



together to » prosperity



together to prosperity

Everyone has dreams for the future. But sometimes the challenges of the journey ahead can loom larger than the goals we've set for ourselves, keeping our aspirations in the realm of dreams. The journey becomes far easier, though, when we have the right travelling companion.

This is the role of Commercial Bank. We partner with our customers, our shareholders, our employees - with all of our stakeholders - to help realise their vision of the future. As Sri Lanka's premier private bank, we offer a vast range of products and services designed to grow confidence, reward enterprise, foster financial well-being and make dreams come true. Working side by side with our stakeholders, we see clearly that their success drives our success - as we journey together to prosperity.

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Our Vision

"To be the most technologically advanced, innovative and customer friendly financial services organisation in Sri Lanka, poised for future 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"

About Our Bank

Commercial Bank of Ceylon PLC is a licensed commercial bank and a public limited liability company with ordinary shares listed on the Main Board of the Colombo Stock Exchange.

As at end 2013, Commercial Bank had the largest market capitalisation among all listed banking and financial institutions in Sri Lanka and ranked fourth among all listed entities. We are the only Sri Lankan bank represented in the Top 1000 World Banks for three consecutive years, the annual ranking prepared by UK-based publication *The Banker* based on strength of Tier I capital, size of assets, soundness, performance and profitability. We have also been recognised as 'The Best Bank in Sri Lanka' for fifteen consecutive years by the USA based Global Finance Magazine.

Commercial Bank's head office is located at
'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
Colombo 01, Sri Lanka.

5	About this Report
6	Financial and Operating Highlights
8	Letter from the Chairman
10	Managing Director's Review

Management Discussion & Analysis

16	Review of the Economic Environment
23	Organisational Profile
28	Reporting Parameters
33	Stakeholder Engagement
37	Management Approach to Economic, Social and Environmental Parameters
48	Financial Review
56	Stakeholder Analysis
79	Business Model and Strategic Imperatives for Value Creation
123	The Future
125	Strategic Snapshot

Stewardship

130	Board of Directors
134	Corporate Management Team
138	Senior Management Team
142	Corporate Governance
187	Board Human Resources and Remuneration Committee Report
189	Board Integrated Risk Management Committee Report
191	Board Nomination Committee Report
192	Board Audit Committee Report
195	Board Credit Committee Report
196	Board Technology Committee Report
197	Board Investment Committee Report
198	Annual Report of the Board of Directors
208	Directors' Interest in Contracts with the Company
210	Managing Risk at Commercial Bank
241	Investor Relations Supplement

Financial Reports

256	Statement of Directors' Responsibility
258	Directors' Statement on Internal Control
260	Assurance Report on Internal Control
261	Managing Director's and Chief Financial Officer's Statement of Responsibility
262	Independent Auditors' Report
263	Financial Statements - Table of Contents
264	Financial Statement Highlights - Bank
265	Income Statement
266	Statement of Comprehensive Income
267	Statement of Financial Position
268	Statement of Changes in Equity
272	Statement of Cash Flows
273	Notes to the Financial Statements

Annexes

378	Independent Assurance Report to Commercial Bank of Ceylon PLC
379	Key Sustainability Reporting Indicators ('KPI')
380	Independent Assurance Statement on Non-Financial Reporting
383	GRI Content Index: 'In Accordance' - Core
390	Group Structure
391	Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks
396	Income Statement (US \$)
397	Statement of Financial Position (US \$)
398	Decade at a Glance
402	Events - 2013
404	Awards and Accolades
405	Historical Landmarks
406	Correspondent Banks
408	Glossary of Financial and Banking Terms
410	Alphabetical Index
411	Notice of Meeting
413	Circular to the Shareholders
	Form of Proxy (Voting Shareholders) - Enclosed
	Form of Proxy (Non-Voting Shareholders) - Enclosed
	Investor Feedback Form - Enclosed
	Corporate Information - Inner Back Cover

About this Report

Our second Integrated Annual Report

Commercial Bank was the pioneer in Sri Lanka in adopting triple-bottom-line reporting more than a decade ago. Ever since, we firmly believed that any discussion on sustainability couldn't be separated from a broader discussion on the Bank's overall performance. As such, in the past, instead of a separate sustainability report as was then advocated, we included a supplement within the Annual Report detailing sustainability-related information not captured elsewhere. In 2012, we took this approach forward to better reflect our holistic thinking. Accordingly, we produced our first integrated Annual Report. Building on that approach, this annual report explains the Bank's value creation process around the Bank's strategic imperatives.

Structure of the Report

This Report has been structured to communicate more coherently the relationships and interdependence of the various aspects of our business. These aspects include the likes of core competencies, strategic imperatives, management's decisions and actions, governance, risk, compliance, performance and prospects in the context of creating value over time. It will assist the reader, primarily investors,

to assess the **Bank's current year's performance** and **the future potential**. It is the story of our value creation.

The Financial Review, Letter from the Chairman, Managing Director's Review, Financial & Operating Highlights and detailed Financial Statements will assist the reader to assess the current year's performance in comparison to the previous year(s).

The Management Discussion and Analysis in general and the Business Model and Strategic Imperatives for Value Creation in particular, will help the reader in evaluating the Bank's future potential. To facilitate this, these sections carry a detailed analysis of the various stakeholders and a discussion on the initiatives of the Bank for the benefit of those stakeholders

(and the impact thereof) along with initiatives planned for the near future.

Value Creation and Capital Formation

There is duality to the process of value creation, viz. **delivering value to** and **deriving value from** stakeholders. Both aspects are relevant as the ability of the Bank to create value for itself is inextricably linked to the value it creates for its stakeholders. Delivering value essentially involves creating financial and non-financial value for the benefit of the stakeholders, which leads to external capital formation in the form of investor capital, customer capital, regulatory capital, business partner capital and social & environmental capital. Deriving value in turn involves creating value for

the Bank itself, which leads to internal capital formation in the form of financial capital and institutional capital. We call these 'capitals' as they will help us in creating value going forward.

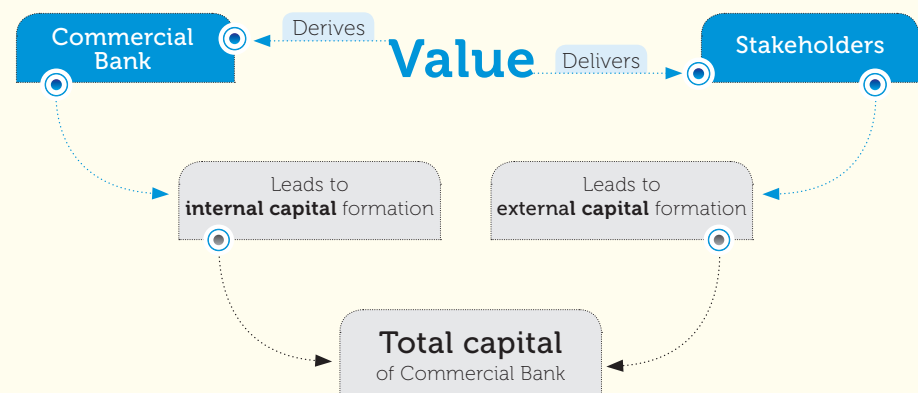
This duality to the process of value creation is depicted in the diagram below.

Concepts, Principles and Guidance

In preparing this report, we have drawn on concepts, principles and guidance from the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4 (2013) [www.globalreporting.org], the International Integrated Reporting Framework (2013) [www.theiirc.org] and the Smart Integrated Reporting Methodology™ [www.smart.lk], where applicable.

Value Creation Process

The principle of duality



Business domain of the Commercial Bank

Financial and Operating Highlights

Financial Highlights

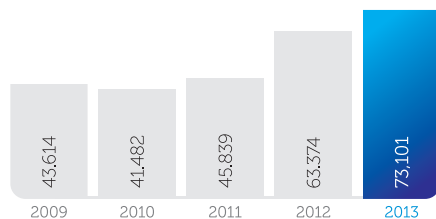
	GROUP			BANK		
	2013 Rs. Mn.	2012 Rs. Mn.	Change %	2013 Rs. Mn.	2012 Rs. Mn.	Change %
Results for the year						
Income	73,101.378	63,373.753	15.35	73,159.580	63,395.047	15.40
Profit before Financial VAT and Taxation	16,654.587	16,287.867	2.25	16,479.473	16,282.646	1.21
Profit Before Taxation (PBT)	14,692.751	14,312.914	2.65	14,510.519	14,295.333	1.51
Provision for Taxation	4,119.294	4,231.747	(2.66)	4,065.008	4,197.004	(3.15)
Profit After Taxation (PAT)	10,573.457	10,081.167	4.88	10,445.511	10,098.329	3.44
Revenue to the Governments	5,959.636	6,078.192	(1.95)	5,905.636	6,043.192	(2.82)
Gross Dividends	5,519.235	5,421.421	1.80	5,519.235	5,421.421	1.80
At the year end						
Shareholders' Funds (Capital and Reserves)	61,446.228	52,968.420	16.01	60,943.999	52,577.000	15.91
Deposits	451,098.946	390,568.682	15.50	451,152.923	390,611.548	15.50
Gross Loans and Advances	379,237.437	343,739.337	10.33	379,252.897	343,797.081	10.31
Total Assets	607,192.266	512,220.640	18.54	606,607.105	511,742.708	18.54
Information per Ordinary Share (Rs.)						
Earnings (Basic)	12.45	12.11	2.81	12.31	12.13	1.48
Earnings (Diluted)	12.43	12.09	2.81	12.29	12.11	1.49
Dividends - Cash	-	-	-	4.50	4.50	-
Dividends - Shares	-	-	-	2.00	2.00	-
Net Assets Value	72.37	63.55	13.88	71.78	63.08	13.79
Market value at the year end - Voting	N/A	N/A	-	120.40	103.00	16.89
Market value at the year end - Non-voting	N/A	N/A	-	93.00	91.10	2.09
Ratios						
Return on Average Shareholders' Funds (%)	18.48	20.76	(2.28%pt)	18.40	20.96	(2.56%pt)
Return on Average Assets (%)	1.89	2.11	(0.22%pt)	1.87	2.12	(0.25%pt)
Price Earnings (times) - Ordinary Voting Shares	N/A	N/A	-	9.79	8.50	15.18
Price Earnings (times) - Ordinary Non-voting Shares	N/A	N/A	-	7.56	7.52	0.53
Year-on-year growth in Earnings (%)	4.88	27.09	(22.21%pt)	3.44	28.10	(24.66%pt)
Dividend Yield (%) - Ordinary Voting Shares	N/A	N/A	-	5.40	6.31	(0.91%pt)
Dividend Yield (%) - Ordinary Non-voting Shares	N/A	N/A	-	6.99	7.14	(0.15%pt)
Dividend Cover on Ordinary Shares (times)	N/A	N/A	-	1.89	1.86	1.61
Statutory Ratios:						
Liquid Assets (%)	N/A	N/A	-	34.05	25.79	8.26%pt
Capital Adequacy Ratios:						
Tier I (%) - Minimum requirement 5%	13.30	12.63	0.67%pt	13.27	12.64	0.63%pt
Tier I & II (%) - Minimum requirement 10%	16.93	13.84	3.09%pt	16.91	13.85	3.06%pt

Financial Goals and Achievements

Financial Indicator - Bank	Goal	Achievement				
		2013	2012	2011	2010	2009
Return on Average Assets (ROA) (%)	Over 2%	1.87	2.12	1.94	1.60	1.43
Return on Average Shareholders' Funds (ROE) (%)	Over 20%	18.40	20.96	20.28	17.87	15.83
Growth in Income (%)	Over 20%	15.40	38.25	10.45	(5.07)	(0.85)
Growth in Profit After Taxation (%)	Over 15%	3.44	28.10	42.72	28.30	0.86
Growth in Total Assets (%)	Over 15%	18.54	15.95	18.95	14.81	14.82
Dividend per Share (DPS) (Rs.)	Over Rs. 5.00	6.50	6.50	6.00	7.00	7.00
Capital Adequacy Ratios - Group						
Tier I (%) - Minimum Requirement 5%	Over 8%	13.30	12.63	12.11	10.86	11.92
Tier I & II (%) - Minimum Requirement 10%	Over 13%	16.93	13.84	13.01	12.26	13.93

Non-Financial Indicators

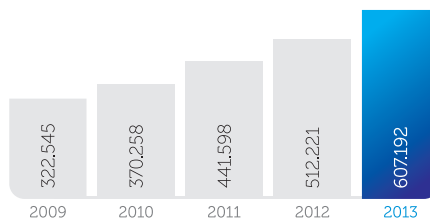
		2013	2012	2011	2010	2009
Customers	Growth in No. of Deposits & Advances Accounts (%)	7.26	12.19	8.93	7.55	15.71
	No. of Customer Touch Points					
	Branches - In Sri Lanka	235	227	213	187	172
	Branches - In Bangladesh	18	17	17	17	15
	ATMs - In Sri Lanka	585	555	497	401	355
	ATMs - In Bangladesh	19	17	17	13	13
Employees	Total No. of employees	4,730	4,602	4,524	4,321	4,071
	Average hours of training per employee per year	32.54	22.59	25.48	22.22	20.45
	Employee turnover ratio (%)	4.29	3.28	3.82	3.36	2.82
Business Partners	Assets purchased (other than investments) (Rs. Mn.)	969.00	996.74	1,149.50	830.84	665.45
	No. of Correspondent Banks	48	47	47	47	50
Government Institutions	Taxes to Governments (Rs. Mn.)	6,191.58	6,257.83	4,693.01	6,503.01	5,150.97
	Taxes collected on behalf of Governments (Rs. Mn.)	977.94	621.36	498.94	473.36	711.99
Community	Donations (Rs. Mn.)	51	51	110	57	22



Gross Income (Rs. Bn.) - Group

Rs. 73.101 Bn.

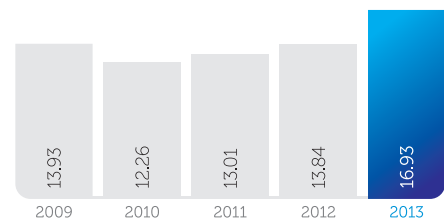
2012: 63.374 Bn. Growth: 15.35%



Total Assets (Rs. Bn.) - Group

Rs. 607.192 Bn.

2012: 512.221 Bn. Growth: 18.54%



Total Capital Adequacy Ratio (%) - Group

16.93%

2012: 13.84% Growth: 3.09%pt

Operating Highlights

Global Finance adjudged the Bank as 'The Best Bank in Sri Lanka' for the 15th consecutive year

Trade Finance Magazine, UK - adjudged the Bank as 'The Best Local Trade Bank in Sri Lanka'

The Bank's Bangladesh Operation's Credit Rating was re-affirmed at AAA by the Credit Rating Information Services Ltd.

Successfully raised a 10-year subordinated term debt of US \$ 75 million from the IFC which qualified for tier II Capital Base

Bank's number of online banking subscribers surpassed 100,000 in Sri Lanka and this product was launched in Bangladesh

Commercial Bank Opens '24 Hour Automated Banking Centre' at Ward Place, Forex ATM - Crescat Boulevard.

Only Sri Lankan Bank to be ranked among the Top 1000 Banks in the World for the third consecutive year - by 'The Banker'

Total assets crossed the Rs. 600 Bn. mark

Letter from the Chairman



Dear Friends,

Global activity and world trade showed signs of recovery in the second half of 2013, although overall, year over year growth dipped marginally from 3.1% in 2012 to 3.0% in 2013. While the deepest point of the recession has long passed, its lingering effects are still being felt in the countries that were hit hardest. Further, we continue to see dramatic changes unfolding across all economies, both in the realignment of regulatory frameworks governing the financial system, and in the rapidly evolving needs and expectations that are reshaping local markets.

Within this broad context, the Sri Lankan economy recorded healthy progress over the past year, with the Central Bank of Sri Lanka estimating a GDP growth of 7.2%. Notwithstanding an expansion of the national economy, a number of factors made it a challenging year for the banking sector. Most significantly, credit growth was relatively flat. However, towards the end of the year the demand for corporate credit improved significantly.

Overall, while the economic outlook remains positive, both the domestic context and the global environment present risks that must be carefully monitored and managed. In the banking sector, asset quality will continue to need close attention.

Our Performance in 2013

Against this backdrop, Commercial Bank Group turned in a strong performance in 2013. Total assets crossed the Rs. 600 Bn. mark and reached Rs. 607 Bn., reflecting a growth of 18.5%. Deposits from customers and loans & advances grew by 15.5%

and 10.3% to reach Rs. 451 Bn. and Rs. 391 Bn. respectively. Net interest income and non-fund based income recorded reasonable growth in line with the growth in business volumes and net profit for the year growing by 4.9% to reach Rs. 10.573 Bn. further reinforcing our pre-eminent position as the largest and the most profitable private sector bank. We continue to be the only Sri Lankan private sector bank to be ranked among the World's Top 1000 Banks.

Taking into account the overall performance of the Bank, I am pleased to inform shareholders that the Board of Directors has decided to propose a final dividend of Rs 4.00 per share. This along with the interim dividends paid amounts to a total dividend per share of Rs. 6.50 for the year, a total payout of 52.8%.

Our Priorities Going Forward

Working closely with Commercial Bank's leadership team, the Board of Directors has identified a series of key priorities for the coming year. We will continue to expand and deepen the Bank's talent pool by investing in employees' training and development, and by fostering their leadership abilities to build a Leadership brand that reflects the expectations of the customers outside the company. We will continue to explore new markets where we can expand our remittance business - following the successful lead of our Italian subsidiary, Commex Sri Lanka SRL. We will also invest in information technology, the backbone of our day-to-day operations and the key to future growth. Building on our strength in technology will enable us to realise new levels of cost-efficiency while dramatically improving the delivery of our products and services and expand our support

for person-to-person mobile payments and also look at how we can incorporate "lifestyle" content to provide a rich user experience. We will widen the scope of our fee based services and our business advisory. We will continue to expand our regional presence into markets that historically have been underserved, while at the same time strengthening our existing networks in Sri Lanka, Bangladesh and the Middle East.

Outlook for 2014

With interest rates expected to remain low, we anticipate a corresponding rise in demand for credit in the private sector. In addition to the positive impact on the Bank's performance, this renewed credit activity is expected to stimulate the entire Sri Lankan economy, and with Sri Lanka poised to become a regional and an international services hub, there would be new opportunities for public-private partnerships. A continued low-interest environment may also spark growth in the property market, with an increase in both commercial real estate financing and consumer housing loans. We also expect to see new life and general buoyancy in capital markets.

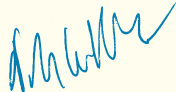
As Sri Lankan enterprises improve their governance structures, risk and compliance policies and practices, they will be better positioned to seek alternative sources of funding overseas. Easier access to capital abroad will increase competitive pressure in the domestic banking sector. Furthermore in light of the move to create an enabling environment for consolidation to create larger and stronger financial institutions that are well capitalised, with strong regional presence, the banking sector would derive scale benefits with regard to operational cost and also be able to participate in large projects to a greater degree than now.

Our Commitment

Commercial Bank's willingness to work towards the greater good in collaboration with our stakeholders is a part of a larger commitment to corporate responsibility that cuts across every aspect of our business. Our Bank strives to make a difference and constantly measures our performance against the triple bottom line, in particular, I would like to commend the achievements of the Corporate Social Responsibility (CSR) Trust Fund, the main vehicle through which Commercial Bank supports social and environmental initiatives.

The Bank's vision of responsible management is reflected in our decision to once again produce an integrated annual report encompassing both a comprehensive review of financial performance and a rigorous evaluation of our progress towards making it sustainable.

In closing, let me thank my colleagues on the Board for their invaluable guidance and valued contributions to our progress. I would like to express my appreciation to Mr. Ravi Dias, the Bank's Managing Director and CEO for his leadership and commitment, and also to the entire management team and employees for their passion and competence in bringing our Bank's vision and strategies to life - as well as to our customers and partners. The fruits of all their collective efforts are evident throughout this report and in the countless success stories of our stakeholders as we journey together to find new ways to deliver on our enduring values.



Dinesh Weerakkody
Chairman

February 24, 2014

Commercial **Bank's willingness to work towards the greater good in collaboration with our stakeholders is a part of a larger commitment to corporate responsibility** that cuts across every aspect of our business. Our Bank strives to make a difference and constantly measures our performance against the triple bottom line.



Managing Director's Review



Total assets grew by 18.54% to Rs. 607 Bn. with deposits and gross loans & advances growing by 15.50% and 10.31% to Rs. 451 Bn. and Rs. 379 Bn. respectively. It is noteworthy that **the Bank has been able to maintain compound annual growth rates in excess of 18% in both deposits and loans & advances over the past decade**



The year 2013 proved to be a challenging year for the banking sector in Sri Lanka. Despite a lower demand for credit, a narrowing of margins and rising levels of non-performing loans, our operational resilience saw us stay ahead of the industry. The Bank concluded the year with profit after tax recording Rs. 10.445 Bn. and total assets surpassing Rs. 600 Bn.

Global Context

Global economic activity and trade picked up in the second half of 2013, with world output averaging a 3.0% YoY growth (2012: 3.1%), we see a clear shift in economic power away from advanced economies to emerging economies. That situation, whilst still prevalent, shows slight change with growth in advanced economies picking up whilst emerging economies are entering a slower phase of growth. However, in a more positive light, an increase in exports could be expected as advanced economies continue to grow; and stronger domestic consumption could support greater economic activity in emerging economies.

Operating Environment

Sri Lanka's economy grew by an estimated 7.2% in 2013, after averaging 7.5% growth rates in the previous three years. The subdued global growth which negatively impacted exports and the lag effect of tight

monetary policy measures introduced in 2012 were some of the factors that impacted economic growth during 2013.

The industry and services sectors contributed significantly to the growth of the economy, largely driven by increased domestic demand, continued infrastructure development and growth in tourism.

The Sri Lanka Rupee was relatively stable with increased flow of capital into the banking sector, which included bond issuances by banks. The Sri Lanka Rupee depreciated by 2.34% against the US \$ in 2013, a phenomenon that was common with many competing trading nations.

The lowering of policy interest rates and the Statutory Reserve Ratio saw market interest rates decreasing during the year. Inflation was controlled to single digit levels.

The Banking sector posted a moderate growth in assets. Non-performing loans (NPL) increased across the industry, largely due to a global decline in the price of gold that affected recoveries of gold-pledged loans. However, strong capitalisation and liquidity helped maintain stability of the banking sector throughout the year.

Financial Performance in Summary

The Bank continued its growth momentum despite challenges in the banking sector, and stayed ahead of industry average growth rates in business volumes and the underlying streams of revenue.

Total assets grew by 18.54% to Rs. 607 Bn. with deposits and gross loans & advances growing by 15.50% and 10.31% to Rs. 451 Bn. and Rs. 379 Bn. respectively. It is noteworthy that the Bank has been able to maintain compound annual growth rates in excess of 18% in both deposits and loans & advances over the past decade.

The forecast demand for credit in 2013 failed to take off, while asset quality deteriorated. The NPL ratio increased across the industry to levels not seen in recent times, fuelled in part by gold backed advances. The Bank contained the rise in NPLs through constant monitoring and focused recovery efforts, closing the year with an NPL ratio of 3.88% as against an industry average of 5.4%.

Margins came under pressure in the wake of a declining interest rate regime which saw assets being re-priced faster than the liabilities. Accordingly, while the Bank's interest income grew by 18.03%, a higher 23.63% increase in interest expenses saw the net

interest margin decreasing from 4.80% in 2012 to 4.53% during the year.

On the brighter side, we bettered many key performance indicators. The Bank's cost to income ratio improved to 46.32% (2012: 47.02%), while capital adequacy ratios grew from 12.64% to 13.27% for Tier I and from 13.85% to 16.91% for Tier I & II during the year.

Moving forward, we expect interest rates to be stable in 2014 and provide the impetus for a higher credit growth. Indeed, we had already seen some upward momentum in commercial lending during the fourth quarter.

As we head into 2014, many commercial projects that were not previously deemed financially viable could gain new life in this more favourable interest rate environment. Even though our margins will be leaner, it would be compensated through growth in volume and improved asset quality with borrowers finding their credit obligations more affordable.

Focused on Customers

The Bank provides a full spectrum of products and services, delivered through one of the widest networks among the Sri Lankan banks - with 235 customer service points and the country's largest network of 585 ATMs. To further underline our leadership in customer convenience,

we opened a 24-hour automated banking centre in Colombo, along with 8 new branches in Sri Lanka and another one in Bangladesh during the year. In addition, we introduced Saturday and Sunday banking at a number of strategically located branches.

Commercial Bank has the largest active debit card base in Sri Lanka. We issued more than 400,000 new cards during the year, bringing the total number in use to a record 3 Mn. Purchases made using Debit Cards too grew by more than 30% YoY. At the same time, we kept pace with customers' changing preferences by offering easier access to products and services via Internet and mobile banking. By promoting this channel migration, we not only make banking more convenient to the customer but also significantly reduce the transaction costs for the Bank.

Taken together, these customer-focused efforts inspire deeper loyalty, which in turn translates into value for shareholders. Our customers appreciate the confidence that comes from dealing with a responsible and a strong bank, and investors experience such confidence for the same reasons.

Efficiency and Productivity

Commercial Bank's cost-to-income ratio (at 46.32% in 2013) continues to make us

a leader among Sri Lankan banks and provides tangible evidence of our commitment to containing costs, rethinking processes, investing in technology and effective deployment of staff. The result is a more efficient, productive and profitable enterprise.

Ensuring Capital Strength

Taking a step to further reinforce our capital base, we negotiated a loan from the International Finance Corporation (IFC) through a 10-year, US \$ 75 Mn. subordinated debt instrument. While this gives us space for future business expansion, the bullet repayment on maturity gives us considerable freedom to structure our capital planning accordingly.

Intensifying Risk Management

In addition to improving the quality of our asset portfolio, we undertook a comprehensive risk analysis of Commercial Bank's operations, including the activities of our subsidiaries during the year.

As part of a renewed focus on managing operational risk, all Debit and Credit Cards issued by the Bank incorporated chip technology, which provides the best protection against card fraud. We also introduced new data encryption and other security solutions aimed

at protecting customers' transactional and personal information.

In addition, the Bank became the First Sri Lankan financial institution to be certified to ISO 27001:2013, the premier global standard for information security. The Bank's Integrated Risk Management Department constantly monitors IT systems security and assists all our business divisions in minimising the risks inherent in day-to-day banking operations.

