987	-	-	-	2,448,039	1,202,607
Deferred tax	-	-	892,441	-	-	892,441	633,382
Other liabilities	11,366,241	-	-	-	-	11,366,241	12,255,779
Stated capital	-	-	-	-	10,811,193	10,811,193	10,607,792
Statutory reserves	-	-	-	-	2,471,830	2,471,830	2,164,137
Reserves	-	-	-	-	20,019,029	20,019,029	15,727,051
<b>As at 31.12.2010</b>	<b>40,798,945</b>	<b>1,506,987</b>	<b>892,441</b>	<b>-</b>	<b>33,302,052</b>	<b>76,500,425</b>	
As at 31.12.2009	34,612,861	374,049	633,382	-	28,498,980		64,119,272
<b>Total Liabilities and Equity - As at 31.12.2010</b>	<b>239,772,449</b>	<b>72,564,274</b>	<b>10,698,461</b>	<b>5,203,616</b>	<b>41,821,342</b>	<b>370,060,142</b>	
Total Liabilities and Equity - As at 31.12.2009	205,349,552	64,334,648	11,354,763	5,251,791	36,023,971		322,314,725
<b>Percentage - As at 31.12.2010</b>	<b>64.79</b>	<b>19.61</b>	<b>2.89</b>	<b>1.41</b>	<b>11.30</b>	<b>100.00</b>	
Percentage - As at 31.12.2009	63.71	19.96	3.52	1.63	11.18		100.00

### Notes

- (i) Loans and advances are shown net of interest in suspense and provision for bad and doubtful debts.
- (ii) Balances with Central Banks have been apportioned into the maturity groups based on the maturity pattern of the deposits liable for statutory reserve requirements.
- (iii) Demand and savings deposits have been classified into up to 3 months category. However, the major part of these deposits represents core retail deposits with longer term maturity.
- (iv) Shareholders' funds is classified into the more than 5 years category since no contractual date of maturity can be identified. However, these funds are available and have in fact been used for financing assets with lesser maturity periods.

## NOTES TO THE FINANCIAL STATEMENTS

### 36. COMMITMENTS AND CONTINGENCIES

#### 36.1 Capital Commitments

The commitments for acquisition of Property, Plant & Equipment and intangible assets incidental to the ordinary course of business as at December 31, are as follows:

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>36.1 (a) Capital Expenditure Commitments in relation to Property, Plant &amp; Equipment</b>				
Approved and contracted for	787,992	437,525	787,992	437,525
Approved but not contracted for	41,100	62,000	41,100	62,000
<b>Sub Total</b>	<b>829,092</b>	<b>499,525</b>	<b>829,092</b>	<b>499,525</b>
<b>36.1 (b) Capital Expenditure Commitments in relation to Intangible Assets</b>				
Approved and contracted for	142,570	121,135	142,570	121,135
<b>Sub Total</b>	<b>142,570</b>	<b>121,135</b>	<b>142,570</b>	<b>121,135</b>
<b>Total</b>	<b>971,662</b>	<b>620,660</b>	<b>971,662</b>	<b>620,660</b>

#### 36.2 Forward Contracts 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 the face values are given below:

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
With Central Bank of Sri Lanka	-	1,445,616	-	1,445,616
With customers	-	193,133	-	193,133
<b>Total</b>	<b>-</b>	<b>1,638,749</b>	<b>-</b>	<b>1,638,749</b>

#### 36.3 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Commitments on Direct Advances and Indirect Advances:</b>				
Commitments for unutilised facilities	37,679,817	16,070,878	37,679,817	16,070,878
<b>Total</b>	<b>37,679,817</b>	<b>16,070,878</b>	<b>37,679,817</b>	<b>16,070,878</b>
<b>Contingent Liabilities:</b>				
Acceptances	11,171,282	6,465,157	11,171,282	6,465,157
Documentary credits	20,427,159	12,112,900	20,427,159	12,112,900
Guarantees	34,410,312	16,237,573	34,410,312	16,237,573
Bills for collection	11,321,227	8,990,904	11,321,227	8,990,904
Stock of Travellers' Cheques	522,906	645,181	522,906	645,181
<b>Total</b>	<b>77,852,886</b>	<b>44,451,715</b>	<b>77,852,886</b>	<b>44,451,715</b>

## NOTES TO THE FINANCIAL STATEMENTS

	GROUP		BANK	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Forward Exchange Contracts:</b>				
Forward exchange sales	41,774,845	49,678,729	41,774,845	49,678,729
Forward exchange purchases	38,335,745	35,845,335	38,335,745	35,845,335
<b>Total</b>	<b>80,110,590</b>	<b>85,524,064</b>	<b>80,110,590</b>	<b>85,524,064</b>
<b>Interest Rate Swap Agreements:</b>				
Interest Rate Swaps	2,211	25,584	2,211	25,584
<b>Total</b>	<b>2,211</b>	<b>25,584</b>	<b>2,211</b>	<b>25,584</b>
<b>Total Commitments and Contingencies</b>	<b>195,645,504</b>	<b>146,072,241</b>	<b>195,645,504</b>	<b>146,072,241</b>

### 36.3 (a) Contingencies of Associates

The Associates of the Group do not have any contingencies as at the year end.

### 37. 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. Argument is fixed for June 22, 2011.
- (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. Argument is fixed for March 23, 2011.
- (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. Written submissions and the marked documents are due on March 25, 2011.
- (iv) 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. Written submissions with regard to the preliminary objections is due on February 28, 2011.
- (v) Court action has been initiated by two customers in proceedings number 174/2008/MR to claim Rs. 33.000 Mn. and a further sum of Rs. 0.688 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 April 01, 2011.
- (vi) 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. Inquiry into addition of parties is fixed for March 14, 2011.
- (vii) The Bank passed a resolution under the Recovery of Loans by Banks (Special Provisions) Act No. 4 of 1990. The borrower has filed action number DSP 00019/10 stating that he had settled the full amount due to the Bank and moving for an order to get all Mortgage Bonds cancelled and to recover a sum of Rs. 0.056 Mn. which had been appropriated by the Bank. Trial is fixed for March 11, 2011.

## NOTES TO THE FINANCIAL STATEMENTS

- (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. Judgement was delivered in favour of the Bank dismissing the plaintiff's action but the plaintiff has appealed against the judgement. The case is pending to be listed in the Supreme Court.
- (ix) Court action has been initiated for BDT 9.153 Mn. (approx. Rs. 14.347 Mn.) in proceedings number 149/05 against the Credit Agricole Indusuez and the Bank for the breach of contract due to 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 to the Court requesting for a dismissal. Next trial date is not yet fixed.

### 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, 2010, 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 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 funded pension scheme are those used in the actuarial valuation of the Pension Fund as at December 31, 2009 which is the date of the last valuation.

##### 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 10% 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

	2010 Rs. '000	2009 Rs. '000
Opening balance	72,209	59,195
Interest cost	7,943	9,471
Current service cost	1,805	1,439
Benefits paid during the year	(5,303)	(5,303)
Actuarial (gain)/loss	7,740	7,407
<b>Closing balance</b>	<b>84,394</b>	<b>72,209</b>

### 38.1 (d) Movement in the Fair Value of Plan Assets

Fair value as at the beginning of the year	61,800	59,904
Expected return on plan assets	4,697	6,589
Contribution paid into plan	1,298	1,226
Benefits paid by the plan	(5,303)	(5,303)
Actuarial gain/(loss) on plan assets	9,798	(616)
<b>Fair value as at the end of the year</b>	<b>72,290</b>	<b>61,800</b>

### 38.1 (e) Liability Recognised in the Balance Sheet

Present value of defined benefit obligations as at the end of the year	84,394	72,209
Fair value of plan assets as at the end of the year	(72,290)	(61,800)
Unrecognised actuarial gains/(losses)	-	-
<b>Net liability recognised in the Balance Sheet</b>	<b>12,104</b>	<b>10,409</b>

### 38.1 (f) Plan Assets consist of the following:

Government Treasury Bills	16,258	5,179
Deposits held with the Bank	56,032	56,621
<b>Total</b>	<b>72,290</b>	<b>61,800</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 on the Group's business segments for the year ended December 31, 2010 and comparative figures for the year ended December 31, 2009.