Implementation of Basel II Framework on risk and capital management in the Bank progressed well during the year under review in line with the guidelines issued by the regulator.

The Bank initiated implementing software solutions in credit, market and operational risks to facilitate migration towards advanced approaches in Basel II in the future, subject to regulatory approval. Once these projects are completed within the first quarter of 2014, the Bank would look forward to reaping the benefits of a quality database to enhance risk-based decision-making in the medium term.

The Bank also completed its Internal Capital Adequacy Assessment Process (ICAAP) framework during the year. It covers all material risks, corporate governance, internal control framework, capital planning and risk management to ensure sufficient risk management practices are in place and

adequate capital is available to support all existing and potential risks.

Apart from facilitating the regulatory review process, the ICAAP framework will add value to the Bank's strategic planning processes by way of objective capital allocation, understanding risk profiles of different business lines and assessing the impact of stress scenarios on capital adequacy.

Strengthening the Back Office

In tandem with improvements in the IT area, we strengthened many back office processes to improve productivity and ensure stability of operations. Across the board, from the introduction of state-of-the-art software and systems at Treasury to a general emphasis on centralising processes wherever possible, our focus was on having the Bank operating more securely and effectively while keeping costs relatively low.

Opportunities in Consolidation

The Government of Sri Lanka, in its budget proposals for 2014, has called for greater consolidation in the domestic banking industry. This goal was outlined more explicitly by the Central Bank of Sri Lanka in two key strategy documents, *Road Map 2014* and *Plan for Consolidation of the Financial Sector*.

The Central Bank envisions a measured but purposeful consolidation process that will ultimately see the country's financial services sector revolves around a few large and strong banks and non-banking financial institutions. The macroeconomic goal is to shape a financial sector that is more stable and resilient, with the capital strength required to reinforce confidence in a maturing consumer economy while helping to fuel long term growth.

From the perspective of Commercial Bank, the proposed financial sector consolidation would allow us to move into different market segments. Encouraged by this, we have begun exploring opportunities for investing in an established business whose scope of operations and product/service offering complement our own.

Together to Prosperity

In 2013, *The Banker* magazine ranked Commercial Bank among the Top 1000 Banks in the World for the third consecutive year. This distinction recognises our success in relation to a number of key measures, including capital strength, assets, financial soundness, performance and profitability. Even more fundamentally, it reflects the strength of our people. Only through their continued, commitment, hard work and dedication, supported by

effective management and planning, can Commercial Bank continue to deliver the strong performance that stakeholders expect of Sri Lanka's leading private sector bank.

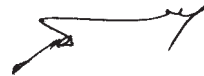
The strong values and collaborative spirit of our staff are also reflected in our commitment to corporate responsibility. As in the previous year, this Annual Report 2013 integrates the Bank's financial and sustainability performance in a single comprehensive review.

I will close by conveying my thanks to the Chairman and the Board of Directors for their diligence and wise counsel provided. I also thank each and every member of the Commercial Bank team for their untiring efforts, loyalty and commitment to the Bank. Further, I wish to acknowledge the valuable contribution made by our team members who retired in 2013 after long years of committed service to the Bank.

I would also wish to express my gratitude to the Central Bank of Sri Lanka and its officers for their guidance on regulatory matters and to the Bank's External Auditors, Messrs KPMG, for their professional advice and timely completion of the audit.

The years ahead undoubtedly hold both challenge and opportunity, often as two sides of the same coin. I feel the Bank

is well-placed to leverage such situations to its advantage and in so doing journey together with our stakeholders to prosperity.



Ravi Dias
Managing Director/CEO

Colombo
February 24, 2014

Management Discussion and Analysis

SCAN to view
the HTML web version of the Management Discussion & Analysis
<http://combank2013.annualreports.lk/ip/mdaa.html>



<u>Review of the Economic Environment</u>	16
<u>Organisational Profile</u>	23
<u>Reporting Parameters</u>	28
<u>Stakeholder Engagement</u>	33
<u>Management Approach to Economic, Social and Environmental Parameters</u>	37
<u>Financial Review</u>	48
<u>Stakeholder Analysis</u>	56
<u>Business Model and Strategic Imperatives for Value Creation</u>	79
<u>The Future</u>	123
<u>Strategic Snapshot</u>	125

Review of the Economic Environment

The Global Economy

Overall, the global economy shifted into a lower gear throughout 2013, driven by new forces and threatened by persistent risks. The focal point of the year's story continued to be China and other Emerging Market Economies (EMEs), which, while not seeing the elevated growth of recent years, continued to lead the way globally. Their performance is projected to remain higher than the advanced economies in the coming year.

The United States, the traditional driver of the world economy, experienced modest growth over the past year, fuelled by solid private demand. While Japan's economy has seen a vigorous rebound, its growth is expected to slowdown in 2014 by the country's tightened fiscal policy. In Europe, the member states of the Euro area have begun to climb out of recession, but while the threat of a contraction is declining, the overall economic forecast is tepid.

Since 2010, the growth rates of EMEs and other developing countries were down about 3%, with significant slowdowns in Brazil, China, India and Russia. Southeast Asia experienced economic

turbulence, notably in the form of high inflation. India in particular saw its growth forecasts downgraded by the International Monetary Fund and World Bank due to high and persistent inflation, heavy capital outflows and the sharply devalued Rupee.

The Global Banking Industry

The banking industry worldwide is being radically transformed by regulatory change in the wake of the global financial crisis. Most banks are restructuring to reduce complexity and meet new oversight requirements. As part of this simplification process, many institutions are dropping some product lines and even withdrawing from entire markets. To manage costs, many are exploring the possibility of sharing selected back-office functions.

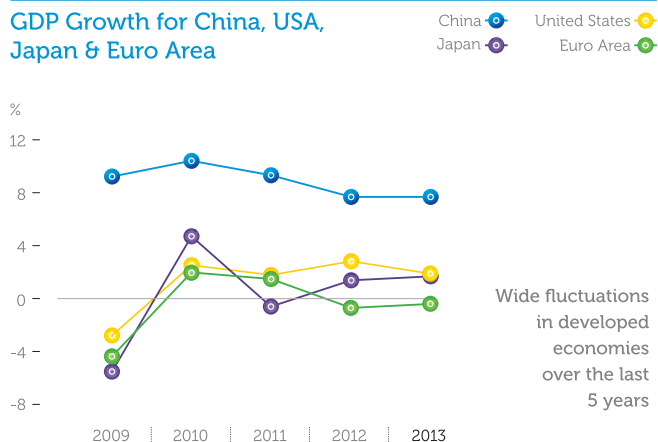
Further, Banks in emerging markets face unique challenges. Rather than scaling back, they must gear up, reforming structures and key functions to better meet the needs of customers who have recently experienced substantial growth - and to prepare for the next wave of expansion.

World Economic Outlook

	2012 %	2013 %	Projections
			2014 %
World Output	3.1	3.0	3.7
Advanced Economies	1.4	1.3	2.2
United States	2.8	1.9	2.8
Euro Area	-0.7	-0.4	1.0
Japan	1.4	1.7	1.7
United Kingdom	0.3	1.7	2.4
Emerging and Developing Economies	4.9	4.7	5.1
Developing Asia	6.4	6.5	6.7
China	7.7	7.7	7.5
India	3.2	4.4	5.4

Source: IMF

GDP Growth for China, USA, Japan & Euro Area



Source: IMF

Issues Identified as Most Important when Considering Structural Changes



Source: EY/Financial Times survey on structural reform of European banks 2013

Looking Beyond Banks

Rapid change in the banking industry is leaving many business leaders scratching their heads, wondering how their organisations should cope with the paradigm shift. Some are looking beyond banks for banking services. A number of retailing, technology and telecommunications enterprises are drawing on their vast customer bases and transactional expertise to expand banking and payment services.

Source: World Bank (Financial Inclusion)

Recovering Financial Health

A recovering economy requires healthy banks. However, five years after the

onset of the global financial crisis, the financial positions of key players in various banking systems worldwide are at different stages of recuperation. US banks have recovered the furthest, while some European institutions have a long way to go.

Banks in the periphery of the Euro area are particularly challenged as they cope with significant structural issues, increased funding costs, deteriorating asset quality and weak profitability. Although, other European banks are less pressured, they must continue the process of lowering risk and debt levels to be effective in advancing the economic recovery.

Smarter, Simpler, Better Focused

While large institutions continue to play a dominant role in the global banking system, markets and regulators are forcing banks to become smaller, simpler and more focused on servicing their home territories. Many are repairing the liabilities side of their Balance Sheets by reducing the use of wholesale, short-term and cross-border funding.

Outside Europe, banks are experiencing similar pressure to change their business models with the goal of improving profitability. Such change does not come without risks to financial stability. There is a growing need to monitor the challenges posed by cross-border expansion, increased concentration in some markets and the shift of certain financial intermediation activities from the banking to the non-banking sector.

The Sri Lankan Economy

The Sri Lankan economy continues on its steady upward path, growing at an average annual rate of 7.5% in each of the past three years. Overall GDP is estimated to have grown by 7.2% in 2013, with expansion in the industry, services and agricultural sectors tracking at an estimated 9.2%, 6.7% and 4.1% respectively.

Strong performance in the industry and service sectors was given a boost by a number of factors, notably increased domestic demand and normalisation of the Sri Lankan economy, continued infrastructure development, increased private investments, the revival of the tourist industry, the removal of the ceiling on credit expansion and lowered interest rates.

Expenditure on private consumption - which accounts for 70% of GDP - remained as the principal engine of economic expansion, fuelled by rising incomes combined with higher remittances from Sri Lankans working abroad.

Exchange Rate

Over the past year, stability was maintained in the foreign exchange market with the substantial increase in inflows including increased flow of capital into the banking sector.

Many trading nations that compete with Sri Lanka experienced currency depreciation in 2013, posing a challenge to our country's exporters. The Sri Lankan Rupee (LKR) depreciated approximately 2.34% against the US \$ (USD) in 2013, compared to a 12.28% depreciation in 2012. The Rupee also depreciated against the Euro by 6.8% and the Sterling Pound by 4.7% during 2013.

Foreign Funds

Foreign direct investment increased in Sri Lanka by 42% during the first nine months of 2013, compared to the same period in 2012. Capital inflows to Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs) amounted to US \$ 1,548.3 Mn. in 2013; bond issuances by LSBs accounted for US \$ 850 Mn. of this amount.

Sri Lanka's gross official reserves amounted to US \$ 7.2 Bn. by the end of the year - which was equivalent to 4.5 months of imports.

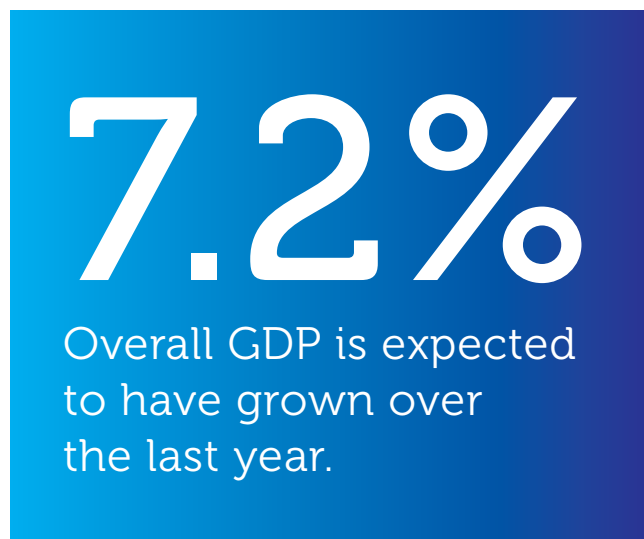
Inflation

Inflation as measured by the Colombo Consumers' Price Index (CCPI) declined during 2013. Softer international commodity prices and improved domestic supply helped to contain the rate of inflation.

Interest Rates

Overall, there was downward movement in Treasury yield rates, as well as lending and deposit rates of major commercial banks. The prime lending rate declined from a peak of 14.4% in early March 2013 to 9.88% by the end of December - a reduction of 452 basis points.

As interest rates have declined, industrial enterprises have increasingly raised funds from the corporate debt market. In 2013, funds raised through debentures amounted to Rs. 68.3 Bn., compared to Rs. 12.5 Bn. in 2012. Both financial and non-financial institutions raised funds through listed debentures during the year.

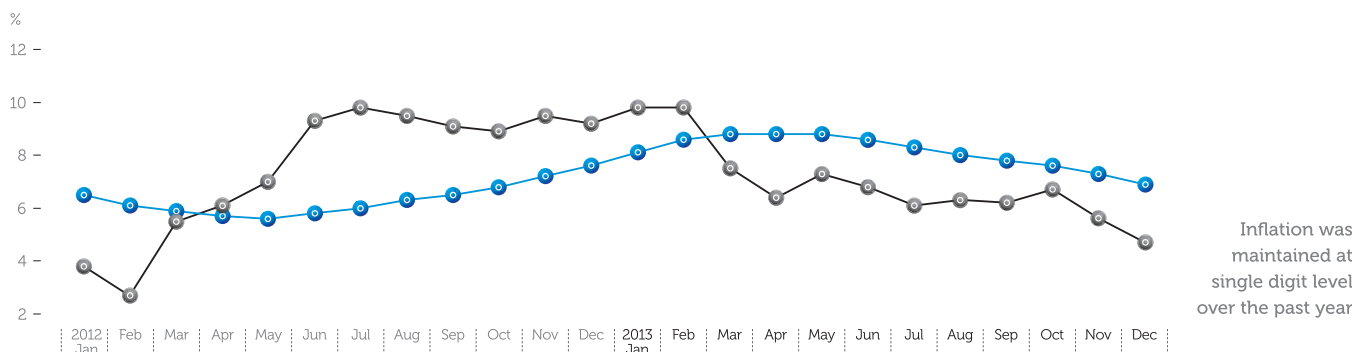


Funds Raised Through Listed Debentures

	2013 Rs. Bn.	2012 Rs. Bn.
Banks		
Licensed Commercial Banks	33.4	12.5
Licensed Specialised Banks	2.0	-
Licensed Finance Companies	21.9	-
Non-Financial Institutions		
	11.0	-
Total	68.3	12.5

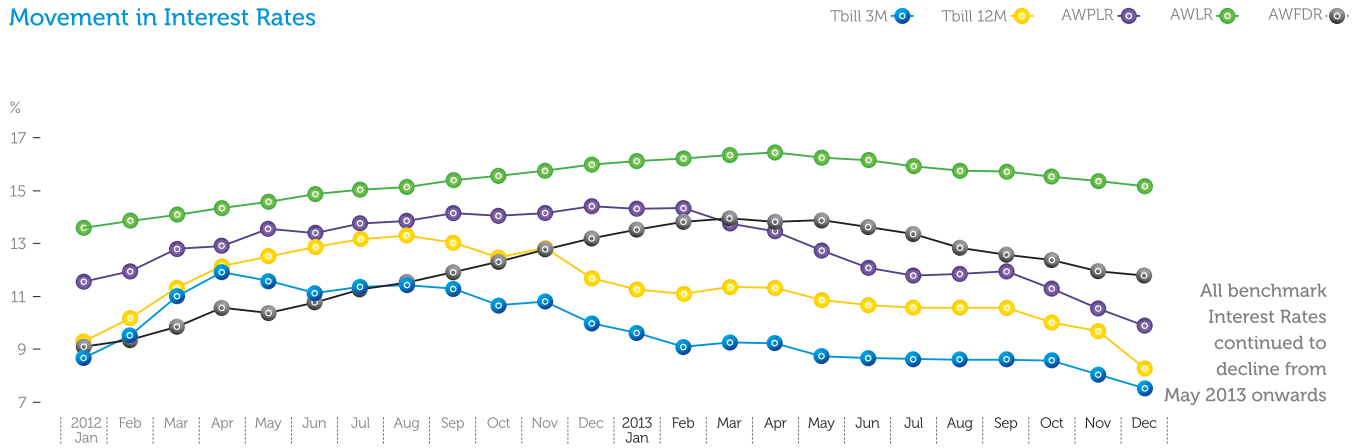
Source: CSE

Inflation (CCPI)



Source: CBSL

Movement in Interest Rates



Source: CBSL

From January to September 2013, the amount of credit extended to Government, corporations and the private sector showed an overall decline. However, the private sector reversed this trend during October and November with a modest increase in assumed credit. An anticipated reduction in

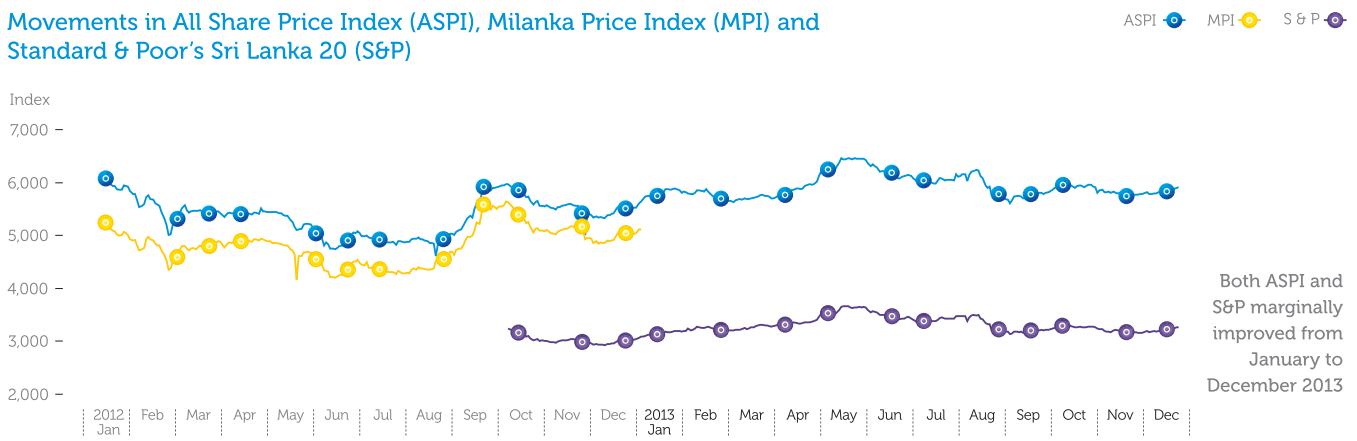
interest rates through 2014 should help further to boost private sector credit growth.

The Share Market

Mirroring the macro-economic conditions prevailing in the country, the Sri Lankan bourse experienced mixed results in

2013. Even so, net foreign investments in the market amounted to US \$ 264 Mn. in 2013. Market capitalisation increased to Rs. 2.5 Tn. by the end of 2013 compared to Rs. 2.2 Tn. in 2012.

Movements in All Share Price Index (ASPI), Milanka Price Index (MPI) and Standard & Poor's Sri Lanka 20 (S&P)

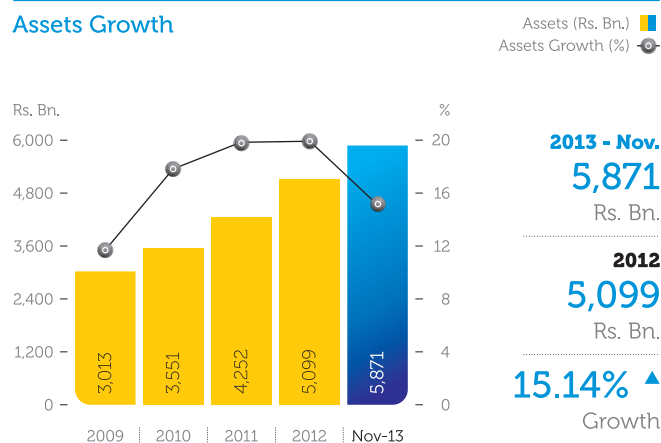


Source: CSE

The Banking Sector

In 2013, the banking sector expanded both in business volumes and points of contact in the communities it serves.

Assets Growth



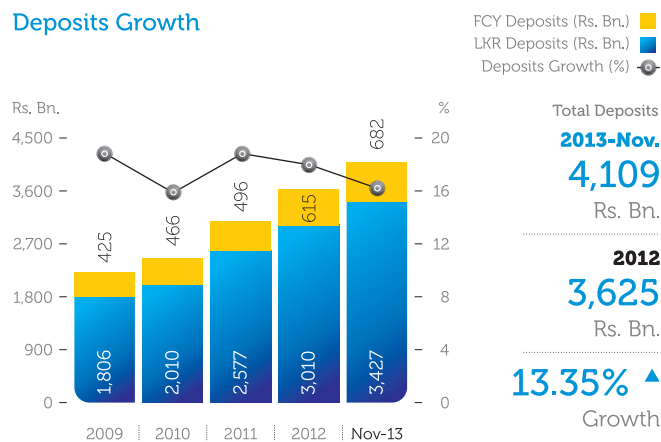
Source: CBSL

Delivery channels	2013 (Sep.)	2012 (Dec.)
Branches (No.)	3,426	3,359
Other outlets (No.)	3,031	3,031
ATMs (No.)	2,496	2,415

Source: CBSL

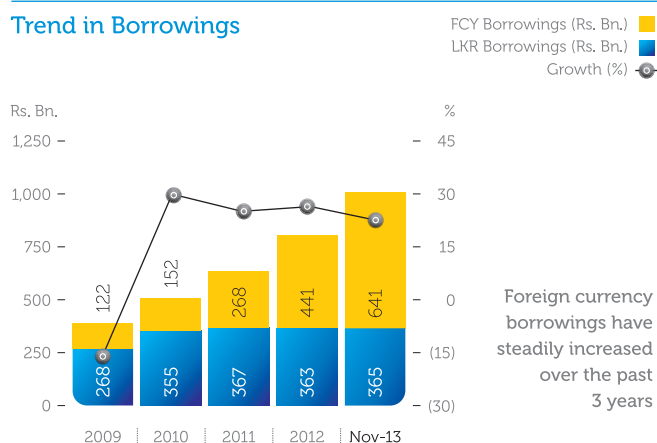
The funding structure of the Sri Lankan banking sector also experienced a positive change, with the recent orientation towards local debt and equity markets and foreign borrowing.

Deposits Growth



Source: CBSL

Trend in Borrowings



Source: CBSL

On the strength of its balance sheets, the banking sector raised US \$ 1,548.3 Mn. in 2013 through foreign borrowings, compared to US \$ 973 Mn. raised in the year before.

Alongside, rising NPLs and higher provisioning requirements have adversely affected capital positions of banks. Relying mostly on retained earnings, the equity of banks is

Funds Raised by the Banking Sector

Original Maturity	US \$ Mn.	% of Total
1 year	89.30	5.80
5 years	1,350.00	87.20
7 years	10.00	0.60
10 years	99.00	6.40
Total	1,548.30	100.00

Strong capitalisation and liquidity preserved the stability of the banking sector throughout the year.

unlikely to increase unless domestic equity markets rebound to support capital-raising initiatives.

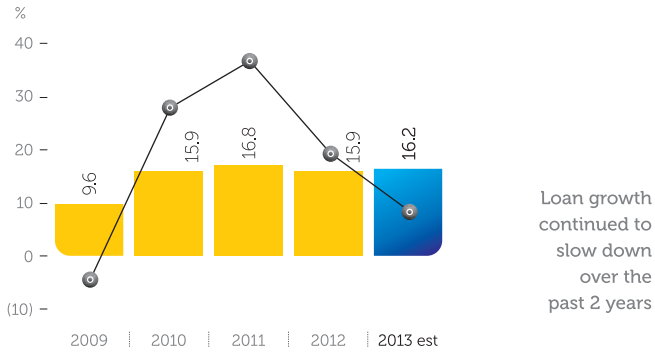
The banking industry experienced a general deterioration in asset quality throughout 2013, reflecting banks' operational challenges and the delayed effects of rapid lending from years before. The surge in non-performing loans (NPLs) from gold-backed borrowing (pawning) caused the sharp overall rise in NPLs in 2013.

The funding of Sri Lankan banks will continue to depend largely on their deposits. Lower demand for loans provided some respite for the sector's loans-to-deposits ratio, which nevertheless remains relatively high at 82%.

Key Performance Trends of the Banking Industry

Nominal GDP Growth & Loan Growth

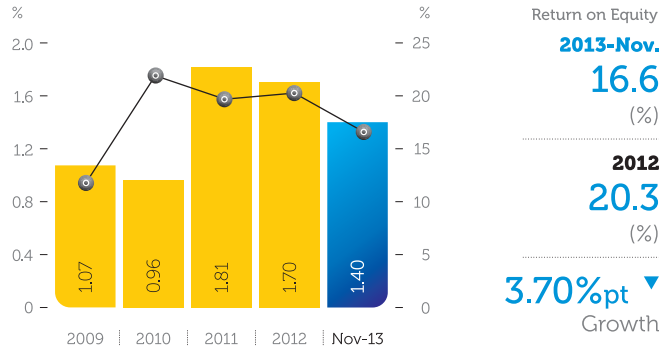
Nominal GDP Growth Loan Growth



Source: Fitch, CBSL

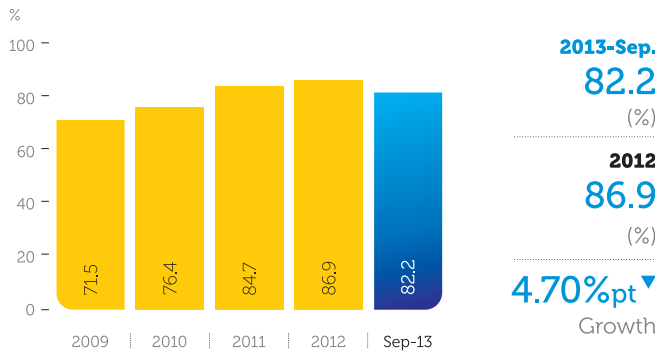
Return on Assets & Return on Equity

Return on Assets (Left) Return on Equity (Right)



Source: Fitch, CBSL

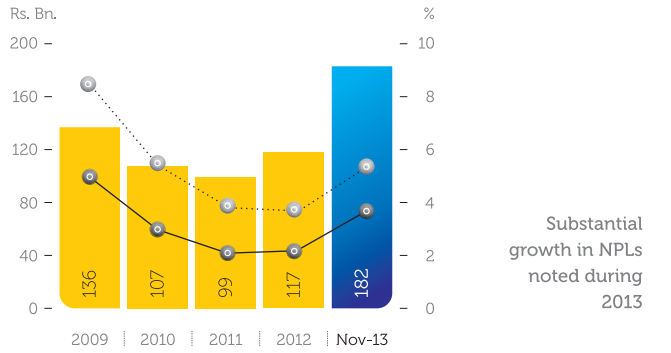
Loans to Deposits Ratio



Source: Fitch, CBSL

Trend in NPLs

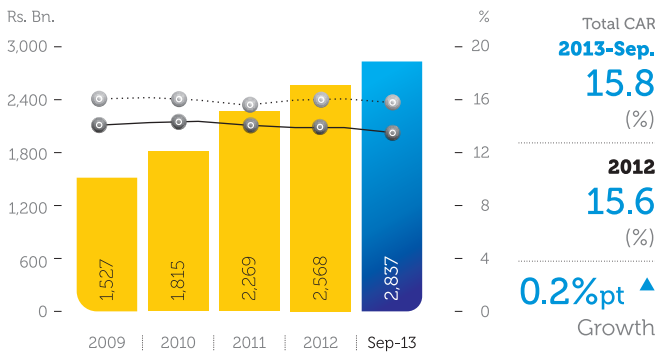
Gross NPL Volume (Rs. Bn.) Gross NPL Ratio (%) Net NPL Ratio (%)



Source: CBSL

Trend in Capital Adequacy Ratios

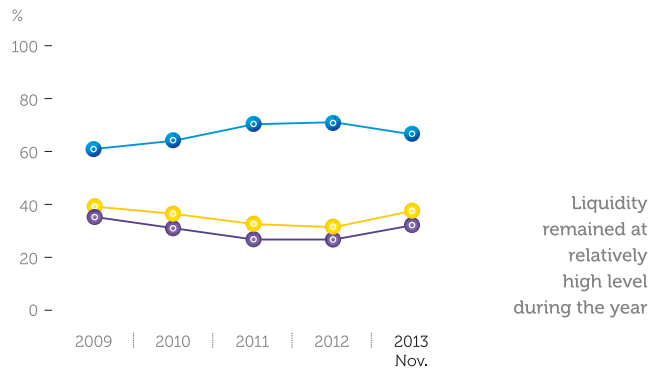
Risk Weighted Assets - (Rs. Bn.) Total CAR (%) Core CAR (%)



Source: CBSL

Trend in Liquidity

Credit to Deposits & Borrowings Statutory Liquid Assets Ratio -DBU Liquid Assets to Total Assets



Source: CBSL

Review of the Economic Environment

Sri Lankan banks' payment and settlement systems were expanded and strengthened over the past year. Customers saw lower transaction costs with efficiencies resulting from the transition to a common ATM platform in July 2013. They gained added payment-card security with the introduction of line-encryption technology for Point-of-Service (POS) terminals.

The Bangladesh Economy

Commercial Bank operates a fully fledged branch network in Bangladesh. A reasonable share of our income is generated from that operation. Therefore, to bring the entire operations of the Bank into correct perspective, it is pertinent to review the macroeconomic environment of Bangladesh in order to gauge the success of that operation.

Bangladesh's rapidly developing market-based economy has grown at an average annual rate of 6.7% over the past several years. In the 2011-2012 fiscal year, the country's per capita income climbed to US \$ 1,044. The past year saw a great deal of political and social turmoil, including a war-crime tribunal and a general election boycotted by the opposition. The political environment was unstable later in the year by a series of protests, strikes and blockades.

US \$ 18 Bn. in December 2013 for the first time in its history. This growth was well-supported by expanding exports and declining imports, along with the healthy flow of remittances from abroad. Against the US \$, the national currency appreciated 2.6% from the beginning of the year, mainly due to a positive current account balance and all-time high international reserves.

New Banking-Related Legislation/Policies Adopted in 2013

Strengthened banks' Internal Capital Adequacy Assessment Processes and Risk Management Frameworks.

Issued Directions on implementing the Supervisory Review Process for banks in accordance with Pillar 2 of the Basel II Capital Accord.

Streamlined regulations governing the banking sector's exposure on the stock market.

Issued Directions to better protect customers and shareholders from risk associated on exposure to stock market.

Brought greater transparency to disclosure requirements.

Prescribed formats for the preparation and publication of Interim and Annual Financial Statements.

Reduced interest rates on loans and advances in line with the low rates prevailing in Sri Lanka and other peer and emerging economies.

The maximum interest rate was prescribed at 24% p.a., and the maximum penal interest rate at 2% p.a. above the applicable rate.

Liberalised the foreign borrowings of licensed banks.

Exemptions were granted for foreign borrowings by LCBs of up to US \$ 50 Mn. per transaction through 2013 to 2015.

Striving for Stability

Despite its political troubles, Bangladesh managed to maintain a Ba3- stable rating from Moody's and a BB- sovereign rating from Standard & Poor's for the fourth consecutive year, indicating some confidence in the country's continued economic stability.

Political unrest, combined with other internal and external factors, undermined the target of 7% annual GDP growth set by the Government at the beginning of the year. The IMF forecasted that the growth rate would in fact be less than 6% for the first time in the past five years. The service, industry and agriculture sectors contributed 50%, 30% and 20% respectively to overall GDP.

Bangladesh realised significant growth in its international reserves during the fiscal year, exceeding

Inflation

The inflation rate in Bangladesh has been declining since February 2012. The last reading, released in September 2013, was a moderate 7.13%.

The inter-bank call money rate declined from 20% recorded in January 2012 to 7.25% in December 2013.

The Path Ahead

The Bangladesh Government has identified a number of macro-economic targets for the year ahead. These include GDP growth of 7.2%, an inflation rate below 7%, exports growth of 15%, imports growth at a steady 10% and remittance growth of 15%.

Organisational Profile

Commercial Bank of Ceylon PLC, the largest private-sector bank in Sri Lanka, traces its origins back to 1920s. Incorporated in 1969, we are a licensed commercial bank and a public limited liability company whose ordinary shares - listed on the main board of the Colombo Stock Exchange - are widely held domestically and abroad. For more information on ownership structure, identity and percentage of ownership by largest shareholders, please see the 'Investor Relations Supplement' section on pages 241 to 254. Commercial Bank has the highest market capitalisation (Rs. 95.654 Bn.) among all Sri Lankan financial institutions and is ranked number 4 among all listed companies as at end 2013. Within the overall business volumes of the country's banking sector, Commercial Bank accounts for

approximately 10% of assets, 12% of deposits, and 10% of net loans and advances.

Offering a diverse range of products and services for the full spectrum of financial needs, Commercial Bank has one of the largest delivery networks operated by a Sri Lankan private-sector bank, with retail branches and other channels extending to all districts of the country.

In 2003, Commercial Bank established its presence in Bangladesh with the acquisition of the Bangladesh operations of Credit Agricole Indosuez. The Bangladesh operation then had only four delivery points. Today, we have a network of 18 delivery points in Bangladesh operating under a license issued by the Bank of Bangladesh, (the Central Bank of Bangladesh), and is registered with the Registrar of Companies of Bangladesh. We have also deployed Business

Promotion Officers (BPOs) in Italy, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates and Bahrain, whose mandate is to facilitate transfer of money by working with exchange houses in the respective countries supporting the financial needs of Sri Lankan and Bangladeshi citizens working in those countries. Commercial Bank provides a swift, secure and reasonably priced means for overseas workers to remit their hard-earned money to their families at home.

Scale of Operations

Commercial Bank conducts its operations through a network of 235 delivery points and 585 ATMs in Sri Lanka, and through 18 delivery points and 19 ATMs in Bangladesh.

The Bank has a total of 4,519 employees in Sri Lanka and another 211 in Bangladesh.

In 2013, we enhanced customer convenience and satisfaction by relocating 12 delivery points while adding 9 new ones, along with 32 ATMs, to the Bank's staffed and ATM network. Apart from above, there were no changes in the size, structure, ownership or supply chain of the Bank during 2013.

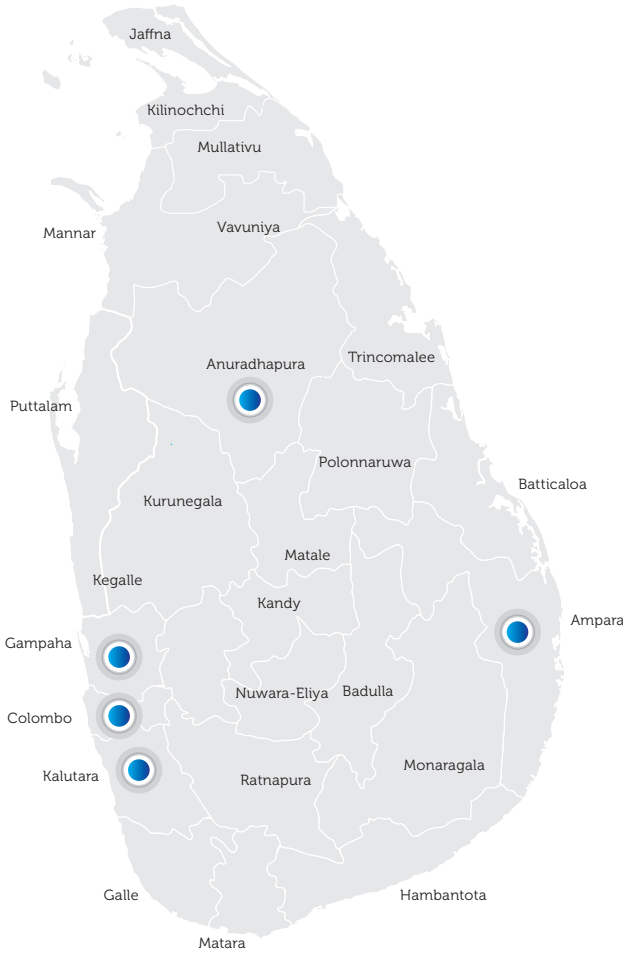
In March last year, the Bank successfully raised a 10-year subordinated term debt of US \$ 75 Mn. from the International Finance Corporation (IFC), which strengthened our Tier II capital base.

A snapshot of different types of delivery channels of the Bank is tabulated below.

Branches	Automated Teller Machines (ATMs)	Internet-Based Banking	Mobile Phone-Based Banking	Electronic Cards/e-Cash
Branch Network	ATMs at Branches	ComBank Corporate Web	Telephone Banking	VISA and MasterCard Debit/Credit Cards
Customer Service Points	Offsite ATMs at Railway Stations, Retails Outlets, Hospitals and Other Commercial and Public Places	ComBank Online - Internet Banking	Mobile Banking	Point-of-Sale (POS) Machines
Holiday Banking Centres	Drive-through ATMs	Paymaster	SMS Banking	e-Exchange
Supermarket Banking Centres	Mobile ATMs			
Priority Banking Centres	Kiosks			
Call Centres				
24/7 automated banking centre				

Organisational Profile

Our Network in Sri Lanka



Branches Opened in 2013

Ampara District	Opened On
Pottuvil	April 8, 2013
Anuradhapura District	Opened On
Medawachchiya	April 24, 2013
Colombo District	Opened On
Attidiya	December 6, 2013
Mattegoda (Laugfs Super)	April 29, 2013
Rajagiriya (Keells Super)	December 5, 2013
Gampaha District	Opened On
Ja-ela (K-Zone)	March 25, 2013
Kadawatha (Arpico Super)	November 27, 2013
Kalutara District	Opened On
Kalutara (Arpico Super)	March 5, 2013

BHS Banking Hours Symbol

N Opened in 2013

District	Branches	ATMs
Ampara	4	7
Anuradhapura	5	10
Badulla	5	8
Batticaloa	4	8
Colombo	73	186
Galle	9	23
Gampaha	34	112
Hambantota	6	13
Jaffna	10	21
Kalutara	13	28
Kandy	13	25
Kegalle	4	10
Kilinochchi	1	4
Kurunegala	12	37
Mannar	1	2
Matale	3	7
Matara	8	16
Monaragala	3	6
Mulativu	1	2
Nuwara Eliya	4	11
Polonnaruwa	2	8
Puttalam	7	14
Ratnapura	10	19
Trincomalee	1	3
Vavuniya	2	5
Total	235	585

Ampara District	BHS
Akkaraipattu	
Ampara	
Kalmunai	
Pottuvil N	

Batticaloa District	BHS
Batticaloa H	
Eravur	
Kattankudy	
Valaichenai	

Anuradhapura District	BHS
Anuradhapura	
Anuradhapura New Town	
Kekirawa	
Medawachchiya N	
Thambuttegama	

Colombo District	BHS
Athurugiriya	
Attidiya N	
Avissawella	
Bambalapitiya (Majestic City) P	
Bambalapitiya	
Baseline Road	
Battaramulla (Arpico Super) P	
Battaramulla	
Bokundara (Minicom) P	
Boralesgamuwa (Laugfs Super) P	
Boralesgamuwa	
Borella D	

Badulla District	BHS
Badulla	
Bandarawela	
Mahiyanganaya	
Passara	
Welimada	

...Colombo District	BHS
City Office	
Colombo 07 E	
Dehiwela (Arpico Super) P	
Dehiwela	
Delkanda	
Duplication Road	
E Banking	
Elite D	
Foreign G	
Grandpass	
Hanwella	
Homagama	
Hyde Park Corner (Arpico Super) P	
Kaduwela	
Katubedda (K-Zone) P	
Katubedda	
Keyzer Street	
Kirulapone (Minicom) P	
Kirulapone	
Kohuwala (Keells Super) P	
Kohuwala	
Kollupitiya (Liberty Plaza) O	
Kollupitiya	
Kotahena D	
Kotikawatte D	
Kottawa	
Maharagama (Laugfs Super) P	
Maharagama D	
Malabe	
Maradana	

...Colombo District	BHS
Mattegoda (Laugfs Super) N P	
Moratuwa (Laugfs Super) P	
Moratuwa D	
Mount Lavinia	
Mutuwal	
Narahenpita (Ronan Inter'l) P	
Narahenpita	
Nawala	
Nawam Mawatha	
Nugegoda D	
Old Moor Street	
Padukka	
Panchikawatte	
Pelawatte (Laugfs Super) P	
Pettah	
Pettah Main Street B	
Piliyandala	
Pita Kotte	
Rajagiriya (Keells Super) N P	
Rajagiriya	
Ramanayake Mawatha	
Ratmalana	
Reid Avenue J	
Thalawathugoda	
Union Place (Keells Super) P	
Union Place	
Vauxhall Street (SLIC)	
Ward Place M	
Wellawatte D	
Wellawatte Second	
World Trade Centre	

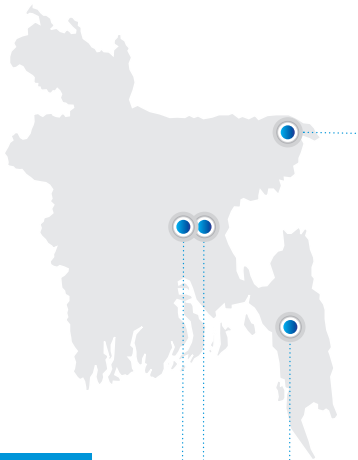
Galle District BHS	Hambantota District BHS	...Kandy District BHS	Monaragala District BHS
Ambalangoda	Ambalantota	Katugastota	Kataragama
Baddegama	Beliatta	Kundasale (Dumbara Super) K	Monaragala
Elpitiya	Hambantota	Nawalapitiya	Wellawaya
Galle City E	Middeniya	Peradeniya	
Galle Fort	Tangalle	Pilimalawala	
Hikkaduwa	Tissamaharama		
Karapitiya		Kegalle District BHS	Mullaitivu District BHS
Neluwa		Kegalle D	Mulliyawalai
Udugama		Mawanella	
	Jaffna District BHS	Ruwanwella	Nuwara Eliya District BHS
Gampaha District BHS	Achchuvely	Warakapola	Hatton
Biyagama	Chavakachcheri C		Maskeliya
Divulapitiya	Chunnakam		Nuwara Eliya
Ekala	Jaffna E	Kilinochchi District BHS	Thalawakelle
Gampaha (Keells Super) P	Jaffna Stanley Road D	Kilinochchi	
Gampaha D	Kodikamam		Pollonnaruwa District BHS
Ganemulla	Manipay	Kurunegala District BHS	Hingurakgoda
Hendala (Keells Super) P	Nelliady D	Alawwa	Kaduruwela
Ja-Ela (K-Zone) N P	Thirunelvely C	Giriulla	
Ja-Ela	Velanai	Kuliyapitiya	Puttalam District BHS
Kadawatha (Arpico Super) N P		Kurunegala (Minicom) P	Chilaw
Kadawatha	Kalutara District BHS	Kurunegala E	Dankotuwa
Kandana D	Aluthgama	Kurunegala City Office	Marawila
Katunayake (24/7) Q	Bandaragama	Mawathagama	Nattandiya
Katunayake FTZ	Beruwala (Minicom) K	Narammala	Palavi
Kiribathgoda (Laugfs Super) P	Horana (Wijemanna Super) K	Nikaweratiya	Puttiam
Kiribathgoda E	Horana	Pannala	Wennappuwa
Kirindiwela	Kalutara (Arpico Super) N P	Polgahawela	
Kochchikade	Kalutara	Wariyapola	
Makola	Katukurunda (Minicom) P		Ratnapura District BHS
Minuwangoda	Matugama F	Mannar District BHS	Balangoda
Mirigama	Panadura (Minicom) K	Mannar	Eheliyagoda
Negombo (Arpico Super) P	Panadura		Embilipitiya
Negombo E	Panadura Second	Matale District BHS	Godakawela
Negombo Second	Wadduwa	Dambulla	Kahawatte
Nittambuwa (Nihals Super) I		Galewela	Kalawana
Nittambuwa	Kandy District BHS	Matale	Kuruwita
Peliyagoda A	Akurana (Minicom) K		Pelmadulla
Raddolugama D	Anniwatte (Nihals Super) P	Matara District BHS	Ratnapura
Ragama L	Balagolla (Nihals Super) K	Akuressa	Ratnapura (Laugfs Super) P
Seeduwa	Digana	Deniyaya	
Wattala (Arpico Super) P	Gampola	Kamburupitiya	Trincomalee District BHS
Wattala	Geliyoia (Arpico Super) K	Koggala	Trincomalee
Weliveriya	Kandy (City Center) N	Matara	
Yakkala	Kandy D	Matara (Keells Super) P	Vavuniya District BHS
		Matara City Office	Vavuniya D
		Weligama	Vavuniya Second G

Banking Hours - Sri Lanka

BHS	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	
Weekdays	9 - 3	8 - 2	8 - 6	8.30 - 3	9 - 3	9 - 3	9 - 3	9 - 4	9 - 4	9 - 6.30	9 - 9	9.30 - 7	10 - 5	10 - 5	10 - 7	10 - 7.30	10 - 7.30	24 Hrs
Saturday	-	-	9 - 1.30	-	9 - 1.30	9 - 1.30	-	-	9 - 1.30	9 - 6.30	9 - 1.30	9.30 - 7	10 - 1.30	10 - 5	10 - 7	10 - 7.30	10 - 7.30	24 Hrs
Sunday	-	-	-	-	9 - 1.30	9 - 1.30	-	-	9 - 6.30	-	9.30 - 7	-	-	-	10 - 7	10 - 5	10 - 7.30	24 Hrs
Bank Holidays	-	-	-	-	9 - 1.30	-	-	-	-	-	9.30 - 7	-	-	-	10 - 7	-	10 - 7.30	24 Hrs

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

Our Network in Bangladesh



Dhaka District

Corporate Branch
Dhanmondi Branch
Gulshan Branch
Gulshan OBU
Mirpur Branch
Old Dhaka, SME Centre
Panthapath Branch
Pragati Sharani, SME Centre
Shanthinagar, SME Centre
Tejagoon Branch
Tongi, SME Centre
Uttara Branch

Sylhet District

Sylhet Branch

Chittagong District

Agrabad Branch
CDA Avenue, SME Centre
CEPZ, OBU
Jubilee Road, SME Centre

Narayanganj District

Narayanganj Branch

SME Small & Medium Enterprises

OBU Offshore Banking Unit

13%

of the Bank's PAT is contributed by our operations in Bangladesh

Product Portfolio by Business Lines

Details of Bank's loan portfolio by industry, as well as the composition of our deposits portfolio, are given in Notes 26.1 (c) and 37.1 (a) to the Financial Statements on pages 318 and 339 respectively. The Bank has internal limits on lending to customers and exposures to countries. In addition to prudent credit evaluation criteria, our lending officers pay due attention to various aspects of environmental and social risks as well in all credit proposals.

Adherence to Social and Environmental Management System (SEMS) framework is discussed on page 42.

The complete array of products and services offered by each business unit of the Bank is detailed in the next page.

Personal Banking Deposit Products <ul style="list-style-type: none"> • Current Accounts • Achievers' Current Accounts • Regular Savings Accounts • Power Savings Accounts • Super Savings Accounts • Fixed Deposits • Foreign Currency Deposit Accounts • Money Market Accounts • Call Deposits • <i>Udara</i> Senior Citizens' Accounts • <i>Arunalu</i> Children's Savings Accounts • <i>Isuru</i> Minors' Savings Accounts • DotCom Youth Savings Accounts • <i>Anagi</i> Women's Savings Accounts 	Corporate Banking Corporate Banking <ul style="list-style-type: none"> • Term Loans • Working Capital Financing • Leasing and Factoring • Payment Solutions for Corporate Clients • Investment Advice and Evaluation • Term Deposits • Savings Accounts • Current Accounts 	Treasury Operation Derivatives <ul style="list-style-type: none"> • FCY and Interest Rate Swaps • Forward Rate Agreements • LKR and FX Options • Caps, Floors and Collars 	International Operations Bangladesh Operation Deposit Products <ul style="list-style-type: none"> • Current Accounts • Savings Accounts • Fixed Deposit Accounts • Margin Accounts • Money Market Accounts
Advances <ul style="list-style-type: none"> • Personal Loans • Term Loans • SME Loans • Housing Loans • Auto Loans • Lease Financing 	Corporate Finance <ul style="list-style-type: none"> • Structuring, Managing and Underwriting of Initial Public Offerings and Private Placements of Equity • Margin Trading Facilities • Structuring of Corporate Debt Instruments • Securitisation • Syndicated Loans • Escrow Accounts • Project Financing • Custodian Services 	Interest Rate Products <ul style="list-style-type: none"> • Money Market Products • Loans and Deposits • Fixed Income Securities Trading • Repurchase Transactions in Government Debt • Interest Rate Hedging 	Advances <ul style="list-style-type: none"> • Personal Loans • Term Loans • SME Loans • Housing Loans • Auto Loans • Lease Financing
Fee-based Operation <ul style="list-style-type: none"> • Paymaster • Credit/Debit Card Services • Utility Bill Payments • Mobile Phone/SMS Banking • Internet Banking • Telephone Banking • Bancassurance • e-Exchange 	Trade Finance <ul style="list-style-type: none"> • Import/Export Financing • Shipping and Other Guarantees • Structured Trade Finance Services • Facilities for International Trade Payments (i.e., Letter of Credit, DP, DA, etc.) 	Foreign Exchange Products <ul style="list-style-type: none"> • FX Dealings • Customer Forward Contracts • FX Hedging 	Maldivian Operations <ul style="list-style-type: none"> • Project Financing • Development Lender in Syndicated Facilities
Other Services <ul style="list-style-type: none"> • 365/Holiday Banking • Weekend Banking • Priority Banking 	Others <ul style="list-style-type: none"> • Islamic Banking • Bullion Trading • SWIFT Facilities • Internet Banking 	Remittance Services <ul style="list-style-type: none"> • Com Bank e-Exchange • MoneyGram 	Remittance Services <ul style="list-style-type: none"> • Com Bank e-Exchange • MoneyGram

Reporting Parameters

Report Scope

This comprehensive Annual Report covers the economic, social and environmental performance of Commercial Bank of Ceylon PLC for the financial year ended December 31, 2013. In reporting both financial and non-financial matters, we have acted in compliance with all of the provisions stipulated by the Central Bank of Sri Lanka and Bangladesh Bank, as well as with those of The Institute of Chartered Accountants of Sri Lanka, the Companies Act No. 07 of 2007 and the Listing

Rules of the Colombo Stock Exchange. This Report also adopts the Global Reporting Initiative (GRI) Guidelines, version G4, and the GRI's G4 Sector Disclosures for sustainability reporting. This Integrated Report has been presented to the Board and the Board has approved the Report.

We believe that an integrated report can better collate and demonstrate the links among different silos of information regarding Commercial Bank's strategy, governance, and financial and corporate responsibility performance. Integration

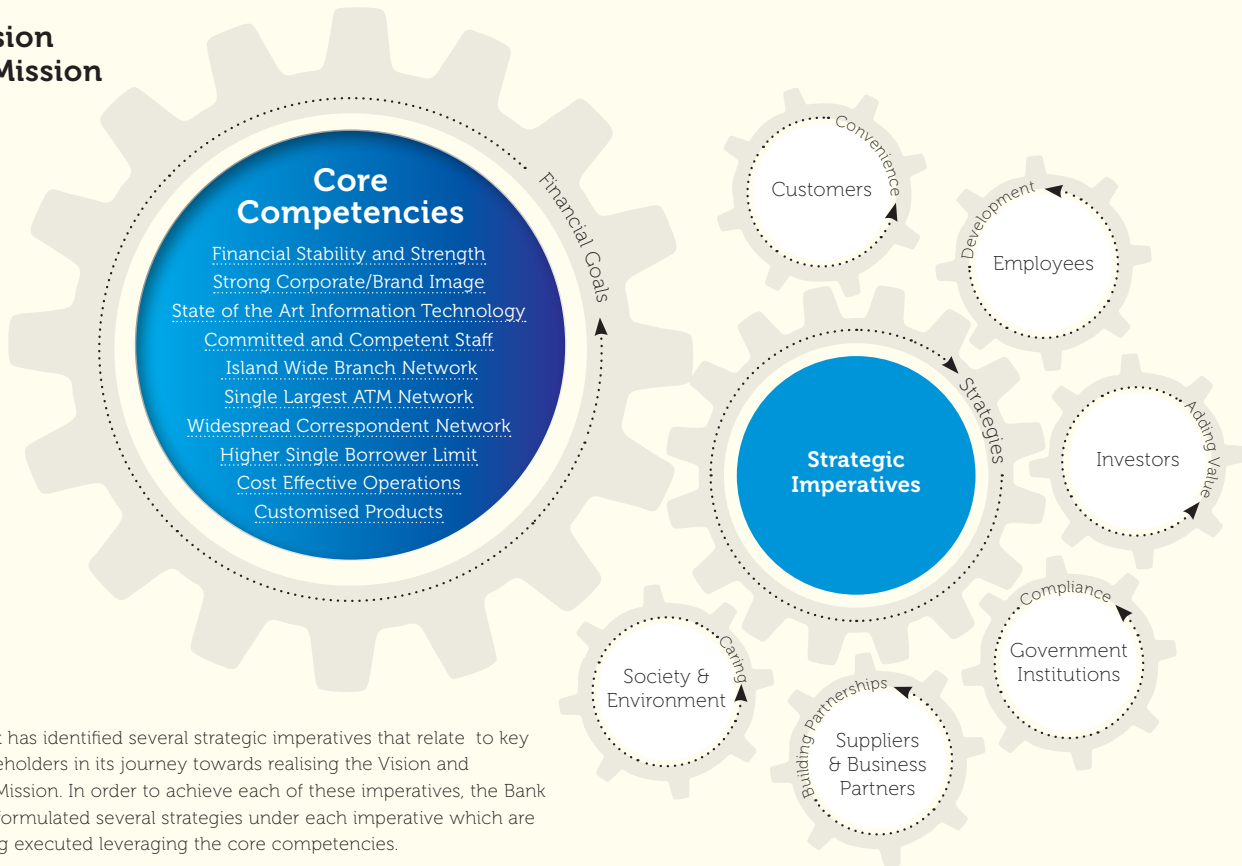
allows us to clearly articulate how we create and sustain value for all of our key stakeholders - customers, employees, shareholders, communities, business partners and so many others.