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>External Operating Income:</b>										
Net interest income	7,402,096	8,288,534	1,535,591	1,546,209	7,435,814	2,586,719	-	-	16,373,501	12,421,462
Foreign exchange profit	7,598	462,031	-	-	1,733,351	2,500,190	-	-	1,740,949	2,962,221
Fees and commission income	3,213,968	2,522,773	-	-	5,957	7,056	-	-	3,219,925	2,529,829
Other income	815,519	1,072,105	292,398	327,206	354,082	525,972	233,482	236,463	1,695,481	2,161,746
Eliminations/unallocated	-	-	-	-	-	-	-	-	136,256	46,452
<b>Total Operating Income</b>	<b>11,439,181</b>	<b>12,345,443</b>	<b>1,827,989</b>	<b>1,873,415</b>	<b>9,529,204</b>	<b>5,619,937</b>	<b>233,482</b>	<b>236,463</b>	<b>23,166,112</b>	<b>20,121,710</b>
Credit loss expenses	(1,021,621)	(1,141,002)	(170,517)	(392,696)	-	-	-	-	(1,192,138)	(1,533,698)
Net operating income	10,417,560	11,204,441	1,657,472	1,480,719	9,529,204	5,619,937	233,482	236,463	21,973,974	18,588,012
<b>Segment result</b>	<b>8,439,902</b>	<b>5,223,844</b>	<b>1,998,506</b>	<b>2,266,110</b>	<b>1,824,253</b>	<b>2,097,627</b>	<b>186,785</b>	<b>189,171</b>	<b>12,449,446</b>	<b>9,776,752</b>
Unallocated operating expenses									(3,159,788)	(2,651,121)
Profit from operations									9,289,658	7,125,631
Share of profit of Associates - (before tax)									10,808	4,218
Income tax expense									(3,790,472)	(2,936,832)
Minority interest									(2,494)	(1,082)
<b>Net profit for the year, attributable to equity holders of the Parent</b>									<b>5,507,500</b>	<b>4,191,935</b>

As at December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Other Information</b>										
Segment assets	229,054,662	179,148,599	10,796,324	7,553,739	120,549,227	129,551,124	2,648,987	1,106,198	363,049,200	317,359,660
Investments in Associates	-	-	-	-	-	-	79,581	72,633	79,581	72,633
Unallocated assets	-	-	-	-	-	-	-	-	7,129,163	5,113,149
<b>Total assets</b>									<b>370,257,944</b>	<b>322,545,442</b>
Segment liabilities	199,196,936	153,536,766	10,796,324	7,553,739	120,549,227	129,551,124	2,728,568	1,178,831	333,271,055	291,820,460
Unallocated liabilities	-	-	-	-	-	-	-	-	3,447,712	1,978,167
<b>Total liabilities</b>									<b>336,718,767</b>	<b>293,798,627</b>

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Information on Cash Flows</b>										
Cash flows from operating activities	(18,638,195)	47,564,043	3,253,613	(1,675,793)	1,429,976	625,481	-	-	(13,954,606)	46,513,731
Cash flows from investing activities	364,393	172,980	-	-	3,492,982	(41,265,504)	(1,613,719)	262,287	2,243,656	(40,830,237)
Cash flows from financing activities	(1,310,961)	(1,001,962)	-	-	2,526,668	(1,990,617)	-	-	1,215,707	(2,992,579)
Capital expenditure										
Property, Plant & Equipment									(903,870)	(898,762)
Intangible assets									(122,539)	(162,898)
Eliminations/unallocated									(1,930,801)	(1,687,507)
<b>Net cash flow generated during the year</b>									<b>(13,452,453)</b>	<b>(58,252)</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, 2010 together with comparative figures for the year ended December 31, 2009.

	GROUP				BANK			
	2010 Rs. '000	%	2009 Rs. '000	%	2010 Rs. '000	%	2009 Rs. '000	%
<b>Assets</b>								
Sri Lanka operations	341,462,660	92.22	292,769,703	90.77	341,332,420	92.24	292,538,986	90.76
International operations	28,795,284	7.78	29,775,739	9.23	28,727,722	7.76	29,775,739	9.24
<b>Total</b>	<b>370,257,944</b>	<b>100.00</b>	<b>322,545,442</b>	<b>100.00</b>	<b>370,060,142</b>	<b>100.00</b>	<b>322,314,725</b>	<b>100.00</b>
<b>Income</b>								
Sri Lanka operations	38,123,775	91.90	40,410,454	92.65	38,163,592	91.91	40,536,825	92.67
International operations	3,357,987	8.10	3,204,108	7.35	3,357,939	8.09	3,204,108	7.33
<b>Total</b>	<b>41,481,762</b>	<b>100.00</b>	<b>43,614,562</b>	<b>100.00</b>	<b>41,521,531</b>	<b>100.00</b>	<b>43,740,933</b>	<b>100.00</b>
<b>Profit before Tax</b>								
Sri Lanka operations	7,731,728	83.13	6,049,167	84.84	7,715,728	82.81	6,111,160	84.97
International operations	1,568,738	16.87	1,080,682	15.16	1,601,665	17.19	1,080,682	15.03
<b>Total</b>	<b>9,300,466</b>	<b>100.00</b>	<b>7,129,849</b>	<b>100.00</b>	<b>9,317,393</b>	<b>100.00</b>	<b>7,191,842</b>	<b>100.00</b>
<b>Profit after Tax</b>								
Sri Lanka operations	4,571,489	82.97	3,568,434	85.10	4,551,861	82.41	3,680,406	85.49
International operations	938,505	17.03	624,583	14.90	971,432	17.59	624,583	14.51
<b>Total</b>	<b>5,509,994</b>	<b>100.00</b>	<b>4,193,017</b>	<b>100.00</b>	<b>5,523,293</b>	<b>100.00</b>	<b>4,304,989</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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 40.2.1 Compensation of KMPs

	2010 Rs. '000	2009 Rs. '000
Short term employment benefits	159,318	135,876
Post-employment benefits	17,386	16,496
Other long term benefits	920	958
<b>Total</b>	<b>177,624</b>	<b>153,330</b>

### 40.2.2 Transactions, Arrangements and Agreements involving KMPs & 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 KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner.