Commercial Bank published its inaugural sustainability report based on the GRI G3 Guidelines in our 2009 Annual Report, and we applied the same Guidelines in our 2010 Annual Report as well. In 2011, we commenced reporting sustainability impacts in accordance with the GRI G3.1 Guidelines. Last year,

we published our first integrated Annual Report, incorporating the once-standalone sustainability chapter into the main Report. Following the same approach, and guided by our strategic imperatives, this 2013 Annual Report again examines sustainability integrated with our diverse business operations.

A detailed discussion about the strategic imperatives and various approaches adopted by key strategic business units to achieve them is given on pages 79 to 128.

Vision & Mission



Bank has identified several strategic imperatives that relate to key stakeholders in its journey towards realising the Vision and the Mission. In order to achieve each of these imperatives, the Bank has formulated several strategies under each imperative which are being executed leveraging the core competencies.

Strategic Imperatives

- Prudent Growth
- Cost Efficiency via Innovation
- Exemplary Governance
- Managing Capital
- Managing Risk
- Being Responsible to the Community
- Minimising Environmental Footprint
- Human Resource Development
- Adding Value to Investors

Commercial Bank has chosen to be an early adopter of the GRI G4 Guidelines. We have prepared this Report based on GRI G4 'in accordance' - 'Core' option of the Guidelines. Accordingly, we changed our approach in reporting to align with the GRI G4 Guidelines. We re-evaluated the materiality based on the guidance provided in the GRI G4 Guidelines under the Section 'Identified material aspects and boundaries' covering our operations and supply chain aspects. Based on the evaluation we have concluded that, the following aspects and related indicators are not significant for reporting. However, we are internally monitoring the same to

manage our sustainability risks and opportunities. From this point forward, we intend to report annually on sustainability initiatives based on the GRI G4 Guidelines, expanding our scope and boundary in our journey towards 'in accordance' - 'Comprehensive' reporting of all material aspects.

We re-stated the following information provided in earlier reports, as the underlying interpretations used for measurement were re-defined in line with the generally accepted practices and methodologies. We have documented the measurement methodology to ensure that these aspects are consistently measured.

Category	Aspect	GRI G3.1 Indicator(s)	GRI G4 Indicator(s)
Environment	Water	EN8	EN8
	Biodiversity	EN11, EN12, EN13, EN14, EN15	EN11, EN12, EN13, EN14
	Compliance	EN28	EN29
Social: Labour Practices and Decent Work	Occupational Health and Safety	LA7, LA8	LA6
Social: Human Rights	Investment	HR3	HR2
	Indigenous Rights	HR9	HR8
Social: Society	Public Policy	SO6	SO6
	Anti-competitive Behaviour	SO7	SO7
Product Responsibility	Customer Health and Safety	PR1, PR2	PR1, PR2
Social: Labour Practices and Decent Work	Employment	LA15	LA3
	Equal Remuneration for Men and Women	LA14	LA13

Commercial Bank has chosen to be an early adopter of the GRI G4 Guidelines.

To enhance reporting credibility, the Bank sought external assurance since the publication of our second sustainability report. This year's Report has received external verification and assurance by Det Norske Veritas AS (DNV) represented by DNV Business Assurance Lanka (Pvt) Limited. As well, the Bank retained the services of KPMG to gain appropriate assurance with regard to financial performance data, as well as some key performance indicators. These Independent Assurance Reports appear on pages 380 to 382 and 378.

Commercial Bank of Ceylon PLC, including our Board of Directors and senior management, does not have any relationship with DNV or KPMG, apart from the latter's engagement as the Independent External Auditor of the Bank. The Managing Director, who is an Executive Director and members of the Corporate Management of the Bank responsible for sustainability practices and disclosures

reviewed in this Report and interacted with the external assurance provider on the Report Content. We expect to continue seeking independent external assurance for sustainability reports, enhancing the credibility of our reporting.

Report Boundary

This Report primarily covers sustainability impacts, risks and opportunities arising from the Bank's operations in Sri Lanka. Although our Bangladesh operation accounts for only 7.61% of Bank's assets base, it contributes 13.28% to the post tax profits of the Bank which is material. Hence, this Report covers impacts, risks and opportunities on sustainability of the Bank's operation in Bangladesh as well.

The activities and performance data of Commercial Bank's three subsidiaries - Commercial Development Co. PLC, ONEzero Co. Ltd. and Commex Sri Lanka SRL - and the operations of its

two associates, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd., are not included in this report, as the results of their operations are not significant compared to the overall results of the Group. For more information, please see the Audited Financial Statements on pages 265 to 376. In addition, we believe that the low-scale operations of these entities have insignificant social, economic and environmental impact, and therefore do not warrant inclusion in the Report Content.

Material Aspects and Boundaries

Our Approach to Defining Report Content and the Aspect Boundaries

Because there is such a strong connection between Commercial Bank's sustainability commitment and our business strategy, we recognise that we must align all aspects of that strategy with the expectations of our stakeholders. The content of this Report has therefore been determined by considering the full range of the Bank's activities, along with our economic, social and environmental impacts, and the views we have gathered from stakeholders (see 'Stakeholder Engagement Process' on page 33).

The methodology used to determine Report Content is based primarily on the GRI G4 Guidelines and follows a two-step process:

Step 1 - Identifying Relevant Aspects and Their Boundaries

We have identified aspects with broad sustainability significance - collected via the stakeholder engagement process - and established 'boundaries' isolating the most relevant impacts for the Bank and our stakeholders.

Aspects were evaluated according to their impact on and contribution to all areas of sustainability related to Bank's business strategy and operations. They were also assessed in the light of stakeholder expectations gathered through the engagement process.

We categorised aspects according to three levels of significance in terms of sustainability: 'High', 'Moderate' and 'Low'. We also used the following yardsticks to measure impacts and boundaries:

- The degree of influence the Bank has over each aspect.
- The extent to which the resources in question are used in Bank's operations.
- The extent of various stakeholders' interactions and their levels of expectation.

- The degree of responsibility that should be demonstrated by a responsible corporate citizen.
- The impacts arising from the activities of Bank's customers and contributors to our supply chain.
- The degree of value that the Bank can deliver in relation to each aspect.

Step 2 - Establishing Material Aspects and Prioritisation

We have evaluated and ranked 'material aspects' according to the importance placed on them by the Bank, as well as the expectations of our stakeholders and the applicability of relevant local and international laws, regulations and treaties. At the same time, for each material aspect we have identified a boundary encompassing its most significant impacts.

To establish aspects' 'materiality', or direct importance, we began by prioritising their relevance from two perspectives ranking them into three levels of importance, 'High', 'Medium' and 'Low':

1. The importance of the aspects as we work to achieve Bank's strategic objectives (as set out in our Corporate Plan), fulfilling our responsibilities

to the economy, the environment and the society.

2. The importance of the aspects to various stakeholder groups and the influence they could have on stakeholders' assessment of and engagement with the Bank.

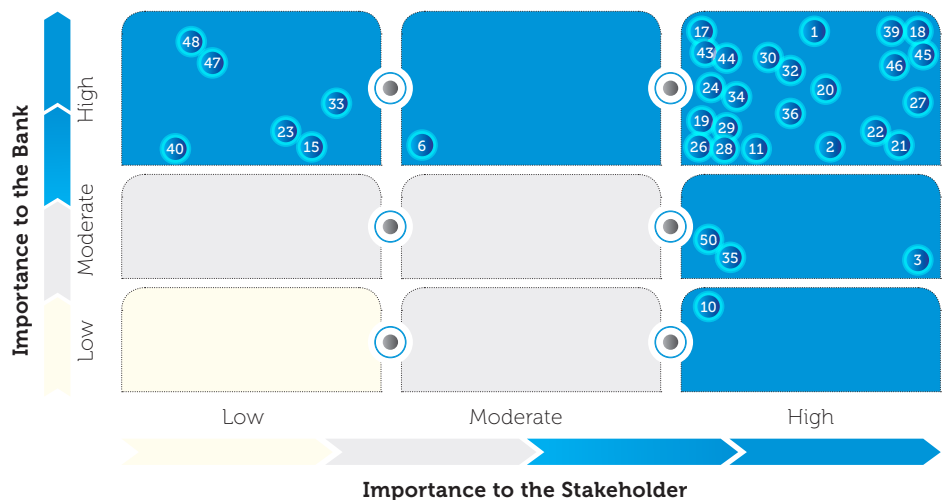
The following table depicts the level of significance, for each aspect, of the triple bottom line of economic, social and environmental considerations. Our analysis takes into account each aspect's relevance to the Bank and our stakeholders, applying the principles of inclusiveness, sustainability context, materiality and completeness.

Aspect	Significance in Terms of Commercial Bank's Sustainability Context	Aspect Boundary						Materiality		Reported
		Internal		External				To the Bank	To the Stakeholder	
		Sri Lanka	Bangladesh	Customers	Communities	Suppliers	Type of Supplier			
Economic										
1. Economic performance	High	★	★					High	High	Yes
2. Market presence	High	★						High	High	Yes
3. Indirect economic impact	Moderate			★				Moderate	High	Yes
4. Procurement practices	Low									
Environment										
5. Materials	Low									
6. Energy	Moderate	★	★					High	Moderate	Yes
7. Water	Low									
8. Biodiversity	Low									
9. Emissions	Low									
10. Effluents and waste	Moderate					★	IT waste management companies	Low	High	Yes
11. Products and services	Moderate			★				High	High	Yes
12. Compliance	Low									
13. Transport	Low									
14. Overall	Low									
15. Supplier environment assessment	Moderate					★	Utility Service Providers Material suppliers Premises Providers Contractors Travel and Transportation Maintenance Assets Suppliers Waste management	High	Low	Yes
16. Environment grievance mechanisms	Low									
Social: Labour Practices and Decent Work										
17. Employment	High	★	★			★	Suppliers of Outsourced employees Including Security Services	High	High	Yes
18. Labour/management relations	High	★	★					High	High	Yes
19. Occupational health and safety	Moderate	★	★					High	High	Yes
20. Training and education	High	★	★					High	High	Yes
21. Diversity and equal opportunity	High	★	★					High	High	Yes
22. Equal remuneration for women and men	High	★	★					High	High	Yes
23. Supplier assessment for labour practices	High					★	All suppliers	High	Low	Yes
24. Labour practices grievance mechanisms	High	★	★					High	High	Yes
Social: Human Rights										
25. Investment	Low									
26. Non-discrimination	High	★	★					High	High	Yes
27. Freedom of association and collective bargaining	High	★	★					High	High	Yes
28. Child labour	High	★	★					High	High	Yes
29. Forced or compulsory labour	High	★	★					High	High	Yes

Aspect	Significance in Terms of Commercial Bank's Sustainability Context	Aspect Boundary						Materiality		Reported
		Internal		External				To the Bank	To the Stakeholder	
		Sri Lanka	Bangladesh	Customers	Communities	Suppliers	Type of Supplier			
30. Security practices	Moderate	★	★					High	High	Yes
31. Indigenous rights	Low									
32. Assessment	High	★	★					High	High	Yes
33. Supplier human rights assessment	High					★	All suppliers	High	High	Yes
34. Human rights grievance mechanisms	High	★	★					High	High	Yes
Social: Society										
35. Local communities	Moderate				★			Moderate	High	Yes
36. Anti-corruption	High	★						High	High	Yes
37. Public policy	Low									
38. Anti-competitive behaviour	Low									
39. Compliance	High	★	★					High	High	Yes
40. Supplier assessment for impacts on society	Moderate					★	All suppliers	High	Low	Yes
41. Grievance mechanisms for impacts on society	Low									
Social: Product Responsibility										
42. Customer health and safety	Low									
43. Product and service labelling	High	★	★					High	High	Yes
44. Marketing communications	High	★	★					High	High	Yes
45. Customer privacy	High	★	★					High	High	Yes
46. Compliance	High	★	★					High	High	Yes
47. Product portfolio*	High	★	★					High	Low	Yes
48. Audit*	High	★	★					High	Low	Yes
49. Active ownership*	Low									
Other Topics										
50. Bank's CSR activities	High	★						High	High	Yes

* GRI Sector Disclosures

Based on the above assessment, all aspects gauged to have high priority for either Commercial Bank or our stakeholders have been included in the Report Content. The following matrix summarises the key aspects and their priority levels.



Stakeholder Engagement

We define 'Stakeholder' as any person, group or entity that is affected or expected to be affected, directly or indirectly, by the Bank's activities, or by their engagement with the Bank. The following are our key stakeholders, all of whom have an expressed interest in our economic, social and environmental performance:

- **Investors** (including shareholders and analysts)
- **Customers**
- **Employees** (including employee associations)
- **Government institutions** (including legislators and regulators)
- **Suppliers** (and other business partners)
- **Society and Environment**

The governance structure of the Bank demands active engagement with stakeholders to achieve the 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 Board of Directors and Bank management understand the importance of building a strong bond of trust with all stakeholders. Despite there being no single individual or a unit responsible for issues relating to economic, social and environmental topics, members of all Board appointed Sub-Committees and the Trustees of the Bank's CSR Trust Fund meet at least on a quarterly basis to keep the Board posted of economic, social and

environmental concerns and proposed action plans to address same.

Constructive dialogue with stakeholders helps us to understand their expectations so we can better manage risk, learning, innovation and process improvements. This ongoing dialogue also enables the Bank to identify current and emerging issues and opportunities to develop new products and services, and improve our performance while ensuring that our responses are in the interests of all stakeholders.

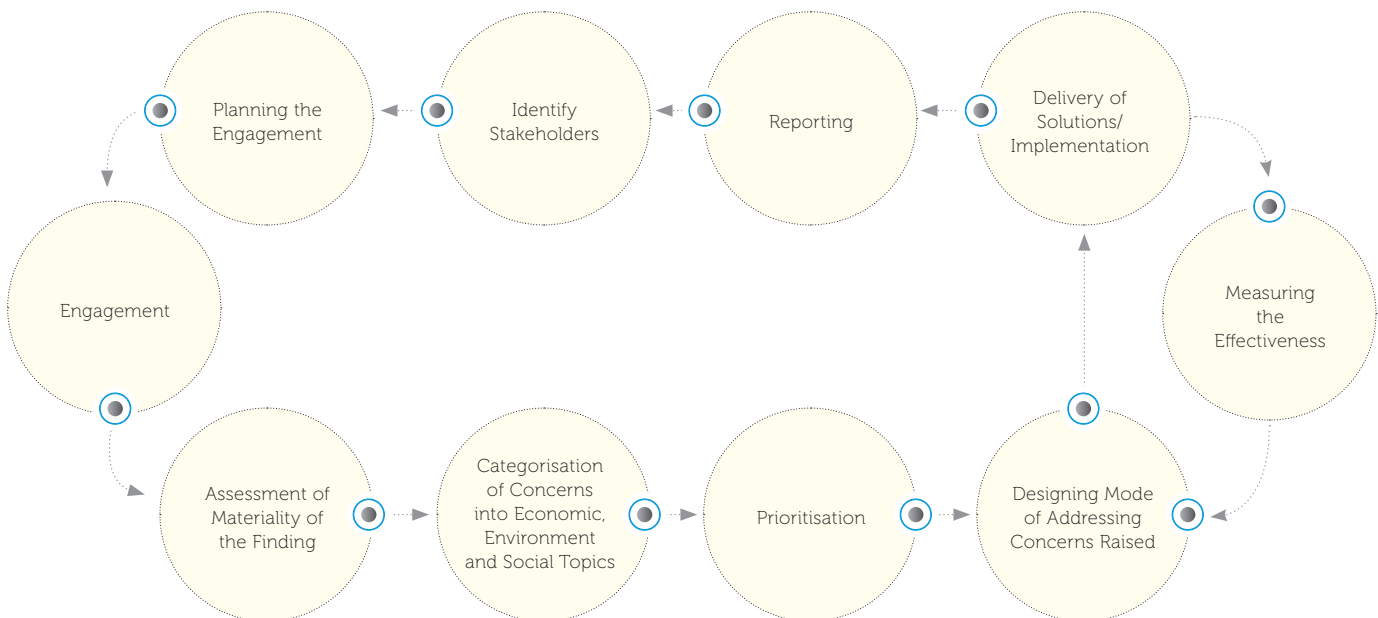
Most of the Bank's engagement takes place in the normal course of business in day-to-day interactions with customers, suppliers and various other stakeholders. Besides these routine engagements, the Bank also carries out more

structured engagements as discussed under 'How we connect with Various Stakeholder Groups' on pages 34 to 36.

The Stakeholder Engagement Process

The following diagram illustrates Commercial Bank's stakeholder engagement process, identifying the mechanisms in place to assess relevant expectations and interests. This process promotes inclusiveness and ensures that any critical concerns are brought swiftly to the attention of the Board of Directors and Bank management, prompting the necessary responses.

During the latest reporting period, Commercial Bank did not encounter any critical stakeholder concerns.



How We Connect with Various Stakeholder Groups

In this section we consider each stakeholder group in turn, looking at the mode and frequency of engagement, key discussion topics, concerns raised and methodologies employed to respond.

1. Investors, including Shareholders and Analysts

Mode of Engagement	Frequency of Engagement	Key Topics Discussed and Concerns Raised	Methodologies Employed to Respond
Annual Reports	Annually	<p>Key Topics Discussed:</p> <ul style="list-style-type: none"> • Interim and annual results • Plans to improve dividend per share, capital adequacy ratio and cost income ratio • Business expansion plans, locally and internationally • Plans for maintaining liquidity • Means of further improving services offered by the Bank • Sustainable performance of the Bank • Good governance <p>Concerns Raised:</p> <ul style="list-style-type: none"> • Quality of assets • Sensitivity analysis on interest rates and exchange rates. 	<p>Concerns of shareholders and prospective shareholders are addressed (provided they are not related to commercial secrets) as part of an effective ongoing dialogue. Transparency, accountability and regular communications are among our top priorities.</p>
Annual General Meeting	Annually		
Extraordinary General Meetings	As and when required		
Interim Financial Statements	Quarterly		
Press Conferences and Media Releases	As and when required		
Investor Presentations	As and when required		
Announcements Made to the Colombo Stock Exchange	As and when required		
One-to-one Discussions	As and when required		
Road Shows	As and when required		
Corporate website: www.combank.lk www.combank.net	Continuous		

In our previous report this stakeholder group was identified as 'Shareholders, investors and Analysts'. We have renamed the group as 'Investors, including Shareholders and Analysts' in this year's Report for better presentation.

2. Customers

Mode of Engagement	Frequency of Engagement	Key Topics Discussed and Concerns Raised	Methodologies Employed to Respond
Customers satisfaction survey	Annually	<p>Key Topics Discussed:</p> <ul style="list-style-type: none"> • Innovation in products and services • Interest rate trends, securities, terms and conditions, etc. • Fees and charges • Branch openings/relocations • Services available through online banking <p>Concerns Raised:</p> <ul style="list-style-type: none"> • Customer service excellence • Customer satisfaction and relationship management • Factors leading to greater customer convenience, including branch layout, availability of a wide range of products and services, well-trained staff, etc. • Amicable resolution of customer disputes 	<p>Opinions and multiple expectations of customers gathered through a variety of engagements with them are embedded into new products and services.</p> <p>Prompt communications regarding interest rates, as well as terms and conditions of banking products, to all staff through internal circulars equips our people to handle a wide variety of customer requests.</p> <p>The Bank conducts periodic customer surveys to obtain feedback on levels of satisfaction and improvements to existing services.</p> <p>Other measures to enhance customer satisfaction include improving information security, responsible marketing communications, innovative and environmentally friendly products, and assisting in customers' business development processes.</p> <p>To resolve customer complaints, a member of the corporate management team has been appointed Complaint Resolution Officer, as a part of the voluntary Financial Ombudsman programme established by the Central Bank of Sri Lanka.</p>
Touch points	As and when required		
Relationship Managers' engagement with corporate customers	As and when required		
Complaint Resolution Officer	As and when required		
Customer workshops	As and when required		
Media advertisements	As and when required		
Corporate website	Continuous		

3. Employees, including Employee Associations

Mode of Engagement	Frequency of Engagement	Key Topics Discussed and Concerns Raised	Methodologies Employed to Respond
Managers' Conference	Annually	Key Topics Discussed: <ul style="list-style-type: none"> Aligning values with corporate culture Compliance with national regulations Updates on the Central Bank of Sri Lanka's rules and regulations Implementing and managing the Bank's Social and Environmental Management System Future plans Diversity and inclusion Whistle-blowing mechanism Concerns Raised: <ul style="list-style-type: none"> Remuneration, including compensation based on performance Staff welfare measures 	<p>The Bank also organises training and awareness sessions, and sends instructions via circulars to increase employee awareness of various matters, including sustainability issues embedded in the SEMS.</p> <p>The performance-driven culture of the Bank rewards employees based on how well they achieve set targets.</p> <p>(Please note that the remuneration packages of Commercial Bank's Non-Executive Officers are covered by a collective agreement signed with the employee associations). Staff welfare measures are discussed with employee associations.</p>
Relationship-building exercises with employee associations	Annually		
Special events, such as quiz contests, children's parties, staff get-togethers, art and sports competitions, etc.	Annually		
Regional review meetings	Quarterly		
Internal newsletter, Com Pulse	Quarterly		
Operational updates to staff via email	Daily		
Feedback from cross-functional training programmes	As and when required		
Negotiations with employees and their associations	As and when required		
Intranet site of the HR Division	Continuous		

In our previous report this stakeholder group was identified as 'Employees and Employee Associations'. We have renamed the group as 'Employees, including Employee Associations' in this year's Report for better presentation.

4. Government Institutions, Including Legislators and Regulators

Mode of Engagement	Frequency of Engagement	Key Topics Discussed and Concerns Raised	Methodologies Employed to Respond
On-site surveillances by the Central Bank of Sri Lanka and the Bangladesh Bank	Annually	Key Topics Discussed: <ul style="list-style-type: none"> Central Bank of Sri Lanka's regulations pertaining to licensed Commercial Banks Compliance with codes of best practice on corporate governance issued by the Central Bank of Sri Lanka, The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange International financial developments Other Government regulations, including tax rules Various issues that affect the well-being of bank employees Mergers and acquisitions Overseas expansion Concerns Raised: <ul style="list-style-type: none"> SME's access to finance 	<p>The Bank has an ongoing dialogue with regulators and has put in place systems and procedures to assure regulatory compliance, both in letter and spirit, strengthening our relationship with other public and professional institutions</p>
Directives and circulars	As and when required		
Filing of returns	As and when required		
Consultations	As and when required		
Press releases	As and when required		
Meetings	As and when required		
Official email address			

In our previous Report this stakeholder group was identified as 'Legislators and Regulatory Bodies'. We have renamed the group as 'Government Institutions, including Legislators and Regulators' in this year's Report for better presentation.

5. Suppliers and Other Business Partners

Mode of Engagement	Frequency of Engagement	Key Topics Discussed and Concerns Raised	Methodologies Employed to Respond
Supplier relationship management	As and when required	Key Topics Discussed: <ul style="list-style-type: none"> Responsible procurement opportunities offered by the Bank Engagement with a preferred supplier database Concerns Raised: <ul style="list-style-type: none"> Contractual performance 	The Bank maintains a list of registered suppliers. We have an ongoing dialogue to ensure that value is created for both suppliers and the Bank. Reliability and mutual trust are key to building strong relationships.
On-site visits and meetings	As and when required		

In our previous Report this stakeholder group was identified as 'Suppliers'. We have renamed the group as 'Suppliers and Other Business Partners' in this year's report for better presentation.

6. Society and Environment

Mode of Engagement	Frequency of Engagement	Key Topics Discussed and Concerns Raised	Methodologies Employed to Respond
Widespread network of delivery channels	Ongoing	Key Topics Discussed: <ul style="list-style-type: none"> Corporate responsibility initiatives Responsible finance Providing access to fair and affordable banking Community investment Cost effectiveness of responsibility initiatives Scholarships for university students Youth-targeted sponsorships International profiling of the brand through sports and arts Recognition for excellence by various external parties Concerns Raised: <ul style="list-style-type: none"> Staff recruitments Financial inclusion Microfinancing and SME development 	Commercial Bank contributes to local economic development through our widespread branch and ATM network. Committed to being transparent in all of our activities, we keep the public informed of our sustainable performance and other relevant developments. We also support local communities and some of the neediest members of society through sponsorship of the CSR Trust Fund, which includes scholarships for underprivileged students.
Press releases	As and when required		
Scholarships	As and when required		
Press conferences and media briefings	As and when required		
Informal briefings and Communication	As and when required		
Communication with the general public	As and when required		
Public events	As and when required		
Sponsorships	As and when required		
Call centre	Continuous		
Corporate website: www.combank.lk www.combank.net	Continuous		

The stakeholder groups identified as 'Media and Public' and 'Communities and Youth' in our last year's Report have been consolidated in to one Group in this Report titled 'Society and Environment' as the two groups represent similar interests and concerns and for better presentation.