#### 40.2.2.1 Balance Sheet

	Year End Balance		Average Balance	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Assets</b>				
Loans and advances	35,549	35,433	30,030	44,001
Credit cards	276	913	24	908
<b>Total</b>	<b>35,825</b>	<b>36,346</b>	<b>30,054</b>	<b>44,909</b>
<b>Liabilities</b>				
Deposits	172,735	137,229	157,992	109,335
Securities sold under Repurchase Agreements	342,968	270,801	311,028	268,588
Debentures	-	1,000	-	1,000
<b>Total</b>	<b>515,703</b>	<b>409,030</b>	<b>469,020</b>	<b>378,923</b>

#### 40.2.2.2 Commitments and Contingencies

Letters of Credit	-	-	3,065	-
Undrawn facilities	26,718	20,932	26,055	21,286
<b>Total</b>	<b>26,718</b>	<b>20,932</b>	<b>29,120</b>	<b>21,286</b>

#### 40.2.2.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.19%	0.19%
---	-------	-------

#### 40.2.2.4 Income Statement

	During the Year	
	2010 Rs. '000	2009 Rs. '000
Interest income	2,715	2,994
Interest expenses	44,030	56,463
Other income	30	15
Compensation to KMPs (Refer Note 40.2.1)	177,624	153,330

## NOTES TO THE FINANCIAL STATEMENTS

### 40.2.2.5 Share Based Benefits to KMPs

	As at the Year End	
	2010	2009
Number of ordinary shares held	3,863,508	2,490,977
Dividends paid (In Rs. '000)	23,046	19,075
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2002		
Tranche II	-	137,160
Tranche III	309,649	274,173
Tranche IV	411,401	356,490
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008		
Tranche I	278,458	89,056

### 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Assets</b>				
Loans and advances	271	338	206	342
<b>Total</b>	<b>271</b>	<b>338</b>	<b>206</b>	<b>342</b>
<b>Liabilities</b>				
Deposits	503	217	6	496
<b>Total</b>	<b>503</b>	<b>217</b>	<b>6</b>	<b>496</b>

#### 40.2.3.2 Commitments and Contingencies

Undrawn facilities	69	2	134	142
<b>Total</b>	<b>69</b>	<b>2</b>	<b>134</b>	<b>142</b>

#### 40.2.3.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	-	-
---	---	---

#### 40.2.3.4 Income Statement

	During the Year	
	2010 Rs. '000	2009 Rs. '000
Interest income	22	83
Interest expenses	-	63

## 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Assets</b>				
Loans and advances	1,366	2,767	8,551	7,165
Credit cards	222,194	239,965	232,928	197,942
Other	53,574	16,295	41,660	23,874
<b>Total</b>	<b>277,134</b>	<b>259,027</b>	<b>283,139</b>	<b>228,981</b>
<b>Liabilities</b>				
Deposits	34,344	14,025	33,383	19,387
Securities sold under repurchase agreements	115,563	131,376	115,063	125,784
Other	15,302	38,936	27,119	41,133
<b>Total</b>	<b>165,209</b>	<b>184,337</b>	<b>175,565</b>	<b>186,304</b>

##### 40.3.1.2 Commitments and Contingencies

Letter of Credit	-	-	10,088	3,196
Guarantees	691	-	253	82
Undrawn facilities	49,309	50,000	40,488	46,723
<b>Total</b>	<b>50,000</b>	<b>50,000</b>	<b>50,829</b>	<b>50,001</b>

##### 40.3.1.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.82%	0.97%
---	-------	-------

##### 40.3.1.4 Income Statement

	During the Year	
	2010 Rs. '000	2009 Rs. '000
Interest income	50,786	44,685
Interest expenses	12,808	21,673
Other income	36,354	153,541
Expenses paid	201,492	179,777

##### 40.3.1.5 Other Transactions

Computer hardware purchased from ONEzero Company Ltd.	169,143	110,440
---	---------	---------

## 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Assets</b>				
Loans and advances	33,102	35,902	35,331	39,732
Credit cards	-	2,428	64	2,848
<b>Total</b>	<b>33,102</b>	<b>38,330</b>	<b>35,395</b>	<b>42,580</b>
<b>Liabilities</b>				
Deposits	58,028	5,331	11,947	11,662
Securities sold under repurchase agreements	-	2,232	19,064	14,499
<b>Total</b>	<b>58,028</b>	<b>7,563</b>	<b>31,011</b>	<b>26,161</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	0.10%	0.13%
---	-------	-------

#### 40.3.2.4 Income Statement

	During the Year	
	2010 Rs. '000	2009 Rs. '000
Interest income	4,965	8,185
Interest expenses	1,635	2,926
Other income	19,325	14,366

#### 40.3.2.5 Other Transactions

	During the Year	
	2010	2009
Number of Ordinary Shares held as at the year end	1,966	1,311
Dividend paid (In Rs. '000)	11	49

## 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Assets</b>				
Loans and advances	-	-	2	-
<b>Total</b>	-	-	2	-
<b>Liabilities</b>				
Deposits	-	57,818	14,888	12,608
<b>Total</b>	-	57,818	14,888	12,608

##### 40.4.1.2 Commitments and Contingencies

Undrawn facilities	-	-	-	-
<b>Total</b>	-	-	-	-

##### 40.4.1.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	-	-
---	---	---

##### 40.4.1.4 Income Statement

	During the Year	
	2010 Rs. '000	2009 Rs. '000
Interest income	1	11
Other income	61	31

##### 40.4.1.5 Other Transactions

	During the Year	
	2010	2009
Number of ordinary shares held as at the year end	-	67,099,881
Dividend paid (In Rs. '000)	427,253	469,699

## 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	
	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Assets</b>				
Loans and advances	-	-	242	-
<b>Total</b>	-	-	242	-
<b>Liabilities</b>				
Deposits	151,366	46,557	150,669	592,762
Securities sold under repurchase agreements	617,581	260,392	284,603	297,753
<b>Total</b>	<b>768,947</b>	<b>306,949</b>	<b>435,272</b>	<b>890,515</b>

#### 40.4.2.2 Income Statement

	During the Year	
	2010 Rs. '000	2009 Rs. '000
Interest income	153	-
Interest expenses	39,640	143,866
Contribution made/Taxes paid by the Bank	618,619	590,838

### 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.

The Directors have recommended the payment of a final dividend of Rs. 4.00 per share which consist of a cash dividend of Rs. 2.00 per share and a scrip dividend of Rs. 2.00 per share for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2010. This will be declared at the forthcoming Annual General Meeting to be held on March 30, 2011 for approval of the shareholders.

## 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 two-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 Mahiyangana.

### 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.

Became 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'.

Became the First and only Bank in Sri Lanka to be CMMi certified.

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.

### 2010

Adjudged as Sri Lanka's 'Best Bank' for the 12th consecutive year by one of the world's most respected financial publications, Global Finance (USA).

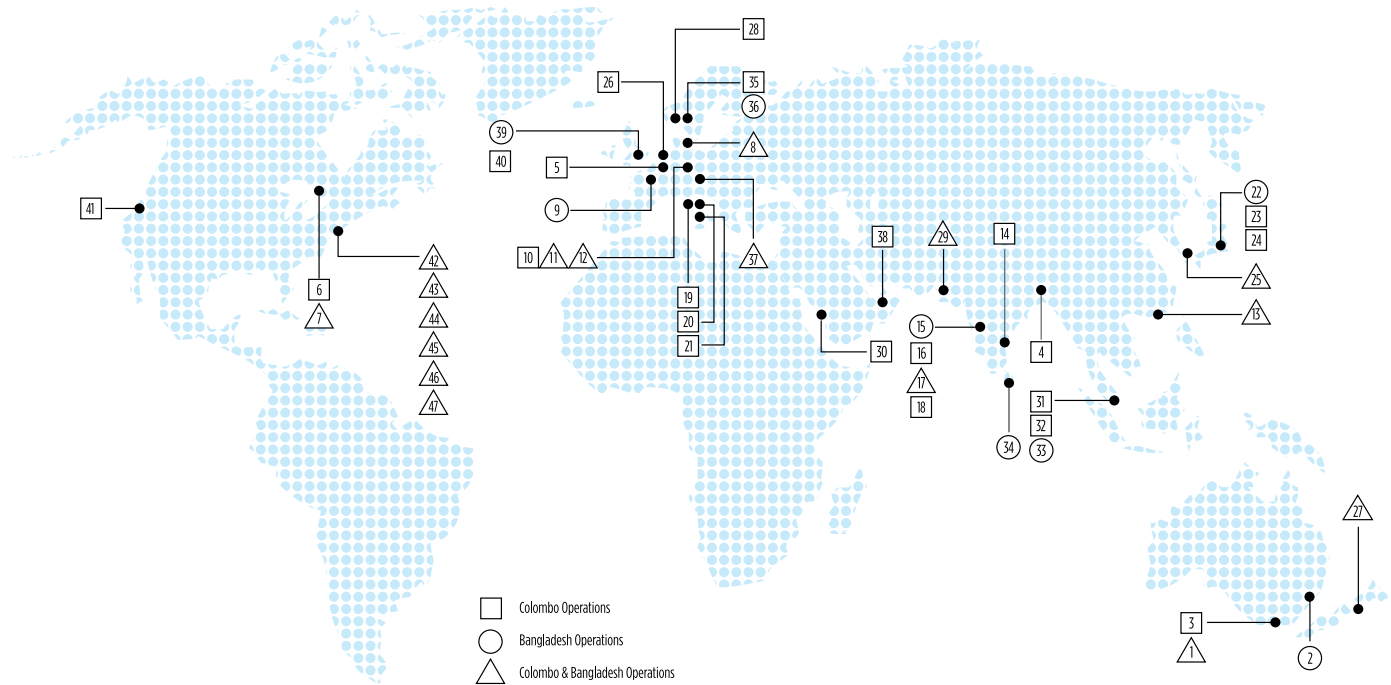
Adjudged best domestic bank in Sri Lanka in 2010 ranking by Finance Asia

Commercial Bank adjudged Best Agent-Corridor Collaboration by MoneyGram

Was adjudged Overall - Gold winner, and also received the Gold awards in the Banking & Finance category, the Business Excellence Award in the 'Extra Large' category and for Excellence in Performance Management Practices at the 2010 National Business Excellence Awards presented by the National Chamber of Commerce of Sri Lanka.

Bank installed its 400th ATM at the Ruwanwella Branch

## CORRESPONDENT BANKS



Country, Name and Address of the Bank	BIC Code/Swift	CCY	Account No.
<b>Australia</b>			
1. Citibank NA Citigroup Centre, 120, Collins Street, Melbourne Victoria 3000 - Australia www.citibank.com.au	CITIAU2X	AUD	205636005*
2. HSBC Bank Australia Ltd. 580, George Street, Sydney NSW 2000 www.hsbc.com.au	HKBAAU2S	AUD	011-796323-041*
3. National Australia Bank 11/120, Spencer Street, Melbourne Victoria 3000 - Australia www.national.com.au	NATAAU33	AUD	1803020052500
<b>Bangladesh</b>			
4. Commercial Bank of Ceylon PLC Corporate Branch and Head Office Hadi Mansion, 2 Dilkusha C/A, Dhaka 1000 www.combank.net	CCEYBDDH	AC\$	2-802000017
<b>Belgium</b>			
5. Fortis Bank NW/SA Montagne DU PARC 3, B-1000, Brussels, Belgium www.fortis.com	GEBABEBB	EUR	291-1179210-78
<b>Canada</b>			
6. Bank of Nova Scotia Global Wholesale Services 720, King Street West, Toronto www.scotiabank.com	NOSCCATT	CAD	0072214
7. Canadian Imperial Bank of Commerce Int'l Dept. Head Office, Commerce Court, Toronto M5L 1H1, Canada www.cibc.com	CIBCCATT	CAD	1733117 1751514*
<b>Denmark</b>			
8. Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen, Denmark www.nordea.com	NDEADKKK	DKK	5000408909 5000017703*

Country, Name and Address of the Bank	BIC Code/Swift	CCY	Account No.
<b>France</b>			
9. Credit Agricole SA, 75710 Paris Cedex 15, CCP, Paris 702 U 020 France www.credit-agricole.fr	AGRIFRPP	EUR	20533624000*
<b>Germany</b>			
10. Bayerische Hypo und Vereins Bank AG D-80311 Muenchen, Germany www.hypovereinsbank.de	HYVEDEMM	EUR	69101429
11. Commerz Bank AG ZTB BC Mitte 6.4, Mainzer Landstrasse 277-293, 60261, Frankfurt AM Main, Germany www.commerzbank.com	COBADEFF	EUR	400872103701 400871436200*
12. Standard Chartered Bank Data & Exposure Control, P.O. Box 110162 Theodor - Heuss - Allee 112, D60036 Frankfurt AM Main, Germany www.standardchartered.de	SCBLDEF	EUR	018109406 018109205 018112204*
<b>Hong Kong</b>			
13. Standard Chartered Bank P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road, Central Hong Kong www.standardchartered.com	SCBLHKHH	HKD	41109468048 44709419107*
<b>India</b>			
14. Bank of Ceylon, Chennai 1090, Poonamallee High Road, Chennai 600 084, India www.boc.lk	BCEYIN5M	AC\$	1-119
15. Calyon Bank (C.A. Indosuez) 12th Floor, Hoechst House, Nariman Point, Mumbai, India www.calyon.com	BSUIINBB	AC\$	00712402150000USD*
16. Deutsche Bank AG, Ground Floor, CSD Area, Kodak House, 225, D.N. Road, Fort, Mumbai, India www.db.com	DEUTINBB	AC\$	0212878-05-0
17. ICICI Bank Ltd. ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India www.icicibank.com	ICICINBB	AC\$	000406000181 000406000220*

\* Accounts of Bangladesh Operations

## CORRESPONDENT BANKS

Country, Name and Address of the Bank	BIC Code/Swift	CCY	Account No.
18. Standard Chartered Bank 23-25, Mahatma Gandhi Road, P.O. Box 558, Mumbai 400 001, India www.standardchartered.com	SCBLINBB	AC\$ AC€	22205031885 22205394120
<b>Italy</b>			
19. Banca Intesa BCI #2612 Head Office, Int'l Money Transfer Dept., Piazza Della Scala 6, 20121 Milan, Italy www.bancaintesa.it	BCITITMM	EUR	100100003820
20. Banco Popolare Society Cooperation Piazza Nogara 2, 37121 Verona, Vr, Italy www.bancopopolare.it	BAPPIT22	EUR	000400000082
21. Unicredit Italiano SPA Viale, Mberto, Tupini, 180, 1-00144 Rome, Italy www.unicreditgroup.eu	UNCRITMM	EUR	0995 4268
<b>Japan</b>			
22. Bank of Tokyo Mitsubishi Ltd. P.O. Box 191, Nihonbashi, Tokyo, Japan www.bk.mufg.jp	BOTKJPJT	JPY	653-0461318*
23. Standard Chartered Bank P.O. Box 9997, 21st Floor, Sanno Park, Tower 2-11-1, Nagata-cho, Chiyoda-ku, Tokyo 100-6155, Japan www.standardchartered.com	SCBLJPJT	JPY	2168531110
24. Sumitomo Mitsui Banking Corporation International Business Operations Dept. 1-5-3, Kudanminami, Chiyoda-ku, Tokyo 102-0074 Japan www.smbc.co.jp	SMBCJPJT	JPY	4395
<b>Korea</b>			
25. Kookmin Bank 9-1, 2GA, Namdaemun - RO, Jung - GU, Seoul 100-703, Korea www.kbstar.com	CZNBKRSE	US\$	7598USD010 7618USD013*
<b>Netherlands</b>			
26. Ing Bank N.V. P.O. Box 1800 1000 BV, Amsterdam, Netherlands www.ing.com	INGBNL2A	EUR	0050908928
<b>New Zealand</b>			
27. Bank of New Zealand P.O. Box 2392, 1, Willis Street, Wellington, New Zealand www.bnz.co.nz	BKNZNZ22985	NZD	2659680000 2690700000*
<b>Norway</b>			
28. Den Norske Bank Stranden 21, 0021, Oslo, Norway www.dnbnor.com	DNBANOKK	NOK	7002-02-04808
<b>Pakistan</b>			
29. Standard Chartered Bank 1.1, Chundrigar Road, Karachi 75600, Pakistan www.standardchartered.com	SCBLPKK	AC\$	15000297601 15000288701*
<b>Saudi Arabia</b>			
30. The National Commercial Bank International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah 21481, Saudi Arabia www.alahli.com	NCBKSAJE	US\$	55535150090301
<b>Singapore</b>			
31. Citibank NA 3, Temasek Avenue, # 14-00, Sennial Tower, Singapore 039190 www.citibank.com	CITISGSG	US\$	00851122001