In addition, to the channels described above, stakeholders are encouraged to communicate with the Bank through the Investor Feedback Form attached to the Annual Report, as well as electronically via email@combank.net.

A detailed analysis of our stakeholders identified as above is given on pages 56 to 79.

Management Approach to Economic, Social and Environmental Parameters

The Bank's Approach to Key Sustainability Impacts, Risks and Opportunities

As a leading Sri Lankan financial institution, the country's most awarded bank and the only Sri Lankan Bank ranked among the top 1,000 banks worldwide for three consecutive years, Commercial Bank is trusted by more than two million customers representing various walks of life and sectors of the economy. We have also become an employer of choice for many Sri Lankans.

Impacts on the Economy

With our robust product portfolio and national network of branches and ATMs, we support Sri Lanka's economy by providing financial solutions and infrastructure across the country. We also contribute to the country's development by financing infrastructure projects carried out by the Government, as well as the private sector ventures in all areas of the economy.

Impacts on Society

Through our Personal Banking arm, we provide financial facilities that help self-employed individuals and small- and medium-scale entrepreneurs get ahead. At the same time, our Corporate Banking and Treasury Operations support large corporate entities, which in turn generate much needed

employment opportunities. We also encourage female entrepreneurship by offering additional benefits by means of lucrative interest rates and special benefits on fees and commissions.

As a good corporate citizen, Commercial Bank actively contributes to the diverse needs of society through our Corporate Social Responsibility (CSR) Trust. Pioneered in Sri Lanka by Commercial Bank, the Trust focuses primarily on education and in particular on information technology and English literacy. The Bank's Board of Directors has committed to directing up to 1% of net profit after-tax towards the Trust fund, which is managed separately by a Board of Trustees. Since launching the CSR Trust, the Bank has contributed a total of Rs. 340 Mn., including Rs. 50 Mn. in 2013.

Impacts on the Environment

As the Bank's core business is providing banking and ancillary financial services, our operations do not have a significant impact on the limited resources of the planet - although we recognise that our customers' businesses and projects and the operations of our supply chain may have. In our business activities we engage with a wide range of suppliers, including building contractors and owners; providers of assets and supplies such as IT equipment, motor vehicles, furniture and stationery; and providers of utility

services such as electricity and telecommunication. We are mindful of minimising impacts on the environment due to our engagement with these stakeholders and have taken many steps to mitigate possible adverse impacts on the environment.

Risks and Opportunities in the Economy

At Commercial Bank we are mindful of our responsibilities as one of Sri Lanka's leading banks, accounting for approximately 10% of the total assets of the banking and finance industry in Sri Lanka. We have a strong obligation to properly manage the risks we face to ensure the continuity of our own business and the stability of country's economy.

Commercial Bank also has an important role to play in the wake of a new Sri Lanka after the end of the 30-year civil war. The integration of the Northern and the Eastern regions of the country with the rest of Sri Lanka offers enormous potentials for economic revival. The banking and financial sector plays a crucial role in this sphere, especially in agriculture, tourism, construction and infrastructure development. Of the 65 new branches we have opened in Sri Lanka over the past four years, eight were in the Northern Province and six in the Eastern Province, comprising 21% of the total new branches opened since

2010. In addition, 23 ATMs in the Northern Province and 12 ATMs in the Eastern were installed during the same period. These initiatives have undoubtedly enhanced customer convenience, access to the modern day banking facilities and improved financial literacy.

However, because the two provinces are rebuilding from scratch, we recognise that it could be a long time before they experience a full economic and social recovery. We therefore expect that any business investment in those regions may have a comparatively longer break-even period.

As a responsible financial institution, we recognise our duty to support the 'Five plus One Hub' (i.e. development of energy, maritime, knowledge, tourism, commerce and aviation sectors) strategy outlined in the Government's Road Map for 2014 and beyond. Furthermore, the entire Sri Lankan banking and financial industry will encounter risks and rewards as the Central Bank of Sri Lanka introduces reforms to align individual banks' interests with the long-term interests of the nation - including the target of growing into a US \$ 100 Bn. economy by 2016. The Central Bank's *Master Plan on Consolidation of the Financial Sector* includes the following goals:

- Consolidating banks and non-banking financial institutions (NBFIs), leading to a fewer but

Management Approach to Economic, Social and Environmental Parameters

stronger banks and NBFIs that can better withstand external pressures.

- Encouraging strong regional presence.
- Having a large development bank that provides substantial support to financing activities across the country.

Risks and Opportunities in Terms of Society

The Northern and the Eastern Provinces are predominantly home to Tamil and Muslim communities. By participating in the regions' economic revival, we will help to increase the range of financial services and career opportunities available to these minority groups, and in turn will strengthen the diversity of Commercial Bank's customer base and staff.

Risks and Opportunities in Terms of Environment

Commercial Bank finances renewable-energy generation and other similar projects. We are mindful of the possible effects on our operations resulting from our business partners' varying level of adherence to and non-compliance with environmental laws and regulations.

The Bank's Board of Directors does not tolerate the introduction of any product or service that could have a negative impact on the triple bottom line of sustainability impacts - economic, social and environmental. The Board encourages promoting of products and services that improve sustainability in all three areas, particularly through the use of modern technology.

Through close dialogue with our stakeholders, we have identified material sustainability issues relevant to their interests and those of the Bank. These insights help us to discern challenges ahead and provide a platform for setting sustainability targets that will help us better manage those challenges while capitalising on any opportunities that come our way. We are confident that the relationships established with our stakeholders and the feedback they provide on material issues will improve our business practices and performance in the coming years.

Commercial Bank's Corporate Social Responsibility approach focuses on getting the fundamentals right with customers by delivering fair value and quality advice; being a good employer by investing in the skills and

capabilities of our staff; and fulfilling our responsibilities to society by supporting communities, managing our environmental impact and having a positive economic effect through our supply chain.

The Board Integrated Risk Management Committee, along with the Bank's Integrated Risk Management Department, conduct constant monitoring and assist our various business divisions as they work to minimise risks. The Integrated Risk Management Department undertakes regular reviews of each business unit with the objective of identifying risks, including those arising from sustainability issues.

The table below demonstrates our progress over the past year on commitments made in 2012 and also reveals our strategic commitments.

Commitments Made in 2012

Progress Made in 2013

Future Commitments

Economic Commitments - Short Term and Medium Term

Achieve targets as set out in the Section on 'Financial Goals and Achievements' on page 6.

P See 'Financial Goals and Achievements' on page 6.

Achieve targets set out in the Section on 'Financial Goals and Achievements' on page 6.

Environmental Commitments - Short Term and Medium Term

Apply the Bank's Social and Environmental Management System (SEMS) for project financing, particularly to enhance lending for renewable energy and energy savings projects.

A • Achieved - 100%, Granted Rs. 634.9 Mn.
• Trained 126 lending officers.

Apply the spirit of the Bank's SEMS for all loan financing proposals in the short to medium term, particularly with a view to exploring further lending for renewable energy and energy savings projects.

Priority will be given to procure energy-conserving technologies, with a view to conserving the environment.

A Achieved - 100%.

Continue to give priority to procuring energy-conserving technologies.

Disposing of decommissioned ATMs through a body/bodies authorised by the Central Environmental Authority.

A There were no disposals during the year. A formal process is in place for this purpose.

Continue to dispose of decommissioned ATMs to the standards of the Central Environmental Authority.

Management Approach to Economic, Social and Environmental Parameters

Commitments Made in 2012	Progress Made in 2013	Future Commitments
Responsible sourcing.	A All suppliers were screened to ensure that they comply with Bank's pre-determined screening criteria on environmental and social aspects.	Strengthening the screening criteria for responsible sourcing.
Reducing waste.	A Bank took several measures to reduce waste as explained on page 41.	Following measures to be taken to reduce use of paper. <ul style="list-style-type: none"> • A mechanism to record the quantity of paper recycled. • Introduction of a biometric system to replace the manual attendance registers used at present. • Posting of PIN mailers for Debit Cards is expected to be replaced with SMS. Setting up of a new primary data centre incorporating the latest energy saving features in the first quarter. This is projected to save 900 sq.ft. of space and 300,000 kWh per annum of energy.
Environmental Commitments - Medium Term		
Development of smart buildings that use space and natural lighting more efficiently.	N The Bank did not build any buildings during the year.	Continue to explore the possibility of developing smart buildings.
One national scale programme on preserving environment.	A Bank funded the cost of a coral replanting project and it is ongoing.	The project is expected to be completed in 2015.
Social Commitments - Short Term to Medium Term		
<ul style="list-style-type: none"> • Add products, features and practices to the satisfaction of customers in response to periodic customer surveys. 	A <ul style="list-style-type: none"> • A customer survey was carried out to obtain feedback on the level of satisfaction of customers on the Bank's array of products. The results showed an improvement in the customer satisfaction level and loyalty. 	<ul style="list-style-type: none"> • Continue to add value enhancing and innovative products with a view to further improve the level of customer satisfaction and loyalty.
<ul style="list-style-type: none"> • Follow innovations and developments in the industry, and adapt accordingly. 	A <ul style="list-style-type: none"> • A 24 x 7 Automated Banking Centre was launched at one of the Colombo branches to provide convenience of banking transactions including opening of accounts. 	<ul style="list-style-type: none"> • 5 more 24 x 7 Automated Banking Centres will be launched.
<ul style="list-style-type: none"> • Focus on talent management, staff relations and welfare policies, productivity enhancement, business partnering, and improved compensation and benefits. 	A <ul style="list-style-type: none"> • 5 major events were conducted to enhance staff relations, productivity enhancement and talent management. 	Continue to focus on talent management, staff relations and welfare policies, productivity enhancement, business partnering, and improved compensation and benefits.
<ul style="list-style-type: none"> • Periodically measure employee satisfaction through surveys; improve satisfaction level in 2013. 	P <ul style="list-style-type: none"> • A survey was conducted. Results are not yet available. 	Continue measuring employee satisfaction through surveys; improve satisfaction level further in 2014.
Commit up to 1% of the Bank's profit after tax to the CSR Trust.	A The Bank contributed Rs. 50 Mn. in 2013, increasing the total contribution to Rs. 340 Mn. since the formation of the Trust in 2004.	Commit up to 1% of the Bank's profit after tax to the CSR Trust.

Management Approach to Economic, Social and Environmental Parameters

Commitments Made in 2012	Progress Made in 2013	Future Commitments
<p>The target for 2013 was to complete 100 projects that included in the following:</p> <ul style="list-style-type: none"> • 60 IT labs for less-privileged government schools, to enhance IT literacy. • Four programmes each for both teachers and students to support English language education. • 50 scholarships to be awarded to university students who do not receive any kind of grant or scholarship. • 15 programmes in support of improving healthcare and well-being in local communities. 	<ul style="list-style-type: none"> P • 52 projects were completed, benefiting a total of 34,400 students. Another nine projects are ongoing. P • Two projects were completed, benefiting a total of 281 teachers and students. A • Scholarships and laptops were awarded to 50 deserving university students. A • 11 programmes were conducted in support of healthcare. • 6 programmes were completed in support of improving local communities, including social well-being programme is ongoing. 	<p>The target for 2014 is to complete another 75 projects that will include:</p> <ul style="list-style-type: none"> • 40 IT labs for less-privileged government schools, to enhance IT literacy. • Four programmes each for teachers and students to support English language education. • 50 scholarships to be awarded to university students who do not receive any kind of grant or scholarship. • 10 programmes in support of improving health care and well-being in local communities • Five programmes in support of improving and creating well-being in local communities, preserving culture and heritage, and preserving the environment.
<ul style="list-style-type: none"> • Two heritage and cultural projects. • 10 local community/regional projects. • Two <i>Ranaviru</i> rehabilitation projects. 	<ul style="list-style-type: none"> P • One project was completed. A • 19 small-scale projects were carried out under the regional CSR category. N • Not achieved due to additional projects undertaken as shown above. 	<ul style="list-style-type: none"> • 15 small-scale projects to be carried out under the regional CSR category.
<p>Fostering social inclusion by making banking convenient and expanding the subscriber base for our mobile banking system to 100,000 customers.</p>	<ul style="list-style-type: none"> A Achieved - 100% 	<p>Fostering social inclusion by making banking convenient and expanding our mobile banking subscriber base to 130,000 customers.</p>
<p>Two small and medium-scale enterprise development projects.</p>	<ul style="list-style-type: none"> N Not achieved due to additional projects undertaken as shown above. 	
<p>New channel development and channel migration projects to enhance service quality.</p>	<ul style="list-style-type: none"> N Not achieved due to other engagements superseding. 	
<p>Branch and ATM network expansion to further enhance accessibility.</p>	<ul style="list-style-type: none"> A 9 branches and 32 ATMs were added to the Bank's network 	<p>At least 10 branches and 25 ATMs to be added to the network of delivery points to further enhance accessibility</p>
<p>Multilingual communications through media, point-of-sale materials, etc., to serve all ethnic groups.</p>	<ul style="list-style-type: none"> P Achieved - 80% 	<p>Multilingual communications through media, point-of-sale materials, etc., to serve all ethnic groups.</p>
<p>Further expand the internship programme - where only advanced level students are currently included - to include graduates for a period of six months, developing their employability by providing private-sector experience.</p>	<ul style="list-style-type: none"> A 188 interns were selected and placed in branches and departments. 28 interns completed training and awarded certificates. 	<p>Continue with the Internship programme.</p>

Management Approach to Economic, Social and Environmental Parameters

Our Approach to Economic Sustainability

At Commercial Bank, we continuously strive to repay the trust that shareholders place in us by returning maximum value. In our quest for sustainable growth, we work as well with all other stakeholders - including customers, employees and suppliers - to help achieve their aspirations. As Sri Lanka's benchmark private sector bank, we conduct business in a transparent and ethical manner, managing risk and pursuing opportunities while adhering to the principles of good governance.

Commercial Bank finances many large infrastructure projects that help fuel the country's economic engine, creating many trickle-down benefits for society as a whole, as well as for the environment. Indirect economic impacts are equally important to our Bank as we pursue the goals of sustainable performance. In addition, the Bank contributes to its CSR Trust Fund for various community investments.

The Board of Directors guides Commercial Bank's approach to economic sustainability with a comprehensive corporate plan that reflects the input of all key strategic business units - Corporate Banking, Personal Banking, Treasury and International - as well as the other support service units. The needs of each unit are addressed in the Annual Budget, which is prepared

in the context of a rolling five-year plan. Business units' detailed budgets include specific goals and resources allocated according to the Bank's overall strategic objectives.

The sections within this report on 'Corporate Governance' (pages 142 to 186) and 'Managing Risk at Commercial Bank' (pages 210 to 240), discuss in detail how we have taken advantage of specific opportunities, along with our governance and risk management practices.

Our performance in achieving defined economic targets is detailed in the report sections devoted to 'Operating and Financial Highlights' (pages 6 and 7), 'Key Financial Goals and Achievements' (page 6) and 'Performance of the Strategic Business Units' (pages 79 to 94).

We have put in place a number of mechanisms to monitor progress made towards the goals set out in the Corporate Plan and Budget:

- Detailed management accounts which also includes key performance data are submitted to monthly meetings of the Board of Directors and include explanations of material variances. The Bank prepares Interim and Annual Financial Statements according to the requirements of the Sri Lanka Accounting Standards (LKAS/SLFRS), which are based on the International Financial Reporting Standards (IFRS).

- At Board meetings, the heads of the Bank's main strategic business units discuss recommended action plans to improve performance.
- The Board has set up 7 Sub-Committees - 4 of them mandatory - to support Directors in their efforts and ensure good governance. These Sub-Committees are in turn backed by several other management committees headed by the Managing Director.
- An effective internal audit function covers Commercial Bank's entire operations in Sri Lanka and Bangladesh.
- Annual external audit of Financial Statements is conducted by a reputable firm of chartered accountants. Other statutory audits are undertaken by regulators such as the Central Bank of Sri Lanka, the Bank of Bangladesh and the Inland Revenue Department.
- A reputable external assurance provider conducts an annual verification of the bank's sustainability reporting.

A number of annual ratings are provided by Fitch Ratings, RAM Ratings and other rating agencies (see page 254).

Awards, accolades and other commendations have been conferred upon Commercial Bank by various local and foreign institutions (see page 404)

Our Approach to Environmental Sustainability

Our Policy

'We are especially focused on ensuring that all major activities undertaken by the Bank are consistent with the requirements of our Social and Environmental Management System (SEMS), which provides a policy framework, an implementation system and a monitoring mechanism to ensure that the Bank conforms to performance standards.'

Compared to many industries, banking has a minute environmental footprint, consuming minimal natural resources and creating low emissions and waste. Energy and paper account for Commercial Bank's primary use of natural resources. We are also highly conscious of the negative effects of waste, including discarded IT equipment, on the environment. We have initiated several action plans as explained below to minimise the negative impacts of paper use by centralising our business

Management Approach to Economic, Social and Environmental Parameters

processes and using digital tools to improve efficiency - benefiting both the Bank and our customers.

- A new centralised loan-approval system saves a substantial amount of paper.
- Electronic media are used to communicate with customers and shareholders.
- eStatements are now sent to credit cardholders.
- The Bank's email system and intranet are widely used for internal and external communications.
- Web-based salary slips, as well as e-attendance and e-leave systems, all save paper.
- We constantly raise staff awareness of the paperless office concept, discouraging unnecessary printing of documents.
- This Annual Report is provided as a hard copy only to those shareholders who request it. By providing the report in CD-Rom, we have reduced the number of hard copies printed by more than 90%

Although such initiatives have reduced paper use, we are aware that these changes may have led to increased power consumption. However, we are confident that the net impact on the environment is positive - as we have taken the following steps to reduce energy consumption:

- Procurement of ATMs and IT equipment that comply with 'Energy Star rating 5'

and are compliant with the ROHS (Restriction of Hazardous Substances) standards.

- Investing in procurement of energy efficient lighting equipment and air conditioning equipment leading to preservation of energy in the long run.
- Phase 2 of our server virtualisation and consolidation project was implemented resulting in a reduction in physical servers from 40 to 2 and racks from 16 to 8.
- Continued provision of funds to support reduction of greenhouse gas emissions and renewable energy generation.

Since most processes of the Bank are driven by information technology, we believe that it is our duty to minimise the hazardous environmental effects arising from the use and disposal of computer equipment and peripherals. An ongoing programme is in place to return the used IT equipment to suppliers/vendors who follow internationally recognised standards for disposal.

We have also taken steps to ensure that employees who are responsible for the procurement and disposal of assets carry out their roles in an environmentally friendly manner. Several other initiatives have been introduced to minimise the environmental impact of water usage, emissions, effluents and waste, and the design of products and services. The heads of the Bank's Logistics/Procurement

and Information Technology departments continuously monitor compliance to ensure these activities are carried out diligently. Our Staff Development Centre also ensures that employees are informed about such environmental initiatives when designing and conducting training programmes, covering topics such as credit, operations, housekeeping and compliance. We are determined to keep expanding Commercial Bank's environmental commitment.

While the operations of the Bank do not significantly affect the environment, the activities of our customers and suppliers may. We have therefore put in place procedures to mitigate the indirect impact on the environment caused by business and industrial activities that we finance. Through our Social and Environmental Management System (SEMS), we work to ensure that any financing extended to customers is used to support operations that are sustainable, eco-friendly and not harmful to biodiversity. Of course, the SEMS is also applied to all major activities undertaken by the Bank.

A senior officer designated as 'Social and Environmental Co-ordinator' supported by his team is responsible for the management and administration of the SEMS in the Bank. The 'Social and Environmental Management System' (SEMS) spells out the social and environmental policy

and procedures followed by the Bank in assessing the environmental and social risks as part of its risk assessment process.

In February 2013, the SEMS coordinator, under the purview of the Chief Risk Officer, made it possible for the Integrated Risk Management function to validate SEMS compliance on all credit proposals of Rs. 100 Mn. or more that have a risk evaluation. The SEMS coordinator is required to submit periodic confirmations - subject to audit by the Bank's Inspection Department - that all relevant financing deals comply with the terms and conditions established by the International Finance Corporation. In future, Commercial Bank intends to apply the spirit of SEMS compliance to all credit proposals across all of our branches in Sri Lanka.

The Bank's lending officers undertake desk reviews on an ongoing basis and visit projects we have financed to evaluate their environmental and social impacts, and to assess our clients' fulfilment of agreed environmental and social obligations. These reviews may require borrowers to take mitigating actions in order to align projects in a timely manner with sustainability standards.

The mandate of Commercial Bank's social and environmental co-ordinator is to ensure compliance with relevant procedures on every project undertaken. This officer

Management Approach to Economic, Social and Environmental Parameters

receives ongoing training to update all required skills. We also take advantage of the co-ordinator’s expertise - augmented by external support as needed - to instruct and mobilise bank staff on environmental and other sustainability issues. In addition, we take every measure possible to ensure that our employees, as well as the decision-makers at client firms, understand and agree to operate by the policy principles outlined in the SEMS.

Lending officers are required to record a summary of all discussions and interactions in face-to-face encounters during client project visits, following checklists specially prepared for this purpose.

The Bank maintains a list of product and service providers who are subject to a stringent evaluation process before becoming preferred suppliers. Their businesses are assessed for critical criteria such as quality, cost, service level, delivery performance and environmental standards. Once a business unit communicates a need to the Bank’s central procurement division, purchases are done following the process approved by a clearly defined policy. Wherever possible we support local partners, helping them develop their businesses. As part of our relationship building, we establish formal procedures for evaluating suppliers’ negative environmental impacts, conducting regular audits and prioritising them accordingly.

Our Approach to Social Sustainability

Labour Practices and Decent Work

Our Policy

‘The Bank aspires at all times to be the employer of choice in its industry. This policy drives all human resources planning and activity.’

At Commercial Bank, people are our most valuable asset. Their professionalism, proficiency and diversity have contributed significantly to our success. We have in turn encouraged our employees by providing equal opportunities and remuneration, and by guiding them to reach their professional goals through training and skills development. We also strive to help our people achieve work-life balance. While staff relations are governed by the Shop and Office Employees Act, the Bank goes beyond these regulations in what we offer employees. Their welfare, progress and contentment are among our core priorities. We believe strongly that an effective collective bargaining process, covering employee compensation and human rights concerns, helps foster strong bonds with trade unions and the executive association, which in turn

ensures the long-term viability of the Bank’s operations.

Employment

The Bank’s employment policy dictates that we must recruit the candidates best suited for open positions using fair, objective and internationally accepted evaluation methods. New employees are recruited to the Bank as either banking trainees or management trainees. Only specialised jobs involve mid-career recruitment, and we endeavour wherever possible to fill such vacancies from our internal talent pool. Through this overall process we expect to train the leaders of the future, imbuing them with Bank’s dynamic and

innovative perspective while offering attractive career opportunities in the financial services sector.

Because customer service is a top priority for the bank, we invest time and resources in developing the human capital to deliver outstanding service across our entire network. Through whatever channel the customer chooses to interact with our Bank, he or she will receive the same level of service and care. While pursuing our goal of universal customer satisfaction, we also consider factors such as employees’ home location and travel distance to work before making any job placements or transfers. Such logistical concerns, however, are sometimes outweighed by the needs of business.

At Commercial Bank, people are the most valuable asset. Their professionalism, proficiency and diversity have contributed significantly to the Bank’s success. In return the Bank has encouraged its employees by providing equal opportunities and remuneration, and by guiding them to reach their professional goals through training and skills development.

Management Approach to Economic, Social and Environmental Parameters

Labour-Management Relations and Grievance Handling Mechanism

All permanent employees of the Bank in Sri Lanka are eligible for membership in one of the two employee associations: Ceylon Bank Employees Union (CBEU) and Association of Commercial Bank Executives (ACBE). All CBEU members are covered by a collective agreement that includes their perks. ACBE members in the executive grades must undergo an annual performance appraisal that determines their perks.

The Bank has an open-door policy, addressing urgent issues through immediate discussions with the two employee associations. If the associations cannot amicably settle a dispute with the Bank, they have the option of referring such matters to the Commissioner of Labour. No cases of discrimination, ill treatment or any other dispute were reported during the review period.

The Bank also has an employee relations unit to handle grievances. Representatives of the Human Resource Department make periodic branch visits, enabling staff to voice grievances and address issues relating to their welfare. These visits help identify risks, uncover human rights violations, if any, and address any other employee concerns.

In the event of any significant operational changes within the Bank - such as staff transfers, new branch openings, establishing new business units, upgrading existing branches and outsourcing of activities - employees are always given timely notice via internal circulars.

Occupational Health and Safety

People are recognised as the main focus in Bank's Human Capital Policy. The Bank deals with its employees' work life balance issues in a responsible and dedicated manner since sensitivity towards individual needs, an accurate assessment of employee capabilities, potential and attitude is conducive to successful human resource management. The physical and mental well-being of its staff is important to the Bank, especially considering the stressful effects of the performance driven culture. Effective counselling for needy employees plays a pivotal role in this respect. At Commercial Bank, promoting the well-being of the employees is considered as a long-term investment.

Towards achieving the objective of a healthy workforce, we have in place a comprehensive medical insurance scheme for all permanent employees for indoor treatment in addition to reimbursement of outdoor medical bills.

The Bank has taken several steps to educate and train its staff attached to

customer contact points on the procedure to be followed in instances such as attacks, aggression and robberies. They are also taught to deal with the possible consequences of disclosure of information on criminal activities to regulatory authorities. In addition, to preventing situations of this nature, the Bank has taken several measures including deployment of trained security personnel at all customer locations, installing burglar alarms systems and CCTV cameras, conducting fire drills, counselling and ensuring prompt support from specialised departments for branches needing assistance. Further, the Bank's Integrated Risk Management Department reports such events to the Executive Integrated Risk Management Committee of the Bank together with the steps/actions taken to prevent such situations.

Training and Education

At Commercial Bank, we are committed to developing our people, as they are responsible for our competitive edge when it comes to sustainable business performance. We promote a culture that is conducive to learning, arming employees with the right knowledge, competencies and attitudes to create value - both in their own lives and careers, as well as for the Bank. Ensuring job satisfaction, assisting with career development and providing

lifelong learning - these are the fundamental pillars of the Bank's training and education strategy. Each year, our Staff Development Centre (SDC) conducts a comprehensive needs assessment, and prepares a comprehensive training calendar for employees at all levels. The SDC also monitors the effectiveness of all training programmes on an ongoing basis.

Putting in place an effective management team, with all members well-equipped to face the challenges ahead, ranks among the Bank's top priorities. To realise this goal, our Senior Human Resource Managers are regularly trained in all procedures relating to labour laws and regulations, including respect for human rights.

Diversity, Equal Opportunity and Equal Remuneration

Commercial Bank is dedicated to upholding the principle of equality in both career opportunities and employee remuneration. We seek for most qualified, educated and talented candidates and do not discriminate with regard to race, language, religious belief, gender or age. We only consider employees' relevant skills and competencies, as those are the attributes that create sustainable value. And by advancing employees according to merit, we improve their overall satisfaction - a key component of stakeholder value.

Management Approach to Economic, Social and Environmental Parameters

Supplier Assessment for Labour Practices, Human Rights and Impact on Society

Commercial Bank outsources non-critical functions to reputable agencies following a strict selection criteria. Applying a rigorously documented screening process, we scrutinise organisations that supply outsourced workers to ensure compliance with all applicable labour laws, including those covering minimum pay, whether they are paid on the due dates and provided with a salary slip with adequate details, working hours, leave, payment of statutory levies, child labour and more. In addition, a screening process vets suppliers before contracts are offered to ensure they are not involved in corrupt activities such as money laundering.

The Bank's Human Resources Department continuously monitors labour practices and procedures to ensure protection of human rights. We ensure that half-yearly Employees' Provident Fund and Employees' Trust Fund return statements are submitted for scrutiny. As well, our Security Department confirms that all outsourced security officers are paid the statutory minimum wage by their employers.

Lastly, the Internal Audit Department of the Bank undertakes periodic reviews to ensure that all relevant procedures related to the foregoing areas are followed.

Organisational Responsibility

The Bank's human resources function is overseen at the corporate level by the Deputy General Manager - Human Resource Management, who is assisted by two Chief Managers and a senior Manager.

Human Rights

Our Policy

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

Commercial Bank's employment practices reflect the human rights standards enshrined in the Universal Declaration of Human Rights proclaimed by the United Nations, as well as the Conventions of the International Labour Organisation. 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.
- The elimination of sexual harassment in the workplace.

- The elimination of discrimination with respect to employment.

As a member of the UN Global Compact initiative, we have pledged to uphold the 10 principles stipulated on page 389 when formulating policies and practices. Commercial Bank is committed to safeguarding human rights and to preserving human rights values and practices in all of our operations. We follow best practices governing aspects such as minimum working age limits, working hours, health and safety in the workplace, and collective bargaining principles. The Bank does not condone any form of forced or compulsory labour, child labour, discrimination or sexual harassment.

The Inspection Department of the Bank carries out periodic verifications to ensure that all aspects related to Human Rights referred to above are properly handled and managed by the Human Resources Department in line with the Bank's laid down Human Resource Policies. In addition, the Inspection Department checks whether the grievance handling procedure has been appropriately applied in an unbiased manner in line with the procedure laid down in the circular instructions governing grievance handling.

Society

Our Policy

'The overall goal of the Bank's social policy is to generate measurable and sustainable social dividends for different stakeholders, in particular those which require empowerment most urgently.'

As the largest private sector bank in Sri Lanka, Commercial Bank embraces many responsibilities towards society at large. We ensure that both our enterprise and those in our supply chain conduct business in a manner that completely eschews moral hazards, corruption and anti-competitive behaviour.

We recognise our duty to serve underprivileged people who are often neglected by the financial industry for reasons such as high loan risk. This segment is served through our wide spread branch network with the assistance and guidance of the Development Credit Department. Products related to agriculture, industry and housing are offered at reasonable interest rates. And repayment plans are designed to match customer cash flows, demand minimal collateral and offer longer repayment periods.

Management Approach to Economic, Social and Environmental Parameters

The community benefits in two ways from our commitment to serving disadvantaged customers: We offer direct financing for small-scale cultivators, farmers and low-income earners with housing needs. And we also provide financing to small- and medium-scale entrepreneurs, who in turn create jobs in their localities. Moreover, we take that support a step further, providing customers with industry-specific technical expertise and helping them manage their finances. We are committed to increasing Bank's 'microfinancing' operations, as we believe there are tremendous opportunities in this untapped market. Last year, the Bank launched three dedicated agricultural and microfinancing units in Ratnapura, Vavuniya and Tissamaharama, increasing the total number of such units to 12.

Further, we take serious note in providing funding for projects with negative impacts on local communities such as wind power generation projects, which require resettlement of local communities. We provide funding on these projects only when the borrower has proved the Bank that necessary clearances are obtained from the relevant authorities. All loan proposals identified having potential negative impacts on either society or environment in our primary investigations are referred the SEMS co-ordinator. Hence, the disbursement

of loans will be done subject to any conditions as required by SEMS screening process. Further, we carry out post-disbursement reviews to ensure that the borrower fulfil the agreed commitments.

Commercial Bank makes annual contributions to its own CSR Trust Fund, along with annual donations to selected approved charities. As a matter of practice, we do not make donations to political organisations or to unknown parties without properly checking their backgrounds.

Commercial Bank has a designated compliance officer - a member of the corporate management team whose mandate is to ensure that the Bank fully complies with all applicable laws and regulations. In addition, the Bank's Finance Division regularly submits a consolidated report on 'Compliance with Mandatory Banking and Other Statutory Requirements' to the Board Audit Committee. A similar paper is submitted by the Bank's Bangladesh operation too. The contents of this paper are validated by the Bank's Inspection Department through sample verifications.

The Bank has well-documented processes for dealing with anti-money laundering activities, and our policies in this area leave no room for conflict of interest. Corruption and activities involving anti-competitive behaviour are monitored by the Board

Audit Committee through the 'Positive Assurance Statement' submitted quarterly by the Compliance Officer. Responsibility for identifying and taking action on corruption activities falls under the purview of Integrated Risk Management, Anti-Money Laundering, Operations and Inspection Department. The Bank's Staff Development Centre conducts dedicated employee-training programmes on corruption and anti-competitive behaviour.

Product Responsibility

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.'

Commercial Bank offers an extensive portfolio of products and services designed to meet a spectrum of needs across our customer base. We have pioneered several products and services that enhance customer

convenience while ensuring privacy and compliance with all applicable laws and regulations. By offering a range of delivery channels, we ensure that products and services are readily available to customers and can be accessed with complete transparency.

Product/Service Labelling and Marketing Communications

The Bank's products and services are clearly offered, explained, branded and directed to all sectors of the public. We disseminate clear, accurate, timely and all relevant information with respect to the salient features, on interest rates (both nominal and annual effective rates), fees, commission, charges, tariffs, terms and conditions. We deliver communications in three languages - Sinhala, Tamil and English - via various channels, including brochures, digital and non-digital display boards and units, and various other electronic and printed media.

The Bank's Marketing Department, headed by the Deputy General Manager - Marketing, ensures that all Marketing communications materials adhere to the following criteria:

- Comply with corporate and information security policies.
- Reflect and support the corporate image of the Bank.
- Avoid exposing the Bank to possible litigation.

Management Approach to Economic, Social and Environmental Parameters

Commercial Bank sets key performance indicators (KPIs) for all divisions and executive officers, in keeping with our target driven culture.

- Avoid racial content or inappropriate imagery and information.
- Are transparent and do not mislead customers.
- Avoid infringing intellectual property rights.

In addition, the Bank respects the following requirements:

- Approvals by both external and internal parties prior to the launch and communication of any customer- or employee-related promotional activity.
- Rules and regulations concerning displays, public-address systems, branding signage and similar materials.
- Approval from the relevant heads of departments for communications materials and website changes.
- Assurance from a designated department that information posted on the Bank's website is appropriate, current and accurate.

Customer Privacy

Because safeguarding customer privacy is a paramount concern, the Bank has installed systems and procedures to ensure confidentiality. Key measures include:

- An Oath of Secrecy sworn by all employees.
- Restrictions on the disclosure of account information to any third party.
- Protection of online privacy.
- Assurance of email privacy.
- Maintenance of accurate customer information.
- Preventing access to banking transactions for underaged children unless a parent has given consent.
- Limitations and controls on employees' access to the personal information of customers.

The Bank's culture requires it to operate complying to all stipulated requirements

to the letter and spirit in designing, marketing and delivering its product and services portfolio in a fair manner and this fact have been clearly communicated to the Heads of Departments responsible for these functions. The Bank's Inspection Department carries out periodic verifications to ensure all departments and business units responsible for these functions are adhering to the requirements of the instruction circulars and other compliance requirements stipulated by the regulators. During the period covered by this Report, there were no recorded incidents of non-compliance to rules, regulations or ethics in labelling and marketing communications, nor any breach of customer privacy. See 'Litigations Against the Bank,' Note 49 to the Financial Statements, on page 349.

Evaluation of the Effectiveness of Management's Approach to Economic, Environment and Social Sustainability

Commercial Bank sets key performance indicators (KPIs) for all divisions and executive officers, in keeping with our target-driven culture. These KPIs enable us to measure the contributions of each business division and individual employee as we

pursue the objectives of economic, environment and social policies. We reinforce the achievement of targets through effective action plans and resource-allocation mechanisms, linking various functions to the Bank's overall strategy, as dictated by our vision and mission. The numerous awards and accolades Commercial Bank has earned in the areas of economic, environment and social sustainability speak to the effectiveness of our approach. A summary of this third-party recognition appears on page 404.

The Board of Directors reviews the effectiveness and appropriateness of all defined goals, action plans and processes for achieving targets, assessing them against feedback received through stakeholder engagement - and taking corrective action when necessary. The Board is supported in this process by its Sub-Committees and several senior management committees, which review performance against set targets, as well as compliance to Bank policies and Government laws and regulations. The results, including any specific incidents of non-compliance, are communicated to the Board. Reports of the Board Sub-Committees appear on pages 187 to 197.

Financial Review

Your Bank, a systemically important bank in the country today, has established its name as the benchmark private sector bank as evident from numerous awards and accolades it has been bestowed with consistently over a long period (Please refer page 404). No organisation would be bestowed with such an array of awards consistently unless it generates results unparalleled to its peers, from the perspective of all stakeholders. It has inculcated the top of the mind recall among general public in terms of transparency, good governance, accountability, ethical practices etc. over the last several years.

The Bank which initially catered to a specific market segment by providing trade finance facilities has now firmly established its presence in the retail banking arena. The following indicators demonstrate the success story, the Bank has achieved over the last decade.

Indicator	For the Year/ As at December 31, 2003	For the Year/ As at December 31, 2013	Growth	CAGR* for 10 Years (%)
Post tax profits (Rs. Mn.)	1,477.5	10,445.5	8,968.0	21.60
Deposits (Rs. Bn.)	75.2	451.2	376.0	19.62
Advances (Rs. Bn.)	68.0	379.2	311.2	18.75
Interest earning assets (Rs. Bn.)	98.8	553.0	454.2	18.79
Total assets (Rs. Bn.)	110.3	606.6	496.3	18.59
No. of Branches	120	253	133	-
No. of ATMs	166	604	438	-
No. of Employees	2,648	4,730	2,082	-

* Compound Annual Growth Rate

As evident from the above table, Year on Year, the Bank recorded improved results in terms of profits, business volumes and also expanded its operations to have its presence in all districts in the country besides its presence in Bangladesh. Presently, the Bank holds a market share of around 10%-12% of banking sector assets, deposits and net advances.

The Bank moved to 2013 with this rich background of history which requires a sensible approach to sail the rough seas represented by stiff competition prevailing in the banking industry in Sri Lanka. The Corporate Plan and the Budget which provides direction to the Bank, set ambitious targets at the beginning of the year. The Bank leveraged all its resources and focused the attention with added vigor and achieved some of its budgeted targets through the organic growth during the year. A detailed analysis of the financial performance during the year is given in this section.

Disclosures have been made based on the SLFRS/LKASs. Nevertheless, a few areas were analysed based on the management accounts prepared by the Bank based on CBSL guidelines to bring about a fair understanding of some of the areas. Except the data for 2012 and 2013 which were based on SLFRS/LKASs, data for all the other prior years are based on previous Accounting Standards.

Profitability

The Bank performed exceptionally well and recorded over Rs. 10.0 Bn. in post tax profits for the second consecutive year amidst challenges, that prevailed in the banking industry as evident from the slow credit growth and substantial increase in non-performing advances during the year. As per the Financial Statements for the nine months period ended September 30, 2013, your Bank recorded the highest profits among all banks operating in the country.

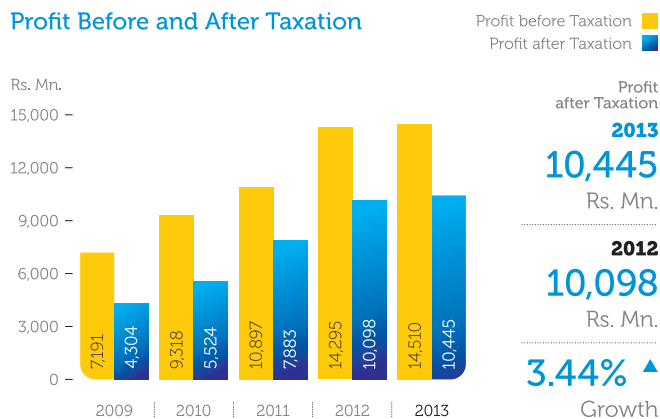
The pre and post tax profits for the year 2013 compared to that of the last year are given below:

	For the Year Ended		Growth Over 2012	
	2013 Rs. Mn.	2012 Rs. Mn.	Rs. Mn.	%
Pre tax profits	14,510.5	14,295.3	215.2	1.51
Post tax profits	10,445.5	10,098.3	347.2	3.44

The Bank prepared interim Financial Statements based on SLFRSs for the first time during the year. Despite the drop experienced in foreign exchange income, the quarterly profits earned by the Bank recorded a consistent growth as shown below; The drop in foreign exchange income was mainly due to the substantial gains on revaluation of retained profits of the Off-Shore Banking Centre due to the sharp depreciation of Sri Lankan Rupee against the US \$ in 2012.

Quarter ended	2013			
	March 31	June 30	September 30	December 31
Pre tax profits (Rs. Mn.)	3,229.9	3,277.9	3,896.3	4,106.4
Growth over 2012 (%)	(19.77)	(5.84)	23.59	12.95
Post tax profits (Rs. Mn.)	2,240.9	2,230.8	2,762.3	3,211.5
Growth over 2012 (%)	(20.09)	(5.81)	20.99	21.54

Profit Before and After Taxation



Both fund and fee-based operations of the Bank contributed towards the growth in profits during the year. The Bank had to re-price its product portfolio several times to be in line with the decline in market interest rates during the year.

Net interest income, the principal source of income from fund-based operations of the Bank reached Rs. 25,308.2 Mn., an increase of Rs. 2,453.2 Mn. or 10.73% compared to Rs. 22,855.0 Mn. recorded in 2012. This was mainly achieved due to the growth recorded in interest income which reached Rs. 62,187.0 Mn., a growth of Rs. 9,501.5 Mn., or 18.03% compared to the previous year. The growth in volumes of interest earning assets contributed in achieving this substantial growth. A similar trend was observed in interest expenses too, which recorded an increase of Rs. 7,048.4 Mn. or 23.63% compared to that of the last year. This was mainly due to the increase in volumes of interest bearing liabilities and average rate of interest thereon.

An analysis on net interest income due to change in average volume and average rate compared to the last year is given below:

Interest Impact	Interest Impact due to change in average volumes Rs. Mn.	Interest Impact due to change in average rates Rs. Mn.
Interest income	10,909.0	(1,407.4)
Interest expenses	(6,136.9)	(911.4)
Net interest income	4,772.1	(2,318.8)

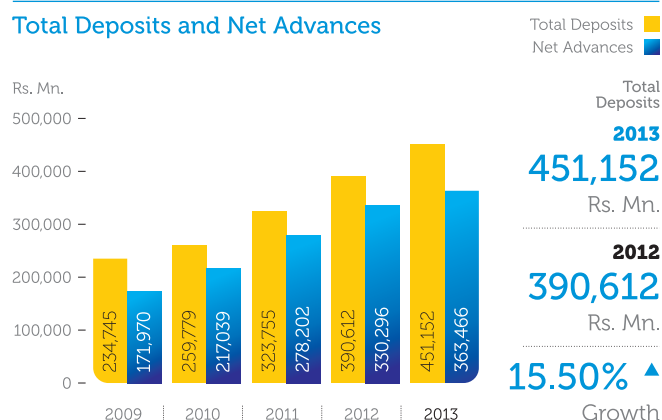
	Rs. Mn.
Increase in net interest income	2,453.2

Fund Based Operations

The Bank recorded satisfactory growth in volumes of both deposits and advances which exceeded the average industry growth during the year. The Bank recorded a monthly average growth of over Rs. 5.0 Bn. and Rs. 2.5 Bn. for deposits and advances respectively during the year.

	As at December 31		Growth Over 2012	
	2013 Rs. Mn.	2012 Rs. Mn.	Rs. Mn.	%
Deposits	451,152.9	390,611.5	60,541.4	15.50
Loans and advances (gross)	379,252.9	343,797.0	35,455.9	10.31

Total Deposits and Net Advances

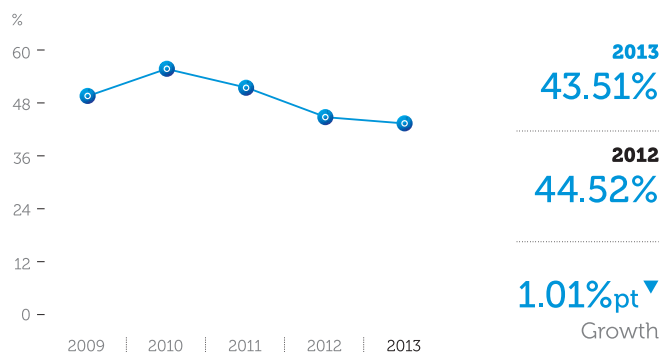


The Bank was able to maintain the Current and Savings Accounts (CASA) to total deposits ratio almost at the same level as at the end of 2012.

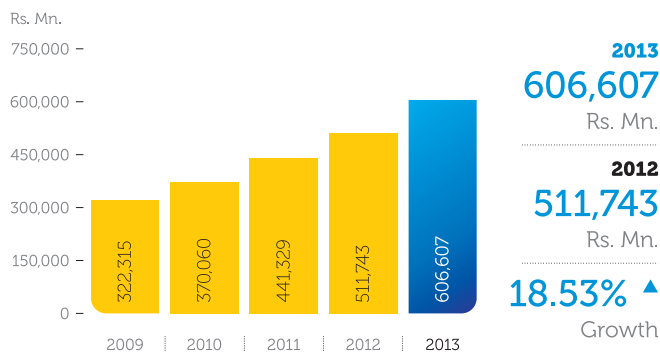
	As at December 31	
	2013	2012
CASA ratio (%)	43.51	44.52

Financial Review

CASA Ratio



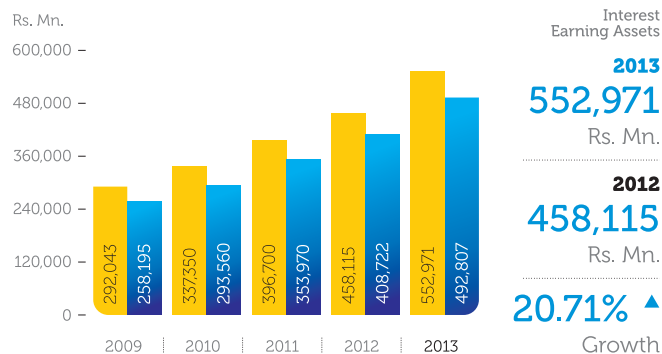
Total Assets



The Bank raised US \$ 75.0 Mn. by way of subordinated term debt which qualifies for Tier II capital from International Finance Corporation (IFC) to further supplement the deposits growth during the year. Due to the sluggish advances growth experienced by the industry, the advances to deposits ratio reduced to 82.1% at the end of 2013 compared to 87.1% at end of 2012.

	For the Year Ended		Growth Over 2012	
	2013 Rs. Bn.	2012 Rs. Bn.	Rs. Bn.	%
Interest earning assets	553.0	458.1	94.9	20.72
Interest bearing liabilities	492.8	408.7	84.1	20.58

Interest Earning Assets and Interest Bearing Liabilities



The total assets of the Bank grew to Rs. 606.6 Bn. at the end of 2013 compared to Rs. 511.7 Bn. in 2012, which represented a growth of Rs. 94.9 Bn. or 18.54%, largely due to the aforementioned developments.

Fee Based Operations

The Bank recorded a growth of Rs. 651.3 Mn. or 18.10% in net fees and commission income compared to the last year. Fees and commission income relating to cards, trade finance, remittances and deposits recorded noteworthy growths compared to the last year.

The Bank utilised part of its Foreign Currency (FCY) borrowing by swapping the US \$ funds to Sri Lankan Rupees (LKR) and invested in Government securities on a fully-hedged basis. The premiums paid by the Bank on these transactions are recognised as an exchange loss during the year under net gains/losses from trading in the Income Statement.

The corresponding gain from Government securities on the funds converted to LKR is included under interest income and the mark to market gain thereon is recognised either as other income in the Income Statement or under available-for-sale in Other Comprehensive Income.

The Bank also recorded substantial growth in gains during the year due to disposal of government securities and equities held under available-for-sale basis.

Other operating income of the Bank recorded over 50% growth mainly due to the net revaluation gains on foreign currency denominated assets and liabilities, which were recorded under revaluation of foreign exchange income. However, the Bank experienced a drop in translation gain on account of retained profits of Off-Shore Banking Centre as a result of lower depreciation of Rupee against the US \$ during the year compared to that of the previous year.

The income from loan recoveries which were either written off or provided for has also recorded a substantial increase when compared with the last year. This was mainly

Financial Review

due to the effective and efficient recovery procedures adopted by the Bank. As a result of the above developments, the income from total non-fund based operations of the Bank increased to Rs. 10.345 Bn., a modest growth compared to Rs. 10.161 Bn. recorded in the previous year. Therefore, the growth of Rs. 2,637.5 Mn. or 7.99 % in total operating income of the Bank during the year was mainly attributable to the growth recorded in net interest income of the Bank.

Impairment Charges on Loans and Advances

The Bank moved from time based provisioning to incurred loss methodology with the implementation of SLFRSs in 2012. The new methodology consists of two main components namely individual and collective impairment. The Bank decides a threshold limit for loans and advances and facilities which are above the limit are subject to individual impairment. These loans and advances are evaluated against the pre-determined impairment indicators decided by a steering committee. All loans which are not subject to individual impairment are categorised into groups based on homogeneous risk characteristics of each product and are subject to collective impairment based on the historical loss experience of each product portfolio expressed in terms of Probability of Default (PD) and Loss Given Default (LGD).

During the year, the Bank revised the threshold upwards and methodology for individual impairment of loans and advances after a careful analysis. The present threshold covers a substantial percentage of total loans and advances, both performing and non-performing of the Bank.

	For the Year Ended December 31,		Change Over 2012	
	2013 Rs. Mn.	2012 Rs. Mn.	Rs. Mn.	%
Individual impairment	3,021.4	1,296.7	1,724.7	133.00
Collective impairment	1,479.9	1,856.7	(376.8)	(20.29)
Total impairment charge	4,501.3	3,153.4	1,347.9	42.74

Reflecting the general market conditions that prevailed in the country, the individual impairment recorded a substantial increase compared to that of the last year. In addition, some of the loans which were subject to collective impairment got shifted to individual impairment in the current year due to the revision of the threshold limit and the methodology adopted in selecting the loans and advances for individual impairment. The above developments resulted in reducing the provision for collective impairment during the year. The impairment provision for 2013 when compared with the loan loss provision made based on the previous time based provisioning policy of the CBSL, is given herein:

	For the Year Ended December 31,	
	2013 Rs. Mn.	2012 Rs. Mn.
Total impairment charge	4,501.3	3,153.4
Total loan loss provision	3,765.7	2,966.7
Excess of impairment over loan loss provision	735.6	186.7

Net operating income after charging the impairment provision amounted to Rs. 31,026.3 Mn., an increase of Rs. 1,206.9 Mn. or 4.05 % compared to Rs. 29,819.3 Mn. recorded in 2012.

Total operating expenses which consists of staff emoluments and other expenses recorded an increase of Rs. 1,010.1 Mn. or 7.46% compared to the last year. However, the Bank was able to curtail the growth in personnel expenses below the rate of inflation in the country. Other expenses recorded a growth over 10% mainly due to the increases reported in establishment and other administration charges during the year. Cost incurred to increase the delivery points and the increase in rentals on premises occupied by the Bank, also attributed to increase in other expenses.

As a result of the above developments, the Bank could post a marginal growth in operating profit before VAT, as detailed below:

	For the Year Ended December 31,		Growth Over 2012	
	2013 Rs. Mn.	2012 Rs. Mn.	Rs. Mn.	%
Pre VAT profits	16,479.5	16,282.6	196.9	1.21
Post VAT profits	14,510.5	14,295.3	215.2	1.51

Both Financial VAT on profit and income tax recorded drops during the year resulting in an improvement in post tax profits of the Bank. The Bank recorded substantial improvement in unrealised gains on treasury bills and bonds held under available-for-sale category which is recorded under Other Comprehensive Income and thereby reported a noteworthy growth in total comprehensive income for the year.