Country, Name and Address of the Bank	BIC Code/Swift	CCY	Account No.
32. Standard Chartered Bank P.O. Box 1901, 6, Battery Road, 7th Storey, Singapore 049909 www.standardchartered.com.sg	SCBLSGSG	SGD	0109344561
33. United Overseas Bank Ltd. 80, Raffles Place 08-01, UOB Plaza 1, Singapore 048624 www.uobgroup.com	UOVBSGSG	SGD	1013992113*
<b>Sri Lanka</b>			
34. Commercial Bank of Ceylon PLC Commercial House, 21, Bristol Street, P.O. Box 856, Colombo 1, Sri Lanka www.combank.net	CCEYLKX	AC\$	1420825031*
<b>Sweden</b>			
35. Skandinaviska Enskilda Banken Utlandsreskontran Stockholm S 106 40, Sweden www.seb.se/mb	ESSESESS	SEK	52018529803
36. Svenska Handelsbanken Stockholm, Sweden www.handelsbanken.com	HANDESSA	SEK	40324079*
<b>Switzerland</b>			
37. UBS A.G. P.O. Box CH-8098, Zurich, Switzerland www.ubs.com	UBSWCHZH	CHF	0230-0000085408050000W 0230-0000036535050000N*
<b>United Arab Emirates</b>			
38. Mashreq Bank P.O.Box 1250, Dubai, UAE www.mashreqbank.com	BOMLAEAD	AED	0195511268
<b>United Kingdom</b>			
39. HSBC Bank PLC 8, Canada Square, London - UK www.hsbc.co.uk	MIDLGB22	GBP	58335536* 59398188* 59448448*
40. Standard Chartered Bank City Office, Branch No. 37, Grace Church Street, London EC3V OBX, UK www.standardchartered.com	SCBLGB2L	GBP	01804813401
<b>United States of America</b>			
41. Bank of America NT & SA International Deposit Services, 1850 Gateway BL VD, 6th Floor, Concord CA 94520, USA www.bankofamerica.com	BOFAUS6S	US\$	6290890098
42. Citi Bank 111, Wall Street, 19th Floor, New York 10043, USA www.citibank.com	CITIUS33	US\$	36141446 36241316* 36242538*
43. Deutsche Bank Trust Company Americas P.O. Box 318, Church Street Station, New York, NY 10008, USA www.db.com	BKTRUS33	US\$	04034566 4447395*
44. HSBC Bank USA 500, Stanton Christiana Road, New York, Delaware 19713, NY - USA www.hsbcusa.com	MRMDUS33	US\$	0000045829 000147605*
45. JP Morgan Chase Bank Head Office, 270, Park Avenue, New York, NY 10017, USA www.jpmorganchase.com	CHASUS33	US\$	400808625 400809176*
46. Standard Chartered Bank One Madison Avenue, New York NY 10010-3603, USA www.standardchartered.com	SCBLUS33	US\$	3582052360001 3582052360002 3582052637001*
47. Wells Fargo Bank N.A. 11, Penn Plaza, 4th Floor, New York, NY 10038, USA www.wellsfargo.com	PNBPUS3N NYC	US\$	2000191002407 2000193003365*

\* Accounts of Bangladesh Operations

## GLOSSARY OF FINANCIAL AND BANKING TERMS

<p><b>A</b></p> <p><b>Acceptances</b> 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.</p> <p><b>Accounting Policies</b> The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.</p> <p><b>Amortisation</b> The systematic allocation of the depreciable amount of an intangible asset over its useful life.</p> <p><b>Accrual Basis</b> Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.</p> <p><b>Associate</b> 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.</p> <p><b>B</b></p> <p><b>Bills for Collection</b> 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.</p> <p><b>Bonus Issue (Scrip Issue)</b> 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.</p> <p><b>C</b></p> <p><b>Capital Adequacy Ratios</b> 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.</p> <p><b>Capital Reserves</b> Reserves identified for specific purposes and considered not available for distribution.</p> <p><b>Commitments</b> Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.</p> <p><b>Compounded Annual Growth Rate (CAGR)</b> The rate at which it would have grown if it grew at an even rate compounded annually.</p> <p><b>Contingencies</b> 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.</p> <p><b>Cost/Income Ratio</b> Operating expenses excluding Loan Loss Provision as a percentage of net income.</p> <p><b>Cost Method</b> 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</p>	<p>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.</p> <p><b>Corporate Governance</b> 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.</p> <p><b>Correspondent Bank</b> A bank in a foreign country that offers banking facilities to the customers of a bank in another country.</p> <p><b>Cash Equivalents</b> 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.</p> <p><b>Credit Risk</b> 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.</p> <p><b>Credit Ratings</b> An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.</p> <p><b>D</b></p> <p><b>Dealing Securities</b> Marketable securities that are acquired and held with the intention of reselling them in the short term.</p> <p><b>Deferred Taxation</b> Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.</p> <p><b>Derivatives</b> Financial contracts whose values are derived from the values of underline assets.</p> <p><b>Dividend Cover</b> Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.</p> <p><b>Dividend Yield</b> Dividend earned per share as a percentage of its market value.</p> <p><b>Documentary Credits</b> 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.</p> <p><b>E</b></p> <p><b>Earnings per Ordinary Share (EPS)</b> Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.</p> <p><b>Economic Value Added (EVA)</b> A measure of productivity which takes into consideration cost of total invested equity.</p> <p><b>Effective Tax Rate</b> Provision for taxation excluding deferred tax divided by the profit before taxation.</p> <p><b>Equity Method</b> 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.</p>	<p>The profit or loss of the investor includes the investor's share of the profit or loss of the investee.</p> <p><b>ESOP (Employee Share Ownership Plan)</b> A method of giving employees shares in the business for which they work.</p> <p><b>F</b></p> <p><b>Fair Value</b> The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.</p> <p><b>Finance Lease</b> 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.</p> <p><b>Foreign Exchange Profit</b> 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.</p> <p><b>Forward Exchange Contract</b> Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.</p> <p><b>Free Capital</b> Excess of equity capital over net book value of Property, Plant &amp; Equipment, Intangible Assets and Investments.</p> <p><b>G</b></p> <p><b>General Provisions</b> 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.</p> <p><b>Group</b> A group is a parent and all its subsidiaries.</p> <p><b>Guarantees</b> 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.</p> <p><b>H</b></p> <p><b>Hedging</b> 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.).</p> <p><b>Human Resource Accounting</b> 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.</p> <p><b>I</b></p> <p><b>Impairment</b> This occurs when recoverable amount of an asset is less than its carrying amount.</p> <p><b>Intangible Asset</b> An intangible asset is an identifiable non-monetary asset without physical substance.</p>
--	---	--

## GLOSSARY OF FINANCIAL AND BANKING TERMS

### 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.

### Minority Interest

The interest of individual shareholders, in a company more than 50% of which is owned by a holding company.

## 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.

### Non-Performing Advances Cover (NPA Cover)

Cumulative loan provision as a percentage of total Non-Performing Advances (net of interest in Suspense).

### 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

A method of financing a company's activities so that some or all of the finance and the corresponding assets do not appear on the Balance Sheet of the Company. They would be recognised as an asset or liability, 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.

### Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

## 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 stated 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.

### Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

### 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.

## Y

### Yield to Maturity

Discount rate at which the present value of future payments would equal the security's current price.

## ALPHABETICAL INDEX

	Page		Page		Page
Accounting Policies	212	Effective Tax Rate	232	Managing Director's Review	08
Annual Report of the Board of Directors	293	Employee Retirement Benefits	231	Market Capitalisation	180
Auditors' Report	205	Employee Share Option Plan	262	Market Prices of Shares	179
Awards and Accolades	49	Events 2009	170	Maturity Analysis	265
Balance Sheet	207	Events After the Balance Sheet Date	280	Mission	05
Balance with Central Banks	236	Financial Calendar	191	Net Asset Value Per Share	207
Bills of Exchange, Lease Receivable and Loans & Advances	248	Financial Highlights	02	Network of Delivery Points - Bangladesh	189
Board Audit Committee Report	135	Financial Reports	206	Network of Delivery Points - Sri Lanka	189
Board Human Resources & Remuneration Committee Report	137	Financial Review	18	Non-Performing Loans & Advances	246
Board Integrated Risk Management Committee Report	140	Foreign Exchange Profit	206	Notes to the Financial Statements	212
Board Nomination Committee Report	139	Form of Proxy	291/293	Notice of Meeting	287
Board of Directors	144	Free Capital	20	Open Credit Exposure Ratio	248
Board of Directors' Profiles	146	General Reserve	264	Operating Expenses	230
Board Sub-Committees	98	Government Treasury Bills, Bonds & Other Securities	236	Operating Highlights	03
Borrowings	258	GRI Compliance Index	89	Other Assets	257
Capital Adequacy Computation	167	Group Structure	190	Other Liabilities	261
Capital Commitment	269	Historical Landmarks	281	Performance by Division	22
Cash and Short-Term Funds	236	Income Statement	206	Price Earnings Ratio	02
Cash Flow Statement	210	Income Tax Expense	232	Principal Activities and Nature of Operations	193
Commitments and Contingencies	269	Information of the Debentures of the Bank	184	Property, Plant & Equipment	250
Contingencies	269	Information on Movement in Share Capital	183	Provision Cover	247
Corporate Governance	97	Intangible Assets	257	Quarterly Performance	175
Corporate Information	Inner Back Cover	Interest Cover	184	Related Party Disclosures	274
Corporate Management Team	148	Interest Expense	229	Reserves	264
Correspondent Banks	282	Interest Income	229	Return on Assets	02
Cost-Income Ratio	03	Interest Yield on Debentures	185	Return on Average Shareholders' Funds	02
Dealing Securities	238	Investment Securities	241	Risk Management	153
Debentures	260	Investments in Associates	249	Segment Reporting	272
Decade at a Glance	188	Investments in Subsidiaries	250	Senior Management Team	151
Deferred Tax	259	Investor Relations Supplement	172	Sources and Distribution of Income	59
Deposits	258	Leasehold Properties	256	Stated Capital	262
Directors' Interests in Contracts with the Company	141	Lease Receivable	244	Statement of Changes in Equity	208
Distribution & Composition of Shareholders	180	Letter from the Chairman	04	Statement of Directors' Responsibility	202
Dividend Cover	02	Liquid Assets Ratio	02	Statutory Reserves Fund	263
Dividend Per Share	179	Litigation Against the Bank	270	Sustainability Supplement	43
Dividends	235	Loan Losses & Provisions	206	The Banking Sector in 2010	15
Donations	230	Macro Economic Environment	14	Total Equity	207
Earnings Per Share	234	Management Committee - Bangladesh	35	Twenty Largest Shareholders	77
Economic Value Added	58	Management Discussion and Analysis	13	US Dollar Accounts	186
		Managing Director's and Chief Financial Officer's Responsibility Statement	203	Value Addition and Distribution	62
				Vision	05
				Yield to Maturity of Debentures	184

## NOTICE OF MEETING

Notice is hereby given that the Forty-Second Annual General Meeting of the Commercial Bank of Ceylon PLC will be held at the Hilton Colombo, 'Grand Ball Room', No. 2, Sir Chittampalam A. Gardiner Mawatha, Colombo 01, on March 30, 2011, 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, 2010, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors and to consider and if thought fit to pass the following resolution by way of an ordinary resolution:

**THAT** a final dividend of a total sum of Rs. 1,510,418,680/-, (based on issued ordinary voting shares as at January 31, 2011, subject however to necessary amendments being made to such number to include the dividend/scrip dividend on the options that may be exercised by employees under the Company's ESOP schemes) recommended to the shareholders of Commercial Bank of Ceylon PLC (the 'Bank') by the Board of Directors of the Bank constituting a dividend of Rs. 4/- per every issued and fully-paid ordinary (voting) share and Rs. 4/- per every issued and fully-paid ordinary (non-voting) share for the financial year ended December 31, 2010 be and is hereby approved and declared on the basis that such dividend distribution shall be effected in the manner following to the ordinary (voting) shareholders and to the ordinary (non-voting) shareholders respectively who are duly registered in the books of the Bank as at the end of trading on the date on which the related resolution is adopted by the shareholders (the 'entitlement date') [However, the shareholders who would receive new shares (arising by way of the scrip dividend) would not be entitled to the proposed cash dividend in respect of those new shares]:

**(i) By way of a cash dividend:**

A total cash dividend of a sum of Rs. 706,846,950/-, (based on issued ordinary voting shares as at January 31, 2011, subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes) and Rs. 48,362,390/- shall be distributed to the ordinary (voting) shareholders and to the ordinary (non-voting) shareholders respectively on the basis as aforesaid of Rs. 2/- per ordinary (voting) share and Rs. 2/- per ordinary (non-voting) share respectively registered in the Company's books as at the end of trading on the date on which the related resolution is adopted by the shareholders and

**(ii) By way of a scrip dividend:**

A total sum of Rs. 706,846,950/-, (based on issued ordinary voting shares as at January 31, 2011, subject however to necessary amendments being made to such number to include the scrip dividend on the options that may be exercised by employees under the Company's ESOP schemes) and Rs. 48,362,390/- shall be distributed by way of a scrip dividend to the ordinary (voting) shareholders and to the ordinary (non-voting) shareholders registered in the Company's books as at the end of trading on the date on which the related resolution is adopted by the shareholders respectively and such shares shall be issued to the aforesaid entitled shareholders on the basis of the following ratios:

- (a) 01 new fully-paid ordinary (voting) share for every 155.6 existing issued and fully-paid ordinary (voting) shares; and
- (b) 01 new fully-paid ordinary (non-voting) share for every 94.6 existing issued and fully-paid ordinary (non-voting) shares.

Constituting thereby a total issue of 2,272,008 new ordinary (voting) shares, (based on issued ordinary voting shares as at January 31, 2011, subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes) and 255,735 new ordinary (non-voting) shares; and which new ordinary (voting) and (non-voting) shares to be so issued shall, immediately consequent to due allotment thereof to the entitled shareholders, rank equal and *pari passu* in all respects with the existing issued and fully-paid ordinary (voting) shares and the existing issued and fully-paid ordinary (non-voting) shares of the Company; and

**THAT** the ordinary (voting) share fractions arising in pursuance of the aforementioned scrip dividend be aggregated and the ordinary (non-voting) share fractions arising in pursuance of the aforementioned scrip dividend be aggregated and ordinary (voting) shares and ordinary (non-voting) shares arising consequent thereto be allotted to a Trustee to be nominated by the Board of the Bank who shall pursuant to such allotment hold the same in trust for the shareholders entitled thereto and that such shares shall thereafter be sold by the Trustee on the trading floor of the Colombo Stock Exchange ('CSE') and that the sale proceeds thereof be distributed to the entitled shareholders, according to their entitlement proportionately, in full and final satisfaction of their entitlement to such share fractions as aforementioned.