	For the Year Ended December 31,		Growth Over 2012	
	2013 Rs. Mn.	2012 Rs. Mn.	Rs. Mn.	%
Total comprehensive income	12,233.7	11,389.8	843.9	7.41

Financial Review

Ratios

Credit Quality Ratios

As discussed earlier, the Bank makes impairment provisions on its loans and advances portfolio which comprises of both individual and collective impairment. Ratios calculated based on the impairment are detailed below:

	2013 (Dec.)	2012 (Dec.)	Variance
Individual impairment as a % of total loans and advances	1.11	0.99	0.12%pt
Collective impairment as a % of total loans and advances	3.05	2.94	0.11%pt
Total impairment as a % of total loans and advances	4.16	3.93	0.23%pt
Individual impairment as a % of individually impaired loans and advances	61.81	56.98	4.83%pt
Collective impairment as a % of loans and advances subject to collective impairment	3.11	2.99	0.12%pt

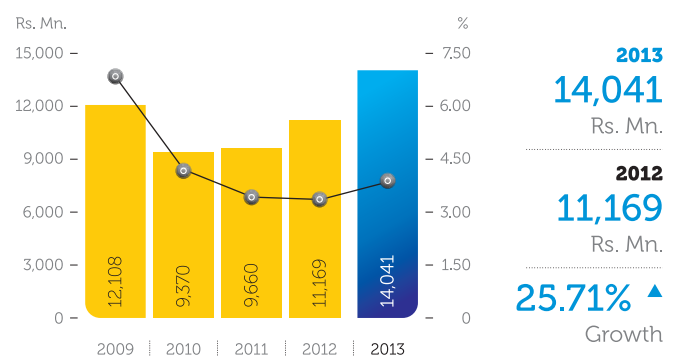
Non-Performing Advances (NPA) Ratio

The Bank's core banking system continues to operate under the previous time based CBSL provisioning policy to classify non-performing advances without any manual intervention. Our provisioning policy is more stringent than the basic principles stipulated by the CBSL.

The entire banking industry experienced an increasing trend in non-performing advances during the year as detailed under the banking industry at the beginning of this analysis. Nevertheless, the Bank was able to curtail the increase in NPA due to the proactive approach adopted by the branches with the support received from the Central Recoveries Department which is discussed in detail towards the end of this Review.

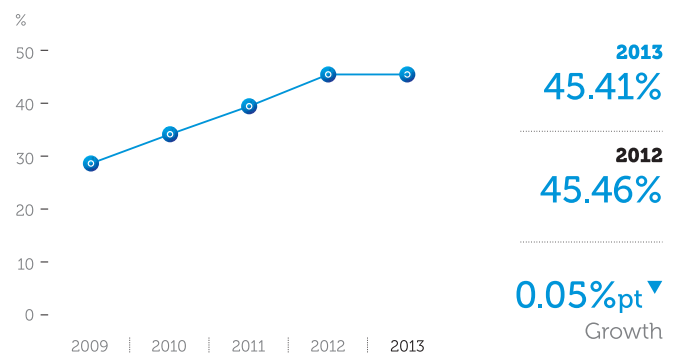
	As at December 31	
	2013	2012
Non-performing loans and advances (Rs. Mn.)	14,040.6	11,169.5
Gross NPA ratio (%)	3.88	3.37
Provision cover (%)	45.41	45.46
Open credit exposure ratio (%)	11.69	12.35

Movement of the Non-Performing Advances



The Bank is gradually improving its provision cover to be in line with figures of reputed international banks. The provision cover has improved to 45.41% from 28.53% in 2009, by 16.88% during the last five years.

Provision Cover



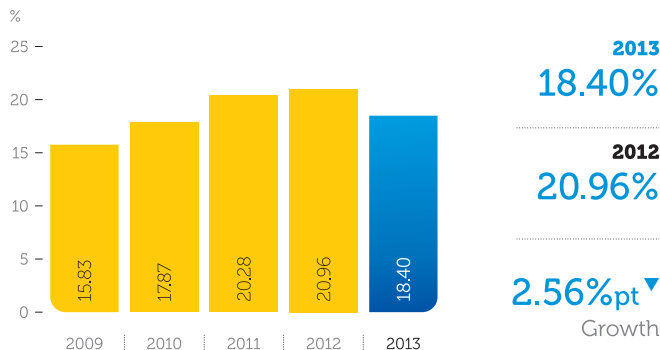
Profitability Ratios

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

The growth reported by the Bank in assets and equity was well above the growth in profits resulting in decreases in Return on Assets (ROA) and Return on Equity (ROE) as shown below; However, the ratios of the Bank continue to remain well above the industry average ratios.

	2013	2012
ROA (%) (after tax)	1.87	2.12
ROE (%) (after tax)	18.40	20.96

Return on Equity



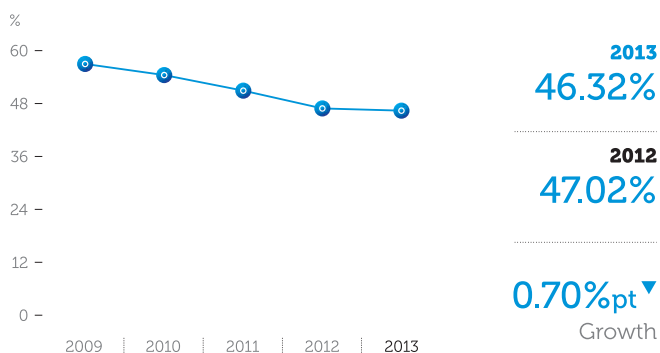
Efficiency Ratios

Cost to Income Ratio

Commercial Bank is recognised as the best private sector bank in the country today. One of the main contributory factors for this success was the exemplary operational excellence the Bank has portrayed consistently over a long period of time, which was achieved through optimum and lean cost structures adopted by the Bank. Despite the increase recorded in operational expenses, the Cost to Income ratio recorded a marginal improvement when compared to the last year.

	2013	2012
Cost to income ratio (%)	46.32	47.02

Cost to Income Ratio



Equity

The shareholders' funds of the Bank improved by Rs. 8,367.0 Mn. or 15.91% during the year. Main contributory factors for this increase are the plough back of profits with the payment of dividend and Rs. 2/- per share satisfied in the form of issue and allotment of new shares as part of

the final dividend for 2012 paid in 2013. Furthermore, funds transferred to Investment Fund Account, from savings on income tax and financial VAT also helped in swelling the capital base of the Bank. Total shareholders' funds stood at Rs. 60,944.0 Mn. as at December 31, 2013.

The aforementioned developments in the capital base increased the free capital of the Bank to Rs. 5,519.2 Bn. and as a result, the single borrower limit applicable to the Bank also rose to Rs. 17,789.4 Mn. for individual customers and Rs. 19,568.4 Mn. for group of customers, one of the highest in the banking industry.

Capital Adequacy Ratio (CAR)

The Bank's CAR recorded an improvement mainly due to the increase in capital as described above as well as due to the subordinated term debt raised from International Finance Corporation during the year which is eligible to be treated under Tier II capital of the Bank.

CAR	As at December 31		Minimum Ratio %
	2013 %	2012 %	
Tier I	13.27	12.64	5.00
Tier I & II	16.91	13.85	10.00

Statutory Liquid Assets Ratio (SLAR)

The Bank's liquid assets ratio stood above 30% during most parts of the year. The deposit mobilisation efforts have brought handsome rewards to the Bank. However, the banking industry has not experienced the desired levels of credit growth during the year which resulted in an increase in the liquidity position across the industry. Similarly the Bank also recorded relatively higher levels of liquidity throughout the year. The Bank is well aware of the trade-off between profitability and liquidity in managing the operations of the Bank.

Group Performance

The Commercial Bank group which consists of the Bank, Commercial Development Company (CDC), ONEzero Company and Commex S.R.L., the subsidiaries of the Bank and Commercial Insurance Brokers (Pvt) Ltd. and Equity Investments Lanka Ltd., the associates of the Bank recorded satisfactory results during the year. The details of operations of these companies are not elaborated in detail since they are not material in terms of their contribution to the results and the financial position of the Group. Nevertheless, the group recorded a pre and post tax profits of Rs. 14,692.8 Mn. and Rs. 10,573.4 Mn. respectively, compared to Rs. 14,312.9 Mn. and Rs. 10,081.2 Mn. recorded in 2012, recording growths of 2.65% and 4.88% respectively.

Financial Review

Direct Economic Value Generated and Distributed

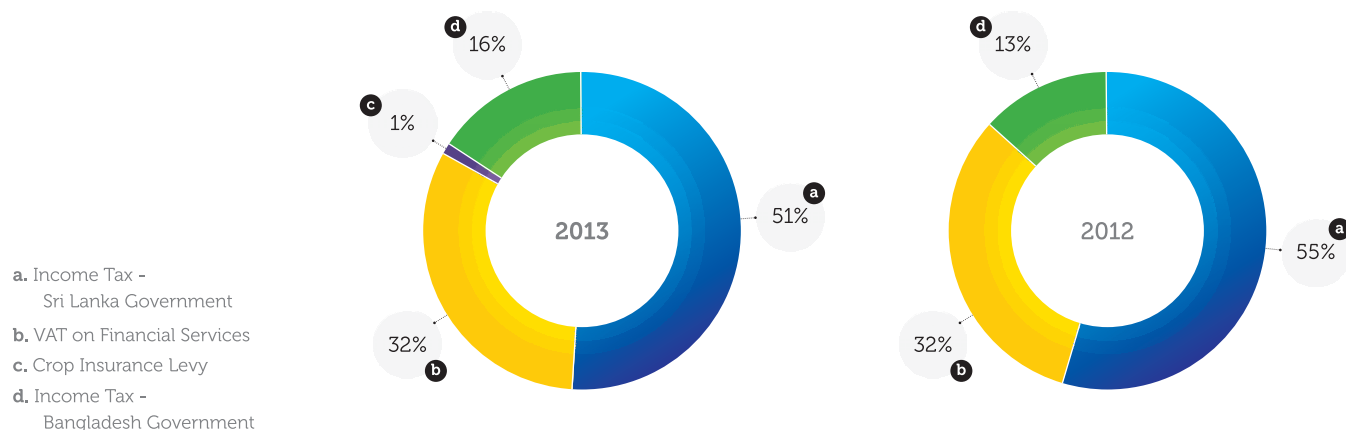
The data provided below covers the last five-year period reflecting the Bank's contribution to the economy.

	Sri Lankan Operation					Bangladesh Operation				
	2013 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.
Source of income										
Interest income	57,534	49,169	35,914	32,293	33,479	4,653	3,516	2,442	2,447	2,446
Foreign exchange profit	1,541	4,246	1,811	1,329	2,532	455	448	510	412	430
Commission income	3,876	3,253	2,977	2,886	2,227	374	345	348	334	303
Investment income	873	103	81	188	215	14	16	-	19	4
Other	3,722	2,201	1,715	1,468	2,084	118	98	61	146	21
	67,546	58,972	42,498	38,164	40,537	5,614	4,423	3,361	3,358	3,204
Distribution of income										
To depositors/debenture holders as interest	34,617	28,148	18,452	17,241	22,087	2,262	1,682	1,198	1,087	1,428
To employees as emoluments	7,555	7,190	5,834	5,162	4,685	631	580	456	426	396
Depreciation set aside	881	987	699	485	466	55	48	49	54	40
Provision for possible loan losses/ impairment charges	4,606	3,155	1,763	1,163	1,513	21	42	45	29	21
To providers of supplies & services	5,629	5,046	4,661	3,402	3,381	297	183	167	377	238
To government as taxation	5,149	5,357	3,946	5,885	4,703	961	827	596	630	456
- Income tax	3,104	3,370	2,418	3,164	2,431	961	827	596	630	456
- VAT on Financial Services	1,969	1,987	1,523	2,709	2,264	-	-	-	-	-
- Crop insurance levy	76	-	-	-	-	-	-	-	-	-
- Debits tax	-	-	5	12	8	-	-	-	-	-
To shareholders as dividends	5,519	5,418	4,905	2,642	1,749	-	-	-	-	-
To community	51	51	110	57	22	-	1	-	1	-
To reserves	3,539	3,620	2,128	2,127	1,931	1,387	1,060	850	754	625
	67,546	58,972	42,498	38,164	40,537	5,614	4,423	3,361	3,358	3,204

Note:

The data for 2011, 2012 and 2013 have been extracted from the Audited Financial Statements prepared based on Sri Lanka Accounting Standards (SLFRS/LKAS) and data for 2009 and 2010 have been extracted from the Audited Financial Statements prepared based on Sri Lanka Accounting Standards (SLAS)

Contribution to Governments

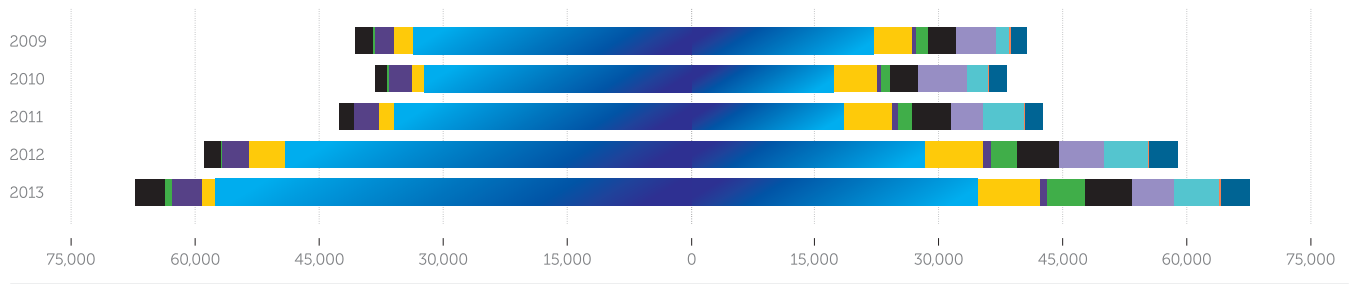


Sources and Distribution of Income

Sri Lanka

Sources of Income (Rs. Mn.)

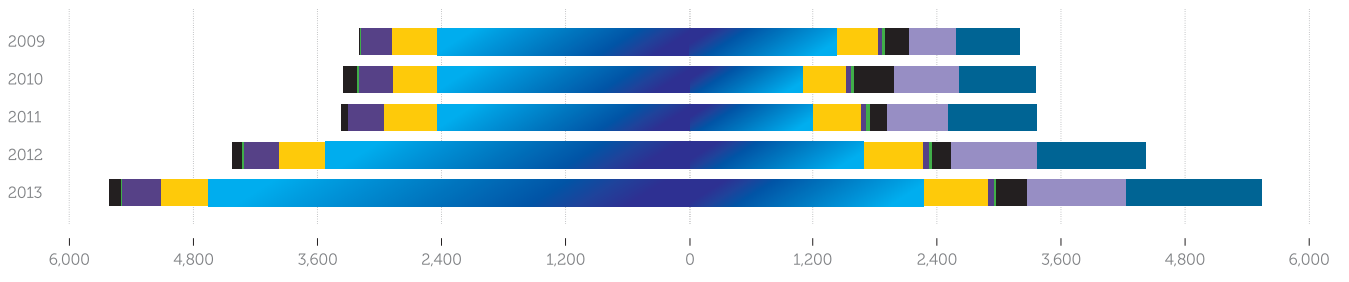
Distribution of Income (Rs. Mn.)



Bangladesh

Sources of Income (Rs. Mn.)

Distribution of Income (Rs. Mn.)



- Sources of Income**
- Interest Income
 - Foreign Exchange Profit
 - Commission Income
 - Investment Income
 - Other
- Distribution of Income**
- To Depositors/Debenture Holders as Interest
 - To Employees as Emoluments
 - Depreciation Set Aside
 - Provision for Possible Loan Losses/Impairment Charges
 - To Providers of Supplies and Services
 - To Government as Taxation (Including Deferred Tax)
 - To Shareholders as Dividends
 - To Community
 - To Reserves

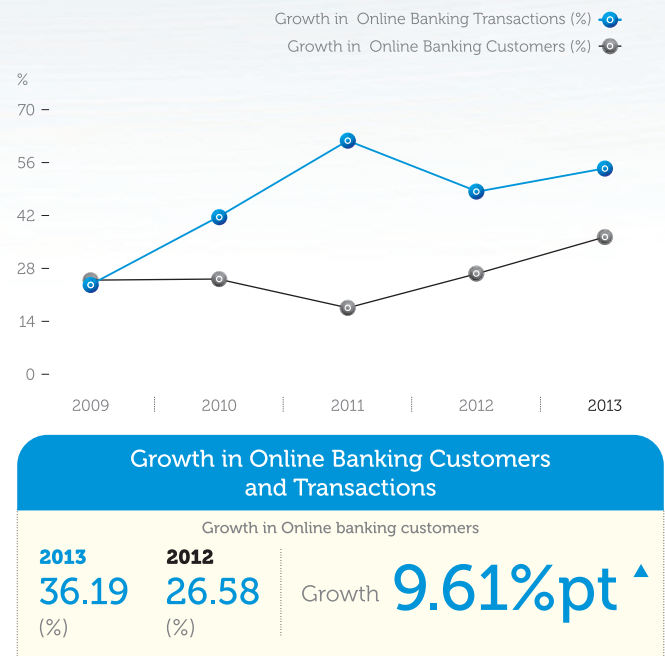
Stakeholder Analysis

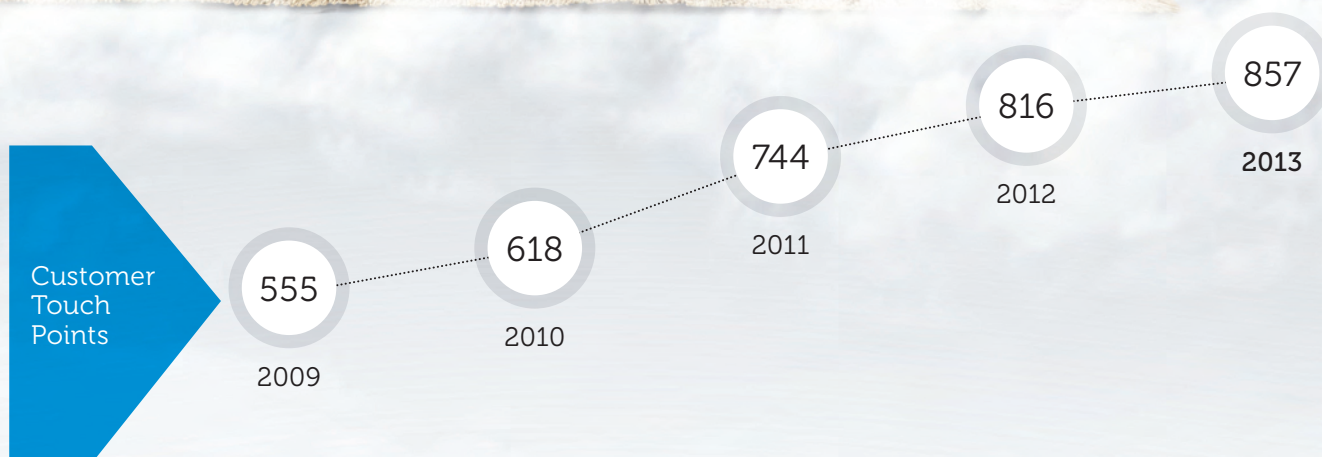


together with Customers

The world of banking is a highly competitive one. Customers are constantly being offered a plethora of products and services by many a bank. Ultimately they opt for the Bank that can provide the most favourable financial solutions, the greatest convenience, reputed safety and security and benchmarked service standards, among other criteria. Commercial Bank constantly strives to rise up to and meet these expectations...in turn, we are happy to welcome more and more customers who join us for the journey.

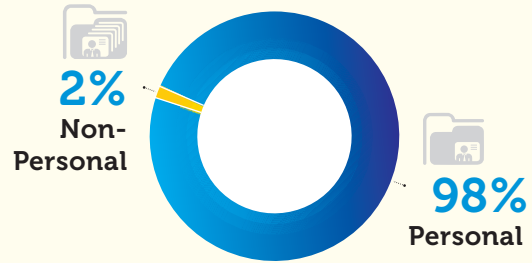
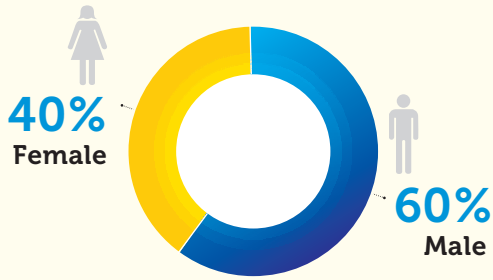
This is truly a journey taken together to prosperity.



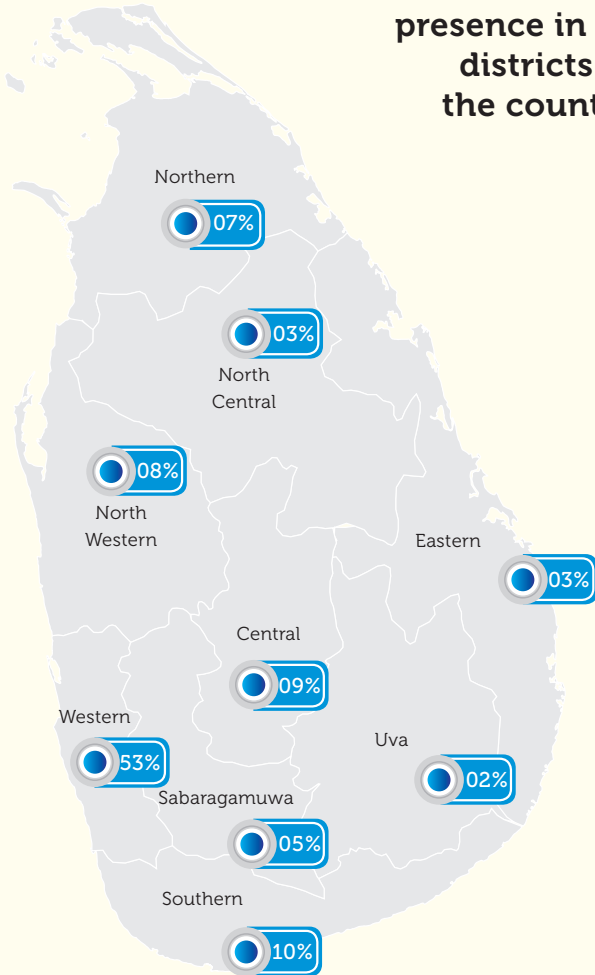


	2013	2012	2011	2010	2009
No. of Delivery Points Added					
Branches (Sri Lanka and Bangladesh)	9	14	27	16	3
ATMs (Sri Lanka and Bangladesh)	32	55	104	45	22
SME Centres (Bangladesh)	-	-	-	2	2
No. of Relocations/Upgradings					
Branches (Sri Lanka)	7	26	8	4	2
Booths converted to branches (Bangladesh)	2	-	-	-	-
Growth in Credit/Debit Card Transactions					
Value of cash dispensed during the year (Rs. Bn.)	295	250	205	150	115
No. of transactions during the year (Mn.)	66	58	50	45	40
Growth in cards issued (%)	27.18	(1.46)	6.04	27.17	(8.25)
Growth in eRemittances					
Volume of eRemittances (%)	22.02	45.78	14.59	(7.26)	25.20
No. of transactions eRemittances	18.12	18.52	8.30	1.91	24.70

Customer Segmentation - Sri Lankan Operation

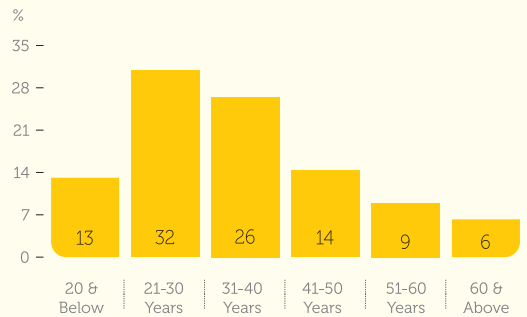


The Bank has presence in all districts of the country

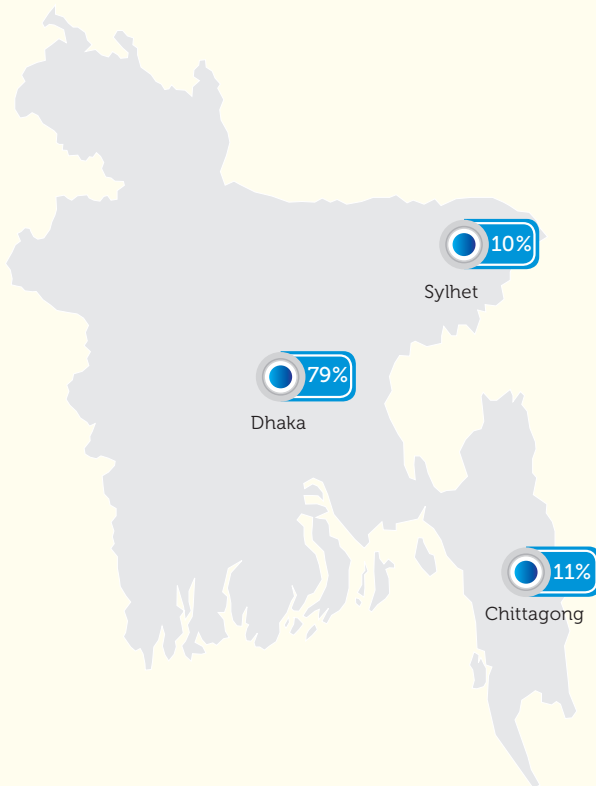
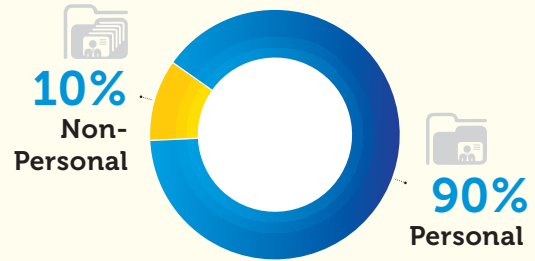
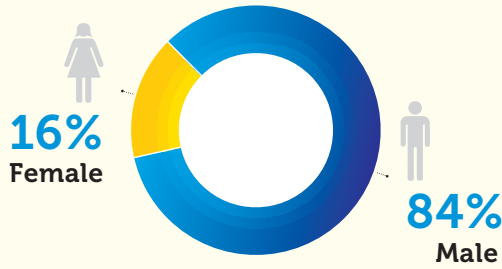


By Province	%
Central	9
Eastern	3
North Central	3
North Western	8
Northern	7
Sabaragamuwa	5
Southern	10
Uva	2
Western	53
Total	100

Age Group	%
Age 20 years & below	13
Age 21-30 years	32
Age 31-40 years	26
Age 41-50 years	14
Age 51-60 years	9
Age over 60 years	6
Total	100

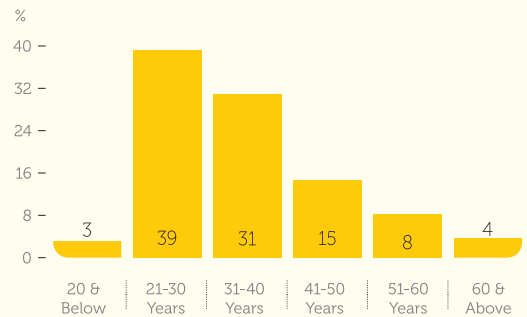


Customer Segmentation - Bangladesh Operation



By Division	%
Chittagong	11
Dhaka	79
Sylhet	10
	100

Age Group	%
Age 20 years & below	3
Age 21-30 years	39
Age 31-40 years	31
Age 41-50 years	15
Age 51-60 years	8
Age over 60 years	4
	100





with **Employees**

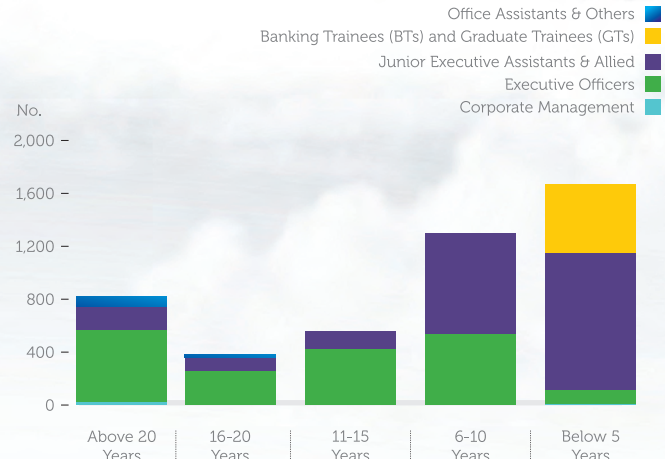
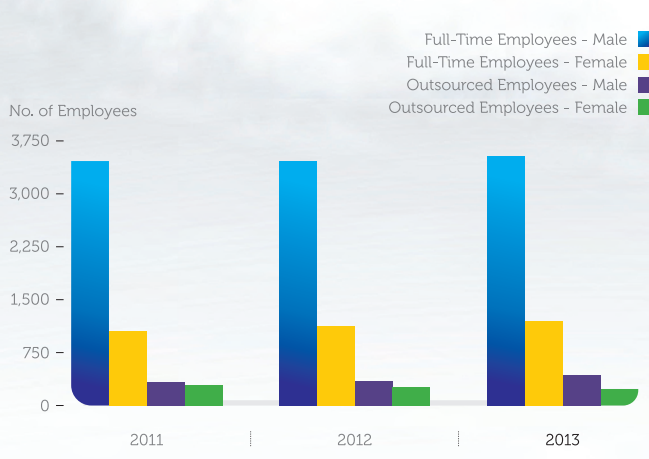


Profiling employee relationships with employers is much more complex than it has ever been...and that is a really good thing. Employee expectations have moved well beyond the contours of the job itself to areas such as job security, career growth and advancement, opportunities for skill enhancement and learning, working culture and more. The employer looks beyond the functional input of an employee, to loyalty, 'ownership' of their work and responsibility, productivity, happiness on the job, work and life balance and more. As an employer of choice, Commercial Bank aims always to meet its employees' expectations as we journey together to prosperity.