*[Please see attached Circular to Shareholders on this matter]*

## NOTICE OF MEETING

3. To re-appoint/re-elect Directors in place of those vacating/retiring by rotation or otherwise:
  - (a) Mr. M.J.C. Amarasuriya (\*)
  - (b) Dr. H.S. Wanasinghe (\*)
  - (c) Mr. B.R.L. Fernando
  - (d) Mr. R.M.S. Fernando
  - (e) Prof. U.P. Liyanage
  - (f) Mr. W.M.R.S. Dias
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 2011.

By Order of the Board,



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

March 01, 2011  
 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 representing the cash dividend on the 7th market day after receiving approval from the shareholders at the Annual General Meeting.

### (\*) Special Notices

Two special notices have been received by the Company from Union Investments (Private) Ltd., a shareholder of the Company informing their intention to move the following resolutions:

#### Re-election of Mr. M.J.C. Amarasuriya

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 Mr. Mahendra Jayanthipal Chandima Amarasuriya, who attained the age of 70 years on December 19, 2010 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."

#### 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 84 years on June 16, 2010 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."



**COMMERCIAL BANK OF CEYLON PLC**  
Reg. No. PQ 116

Date : 1st March 2011

Your Ref :

Our Ref :

**CIRCULAR TO SHAREHOLDERS**

Dear Shareholder/s,

**FINAL DIVIDEND FOR THE YEAR ENDED DECEMBER 31, 2010 TO BE SATISFIED PARTLY BY WAY OF A SCRIP DIVIDEND AND PARTLY BY WAY OF A CASH DIVIDEND**

The Board of Directors of Commercial Bank of Ceylon PLC ('the Company'), is pleased to inform shareholders that a final dividend distribution of Rs. 4/- per ordinary (voting) share and Rs. 4/- per ordinary (non-voting) share is recommended for approval by shareholders at the Annual General Meeting to be held on March 30, 2011. The Board of Directors is satisfied that the Company will be able to satisfy the solvency test immediately post-payment of such dividend.

Subject to obtaining the approval of the shareholders, the said dividend distribution will be satisfied partly by way of cash constituting a total cash dividend of Rs. 755,209,340/-, (based on issued ordinary voting shares as at January 31, 2011, subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes) and partly by way of a scrip dividend constituting a total sum of Rs. 755,209,340/-, (based on issued ordinary voting shares as at January 31, 2011, subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes). Accordingly, and in pursuance of such stated scrip dividend the Company will issue 2,272,008 new ordinary (voting) shares (based on issued ordinary voting shares as at January 31, 2011, subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes) and 255,735 new ordinary (non-voting) shares to those ordinary (voting) and ordinary (non-voting) shareholders registered in the Company's books as at the end of trading on the date on which the requisite resolution of the shareholders in this regard is passed (the 'entitled shareholders'). The said shares shall be issued in the following ratios to the entitled shareholders:

- (a) 01 new fully-paid ordinary (voting) share for every 155.6 existing issued and fully-paid ordinary (voting) shares; and
- (b) 01 new fully-paid ordinary (non-voting) share for every 94.6 existing issued and fully-paid ordinary (non-voting) shares.

However, the shareholders who would receive new shares (arising by way of the scrip dividend) would not be entitled to the proposed cash dividend in respect of those new shares.

The share ratio is based on a valuation of Rs. 311/11 per ordinary (voting) share and Rs. 189/11 per ordinary (non-voting) share (less ten percent (10%) withholding tax) constituting an effective net value of Rs. 280/- per ordinary (voting) share and Rs. 170/20 per ordinary (non-voting) share. The Board is satisfied that the consideration for which the new shares are to be issued is fair and reasonable to the Company and to all its existing shareholders.

The new ordinary (voting) and ordinary (non-voting) shares to be so issued on the basis of the scrip dividend shall, immediately consequent to due allotment thereof to the entitled shareholders, rank equal and *pari passu* in all respects with the existing issued and fully-paid ordinary (voting) shares and the existing issued and fully-paid ordinary (non-voting) shares of the Company respectively. Consequent to the scrip dividend, the stated capital of the Company will increase from Rs. 10, 811,192,929/10 to Rs. 11,490,881,335/10, (based on issued ordinary voting shares as at January 31, 2011, subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes).



HEAD OFFICE - Commercial House, No. 21, Bristol Street, Colombo 1, Sri Lanka.  
P.O. Box 856, Colombo. Telephone 2328193 - 5, 2336700, 2445010, 2430420, 4792000  
Telebanking: 2336633, Telex: 21520, 21898, Email: email@combank.net  
Fax: 2449889, Website: http://www.combank.net SWIFT Code: CCEYLKX



Bank's profit for the year 2010 will be utilised for the declaration of the proposed scrip dividend, in the event shareholders' approval is obtained for this purpose.

The residual fractions arising from the aforementioned scrip dividend will be aggregated and the shares arising consequent thereto will, subject to receiving the approval of the shareholders therefor, be allotted to a Trustee to be nominated by the Board. The Trustee so nominated, will hold the said shares in trust for and on behalf of the shareholders who are entitled thereto until such shares are sold on the trading floor of the Colombo Stock Exchange. The sale proceeds arising therefrom shall be distributed amongst the shareholders in the proportion of their entitlements thereto. The sale of such shares will be effected by the Company within a reasonable period of time, following the date on which such scrip dividend is approved by the shareholders.

In determining the number of shares held by a shareholder as at the relevant date for the proposed scrip dividend, the shareholding of the shareholder as appearing in the Central Depository Systems (Pvt.) Ltd. (CDS) and the Shareholders' Register maintained by the Company will not be aggregated for the purpose of calculation. However, if a shareholder holds shares with multiple stock brokers, the shares held with multiple brokers will be aggregated for calculation purpose, and the shares arising as a result of scrip dividend will be uploaded proportionately to the respective CDS accounts held with each broker.

In the opinion of the Board, the consideration for which the shares are to be issued is fair and reasonable to the Bank and to all its existing shareholders.

The Board of Directors emphasises that the aforementioned scrip dividend payment shall be dependent on the adoption of the requisite resolution by the Shareholders of the Company.

The Directors hereby confirm that the issue of shares by way of a scrip dividend is in compliance with the Articles of Association of the Company, the Listing Rules of the Colombo Stock Exchange and the provisions of the Companies Act No. 07 of 2007.

The Board of Directors emphasise that the aforementioned issue of new shares (scrip dividend) in part satisfaction of the final dividend for the year ended December 31, 2010 shall be dependent and subject to the shareholders passing the requisite resolution in this regard.

In the event that the requisite resolution approving the dividend including the part satisfaction thereof by way of a scrip dividend is passed by shareholders, the accounts of shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares arising from such scrip dividend within 07 Market days from and excluding the date on which the shareholders pass the said resolution. Shareholders, who hold shares in scrip form (i.e as share certificates) as per the Register maintained by the Company, will be issued share certificates for the new shares issued in their favour. The new share certificates will be dispatched to shareholders within the aforesaid period of 07 market days.

Attached hereto is the Annual Report comprising the Notice convening the Annual General Meeting for March 30, 2011 and setting out in item (2) thereof the relevant resolution to be passed by the shareholders in the above regard. Shareholders who are unable to attend the meeting in person are entitled to appoint a proxy to attend and vote on their behalf. If you wish to appoint such a proxy, kindly complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Registered Office of the Company not less than 48 hours before the time scheduled for the holding of the meeting.

Yours faithfully,  
By Order of the Board  
Commercial Bank of Ceylon PLC

*(Sgd.)*  
**Mrs. R.R. Dunuwille**  
Company Secretary

## FORM OF PROXY (VOTING SHAREHOLDERS)

I/We .....(NIC No. ....)  
of ..... being a member/s of Commercial Bank of Ceylon PLC hereby  
appoint. ....(NIC No. ....)  
of ..... whom failing:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Dinesh Stephen Weerakkody	whom failing
Mr. Ranjit Michael Samuel Fernando	whom failing
Prof. Uditha Pilane Liyanage	whom failing
Mr. Wadugamudalige Marius Ravindra Srilal Dias	

as my/our Proxyholder to represent me/us to speak at the meeting and to vote on a show of hands or on a poll for me/us on my/our behalf as indicated below at the Forty-Second Annual General Meeting of the Company to be held on March 30, 2011 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
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, 2010 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a Dividend as recommended by the Directors. (Separate Circular attached)	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint/re-elect Directors in place of those vacating/retiring by rotation or otherwise:		
(a) Mr. M.J.C. Amarasuriya	<input type="checkbox"/>	<input type="checkbox"/>
(b) Dr. H.S. Wanasinghe	<input type="checkbox"/>	<input type="checkbox"/>
(c) Mr. R.M.S. Fernando	<input type="checkbox"/>	<input type="checkbox"/>
(d) Mr. D.S. Weerakkody	<input type="checkbox"/>	<input type="checkbox"/>
(e) Prof. U.P. Liyanage	<input type="checkbox"/>	<input type="checkbox"/>
(f) Mr. W.M.R.S. Dias	<input type="checkbox"/>	<input type="checkbox"/>
4. (a) To re-appoint Messrs Ernst & Young, as recommended by the Board of Directors, as Auditors to the Company for the ensuing year,	<input type="checkbox"/>	<input type="checkbox"/>
(b) To authorise the Board of Directors to determine the remuneration of the Auditors.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2011.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hand/seal given on this ..... day of ....., Two Thousand and Eleven.

.....  
Folio Number

.....  
Signature/s  
(Please indicate with an 'X')

### Notes

- (i) Instructions as to completion of this Form of Proxy are given overleaf.
- (ii) As regards voting on the Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the Proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the Shareholder) as to the way in which the Proxyholder should vote, the Proxyholder will vote as he thinks fit.
- (iii) If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration, if such POA has not already been registered with the Company.
- (iv) If the Shareholder is a Company or a Corporate body, the Form of Proxy should be executed under its common seal, if any, or signed by its Attorney or by an officer on behalf of the Company/Corporate body, in accordance with its Articles of Association/Statute.

## FORM OF PROXY (VOTING SHAREHOLDERS)

### Instructions as to Completion of Form of Proxy

- (i) Article 67 of the Articles of Association of the Company provides that:  
“The instruments appointing a Proxy shall be in writing, and  
(a) in the case of an individual shall be signed by the Appointer or by his Attorney; and  
(b) in the case of a Corporation shall be either under its common seal or signed by its Attorney or by an Officer on behalf of the Corporation.  
The Company may, but shall not be bound to, require evidence of the Authority of any such Attorney or Officer. A Proxy need not be a member of the Company.”
- (ii) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.
- (iv) Articles 56 to 59 of the Articles of Association of the Company, dealing with voting are quoted below, for information of shareholders.

### “56. Method of Voting

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

- (i) The Chairman of the meeting; or  
(ii) not less than three persons present in person or by Proxy or Attorney or representative and entitled to vote; or  
(iii) member or members present in person or by Proxy or Attorney or representative and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting; or  
(iv) a member or members present in person or by Proxy or Attorney or representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the meeting that a resolution has been carried, or carried unanimously or by a particular majority, or lost and an entry to that effect in the minute book, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded for or against such resolution.

### 57. How a poll to be taken

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the meeting may direct and the result of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

### 58. Chairman's casting vote

In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is taken shall be entitled to a second or casting vote.

### 59. Time for taking a poll

A poll demanded on the election of a Chairman of the meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately.”

---

### REQUEST TO SHAREHOLDERS

**THE SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE FOLIO NUMBER APPEARING IN THE ADDRESS LABEL PASTED ON THE ENVELOPE, WHICH CONTAINS THE ANNUAL REPORT, IN THE SPACE PROVIDED FOR "FOLIO NUMBER" IN THE FORM OF PROXY, FOR THE CONVENIENCE OF THE REGISTRARS.**

**PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NUMBER" WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.**

## FORM OF PROXY (NON-VOTING SHAREHOLDERS)

I/We .....(NIC No. ....)  
of ..... being a member/s of Commercial Bank of Ceylon PLC hereby appoint  
.....(NIC No. ....)  
of ..... whom failing:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Dinesh Stephen Weerakkody	whom failing
Mr. Ranjit Michael Samuel Fernando	whom failing
Prof. Uditha Pilane Liyanage	whom failing
Mr. Wadugamudalige Marius Ravindra Srilal Dias	

as my/our Proxyholder to represent me/us, and to speak at the Forty-Second Annual General Meeting of the Company which is scheduled to be held on March 30, 2011 and at any adjournment thereof.

In witness my/our hand/seal given on this ..... day of ....., Two Thousand and Eleven.

.....

Folio Number

.....

Signature/s

### Notes

- (i) Instructions as to completion of this Form of Proxy are given below.
- (ii) Shareholders of non-voting shares are entitled only to attend and speak at the meeting.
- (iii) If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration, if such POA has not already been registered with the Company.
- (iv) If the Shareholder is a Company or a Corporate body, the Form of Proxy should be executed under its common seal, if any, or signed by its Attorney or by an Officer on behalf of the Company/Corporate body in accordance with its Articles of Association/Statute.

### Instructions as to Completion of Form of Proxy

- (i) Article 67 of the Articles of Association of the Company provides that:  
“The instruments appointing a Proxy shall be in writing, and
  - (a) in the case of an individual shall be signed by the Appointer or by his Attorney; and
  - (b) in the case of a Corporation shall be either under its common seal or signed by its Attorney or by an Officer on behalf of the Corporation.The Company may, but shall not be bound to, require evidence of the authority of any such Attorney or Officer. A Proxy need not be a member of the Company.”
- (ii) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.

### REQUEST TO SHAREHOLDERS

**THE SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE FOLIO NUMBER APPEARING IN THE ADDRESS LABEL PASTED ON THE ENVELOPE, WHICH CONTAINS THE ANNUAL REPORT, IN THE SPACE PROVIDED FOR 'FOLIO NUMBER' IN THE FORM OF PROXY, FOR THE CONVENIENCE OF THE REGISTRARS.**

**PLEASE NOTE THAT NON-INDICATION OF THE 'FOLIO NUMBER' WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.**







# CORPORATE INFORMATION

## **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(lka) was affirmed by Fitch Ratings Lanka Ltd. (in 2010). The Bank's Bangladesh Operation's credit rating, AA+ was reaffirmed by Credit Rating Information Services Ltd. (in 2009).

## **Compliance Officer**

Mrs. S.M. Dunuwille  
Head of Legal

## **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@slt.net.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  
Prof. U.P. Liyanage  
(*Appointed w.e.f. December 31, 2010*)  
Mr. W.M.R.S. Dias  
(*Appointed w.e.f. December 31, 2010*)

## **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  
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  
Mr. A.L. Gooneratne  
Mr. W.M.R. Dias  
Mr. K.D.N. Buddhipala  
(*Chief Financial Officer/Secretary*)  
Mr. S. Renganathan (*Chief Risk Officer*)

## **Board Nomination Committee**

Mr. M.J.C. Amarasuriya (*Chairman*)  
Mr. B.R.L. Fernando  
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

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.



[www.combank.net](http://www.combank.net)



## This Annual Report is Carbon Neutral

This annual report has been produced by Smart Media - The Annual Report Company whose greenhouse gas emissions resulting from the writing, designing, photography, production, project management, usage of paper and other raw materials, printing and transportation are offset using verified carbon offsets.



The ANNUAL REPORT Company



— Carbonfund.org —