The Bank as the benchmark private sector bank in the country employs over 4,700 permanent and full-time employees and over 650 employees on fixed term contract. As a policy, the Bank does not recruit employees on part-time basis. The Bank recognising the importance of its human resource capital makes every endeavour to support and uplift its

standard by promoting a sound work environment, equal opportunity, training and skills development, freedom of association and to protect their human rights. A summary of total number of employees by employment contract, region and gender are given below.

The Bank as the benchmark private sector bank in the country employs over 4,700 permanent and full-time employees and over 650 employees on fixed term contract.



No. of Employees by Type and Gender 2011-2013

87.5% of the Staff as at End 2013 were Full-Time Employees

Service Analysis of Employees by Category 2013

Average service of an employee as at end 2013 was 10 years

Total Number of Employees by Employment Contract and Gender

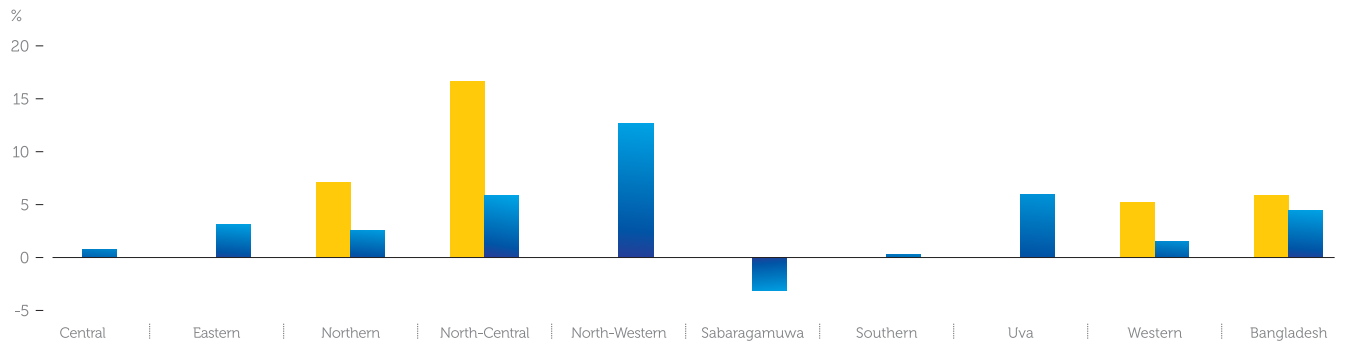
Employee Type	No. of Employees				Composition of Employees (%)			
	2013	2012	2011	2010	2013	2012	2011	2010
Full-time employees - Male	3,539	3,470	3,459	3,289	74.82	75.40	76.46	76.12
Full-time employees - Female	1,191	1,132	1,065	1,032	25.18	24.60	23.54	23.88
Total	4,730	4,602	4,524	4,321	100.00	100.00	100.00	100.00
Outsourced employees - Male	443	344	330	308	65.53	56.39	53.66	50.41
Outsourced employees - Female	233	266	285	303	34.47	43.61	46.34	49.59
Total	676	610	615	611	100.00	100.00	100.00	100.00

Total Workforce by Region and Gender

Province/Departments and Other Business Units	2013				2012				2011				2010			
	No. of Branches	No. of Employees			No. of Branches	No. of Employees			No. of Branches	No. of Employees			No. of Branches	No. of Employees		
		Male	Female	Total		Male	Female	Total		Male	Female	Total		Male	Female	Total
Central	20	216	63	279	20	213	64	277	16	205	59	264	16	208	59	267
Eastern	9	87	11	98	9	82	13	95	9	80	19	99	6	66	17	83
Northern	15	130	66	196	14	124	67	191	12	113	61	174	10	91	57	148
North-Central	7	79	11	90	6	75	10	85	6	77	7	84	5	69	9	78
North-Western	19	211	46	257	19	188	40	228	16	197	41	238	14	188	32	220
Sabaragamuwa	14	139	17	156	14	146	15	161	14	147	14	161	12	140	13	153
Southern	23	245	74	319	23	248	70	318	22	251	64	315	20	245	62	307
Uva	8	79	10	89	8	75	9	84	8	74	13	87	6	65	7	72
Western	120	1,286	557	1,843	114	1,286	529	1,815	110	1,299	469	1,768	98	1,236	466	1,702
Departments and Other Business Units		900	292	1,192		875	271	1,146		859	277	1,136		819	271	1,090
Bangladesh	18	167	44	211	17	158	44	202	17	157	41	198	17	162	39	201
Total	253	3,539	1,191	4,730	244	3,470	1,132	4,602	230	3,459	1,065	4,524	204	3,289	1,032	4,321

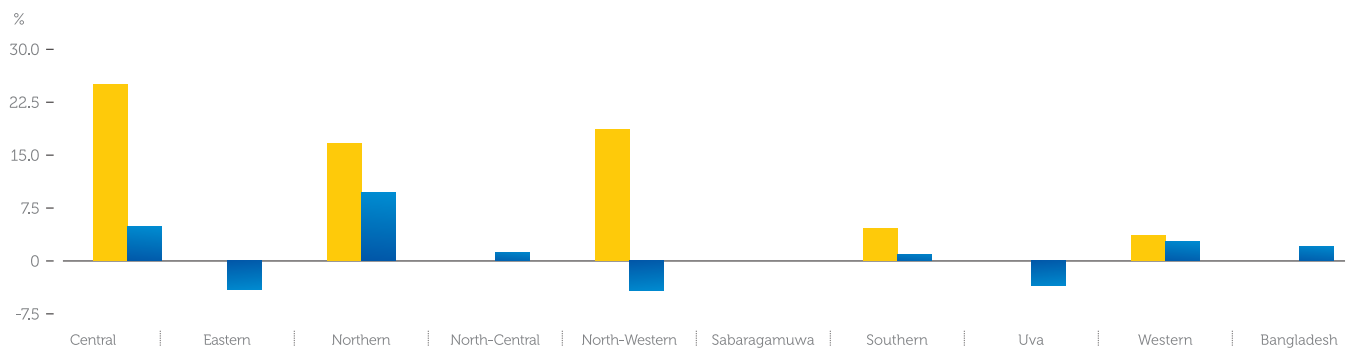
Growth in No. of Branches Vs Employees -2013 Vs 2012

Growth in No. of Branches ■
Growth in No. of Employees ■



Growth in No. of Branches Vs Employees -2012 Vs 2011

Growth in No. of Branches ■
Growth in No. of Employees ■



Total Number and Percentage of New Employees Hired by Age Group and Gender - Sri Lanka

Category	2013				2012				2011			
	New Employee Hired		(%)*		New Employee Hired		(%)*		New Employee Hired		(%)*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate Management												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	2	-	8.70	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Executive Officers												
Below 30 years	1	2	0.08	0.46	-	1	-	0.23	5	2	0.40	0.47
30 - 50 years	1	1	0.08	0.23	2	-	0.16	-	1	-	0.08	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Junior Executive Assistants and Allied												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	1	1	0.06	0.21	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Banking Trainees												
Below 30 years	206	95	67.76	43.58	106	101	22.70	61.96	291	52	53.99	44.07
30 - 50 years	-	-	-	-	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Office Assistants and Other												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Total	209	99	6.20	8.63	108	102	3.26	9.38	299	54	9.06	5.27

* As a % of total male/female staff in each employee category

Total Number and Percentage of Employee Turnover by Age Group and Gender - Sri Lanka

Category	2013				2012				2011			
	Employee Turnover		(%)*		Employee Turnover		(%)*		Employee Turnover		(%)*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate Management												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	1	-	4.35	-
51 - 60 years	3	-	0.14	-	3	-	13.64	-	1	-	4.35	-
Executive Officers												
Below 30 years	5	1	0.38	0.23	4	5	0.31	1.14	5	3	0.40	0.70
30 - 50 years	20	4	1.53	0.90	16	5	1.25	1.14	9	2	0.72	0.47
51 - 60 years	21	5	1.61	1.13	17	3	1.33	0.69	9	3	0.72	0.70
Junior Executive Assistants and Allied												
Below 30 years	34	9	2.07	1.87	19	9	1.33	1.86	26	5	1.90	1.05
30 - 50 years	5	3	0.31	0.62	2	5	0.14	1.03	6	5	0.44	1.05
51 - 60 years	4	4	0.24	0.83	1	3	0.07	0.62	8	1	0.58	0.21
Banking Trainees												
Below 30 years	49	14	16.12	6.42	23	9	4.93	5.52	47	6	8.72	5.08
30 - 50 years	-	-	-	-	1	-	0.21	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Office Assistants and Other												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	1	-	0.90	-	3	-	0.56	-
51 - 60 years	8	-	8.00	-	9	-	8.11	-	7	-	1.30	-
Total	149	40	4.42	3.49	96	39	2.90	3.58	122	25	3.69	2.44

* As a % of total male/female staff in each employee category

Total Number and Percentage of New Employees Hired by age Group and Gender - Bangladesh

Category	2013				2012				2011			
	New Employee Hired		(%)*		New Employee Hired		(%)*		New Employee Hired		(%)*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate Management												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Executive Officers												
Below 30 years	-	-	-	-	1	-	0.98	-	1	-	1.01	-
30 - 50 years	1	-	0.98	-	2	-	1.96	-	1	6	1.01	26.09
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Junior Executive Assistants and Allied												
Below 30 years	18	4	32.14	21.05	9	6	16.07	31.58	9	5	19.15	27.78
30 - 50 years	-	-	-	-	2	-	3.57	-	1	-	2.13	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Banking Trainees												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Office Assistants and Other												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Total	19	4	11.38	9.09	14	6	8.86	13.64	12	11	7.64	26.83

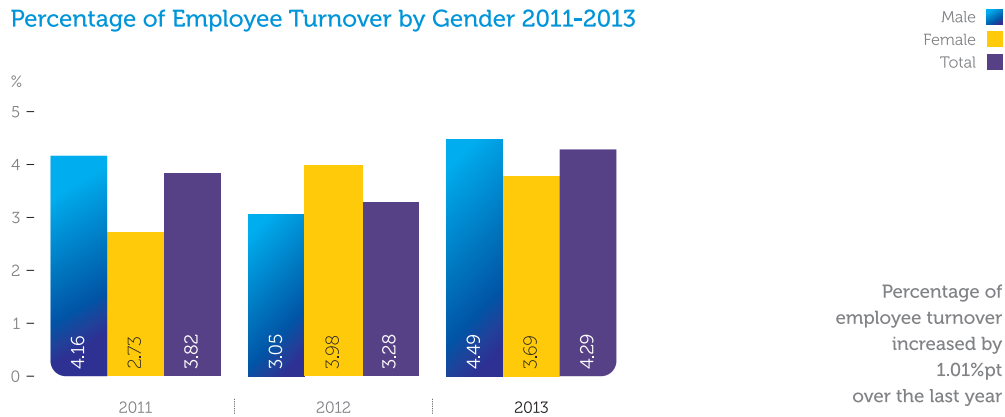
* As a % of total male/female staff in each employee category

Total Number and Percentage of Employee Turnover by Age Group and Gender - Bangladesh

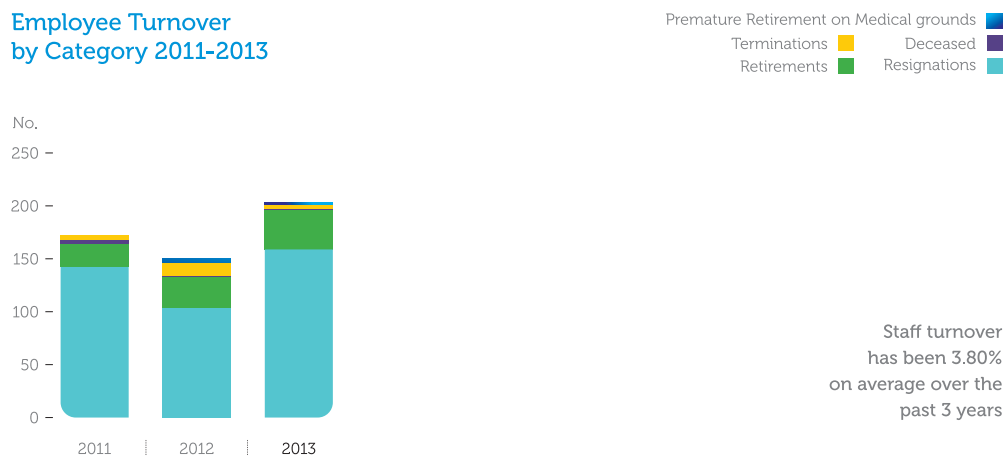
Category	2013				2012				2011			
	Employee Turnover		(%)*		Employee Turnover		(%)*		Employee Turnover		(%)*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Corporate Management												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Executive Officers												
Below 30 years	9	3	8.82	12.00	-	-	-	-	1	-	1.01	-
30 - 50 years	1	1	0.98	4.00	7	5	6.86	20.00	11	2	11.11	8.70
51 - 60 years	-	-	-	-	-	-	-	-	1	-	1.01	-
Junior Executive Assistants and Allied												
Below 30 years	-	-	-	-	-	-	-	-	3	-	6.38	-
30 - 50 years	-	-	-	-	3	1	5.36	5.26	6	2	12.77	11.11
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Banking Trainees												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Office Assistants and Other												
Below 30 years	-	-	-	-	-	-	-	-	-	-	-	-
30 - 50 years	-	-	-	-	-	-	-	-	-	-	-	-
51 - 60 years	-	-	-	-	-	-	-	-	-	-	-	-
Total	10	4	6.33	9.09	10	6	6.33	13.64	22	4	14.01	9.76

* As a % of total male/female staff in each employee category

Percentage of Employee Turnover by Gender 2011-2013



Employee Turnover by Category 2011-2013



Employee Related Expenses

	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000
Training & development cost	54,903	47,453	47,522	36,471	24,592
Health & Safety related cost	277,955	219,673	163,738	166,967	144,641
Total staff emoluments	8,186,205	7,769,788	6,289,693	5,589,579	5,080,531

Percentage of Total Employees Covered by Employee Associations

Name of Employee Association	2013		2012		2011		2010	
	No. of Employees	%	No. of Employees	%	No. of Employees	%	No. of Employees	%
Ceylon Bank Employees' Union	3,102	69.04	2,928	63.62	2,803	64.75	2,608	63.25
Commercial Bank Executive Association	590	13.13	588	12.78	548	12.66	338	8.20
Total	3,692	82.17	3,516	76.40	3,351	77.41	2,946	71.45

Over 80% of the Bank's permanent workforce has membership in either one of the two employee associations. The continuous and cordial engagement with the two employee associations has brought about many benefits to both employees and the Bank and has helped reaching amicable solutions. There are no employee associations in our operations in Bangladesh.

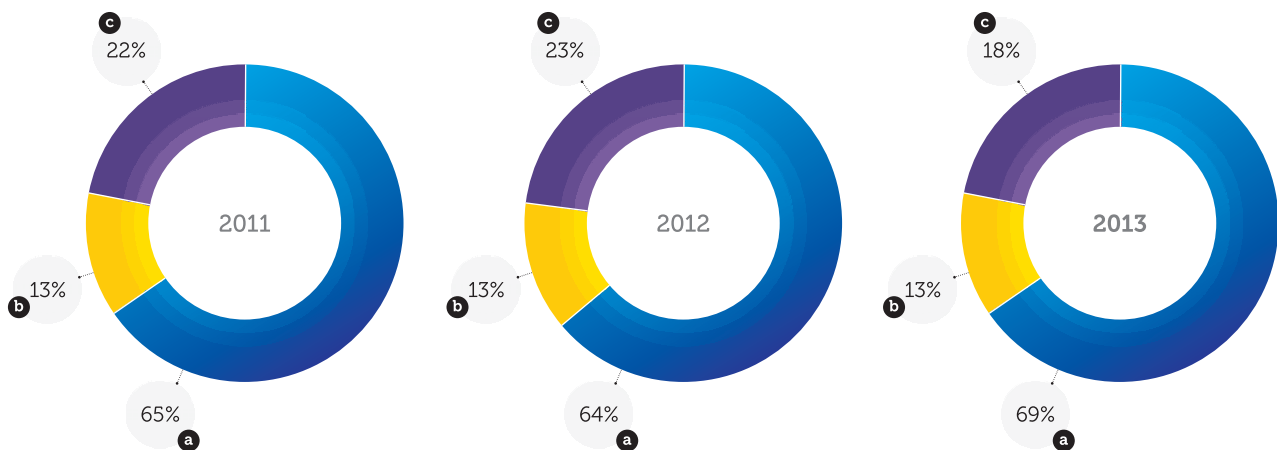
The Ratio of Basic Salary of Women to Men by Employee Category

Category	Ratio of Basic Salary Women to Men		
	2013	2012	2011
Corporate Management	1:0.87	1:0.97	1:1.10
Executive Officers	1:0.98	1:0.96	1:0.97
Junior Executive Assistants and Allied	1:0.85	1:0.88	1:0.88
Banking Trainees	1:0.98	1:1.06	1:0.96
Office Assistants*	N/A	N/A	N/A

*There are no Female Office Assistants

Employees Covered by Unions

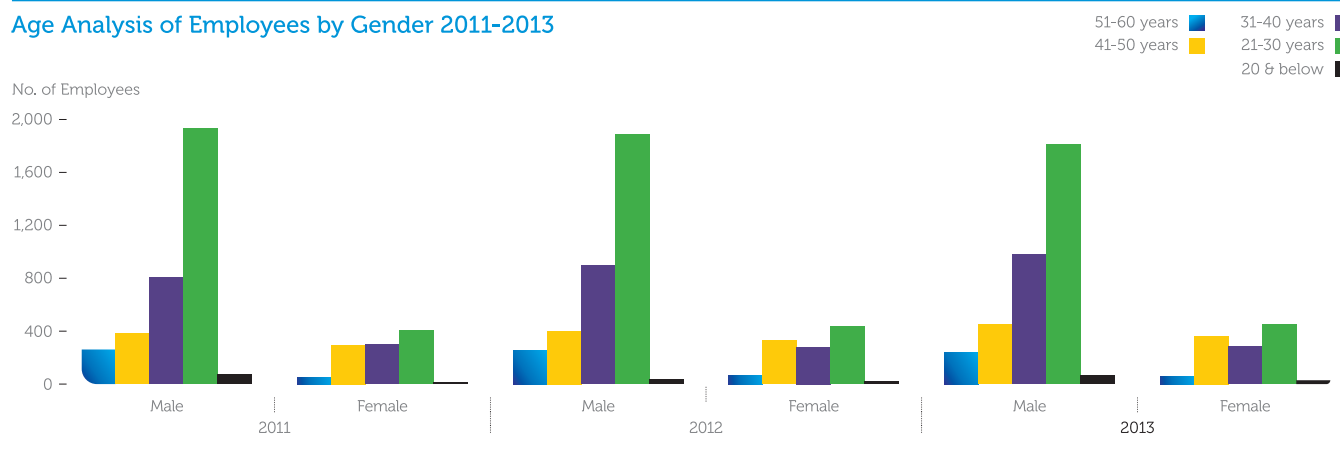
a. Ceylon Bank Employees' Union b. Commercial Bank Executive Association
c. Not Covered by Unions



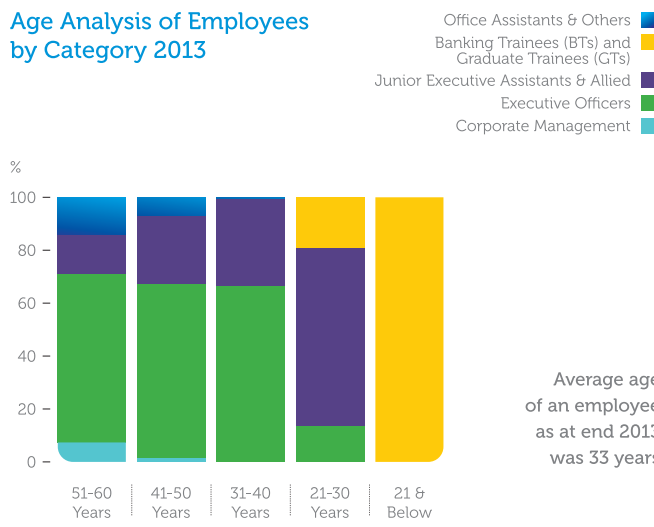
Composition of the Board and Employees by Employee Category

Category	Gender (%)		Age Group (%)		
	Male	Female	Below 30 years	30-50 years	Over 50 years
Board of Directors	100.00	0.00	0.00	0.00	100.00
Corporate Management	87.50	12.50	0.00	33.33	66.67
Executive Officers	74.66	25.34	16.39	73.45	10.16
Junior Executive Assistants and Allied	77.27	22.73	69.36	28.64	2.00
Banking Trainees	58.24	41.76	100.00	0.00	0.00
Office Assistants and Others	100.00	0.00	0.00	58.00	42.00

Age Analysis of Employees by Gender 2011-2013



Age Analysis of Employees by Category 2013

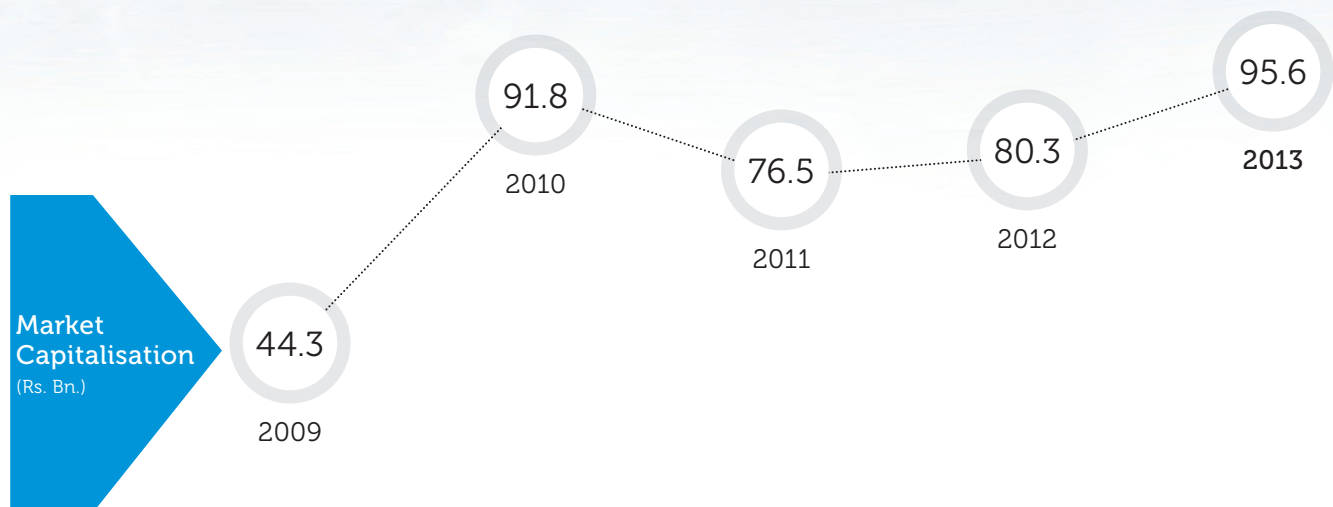




together

with Investors

The shareholder relationship...close...and at our core. Security of investment, remunerative returns and lucrative growth are top of mind for our shareholders. Commercial Bank has these needs clearly in focus as we set about creating prime value for them. We are fortunate indeed to enjoy the invaluable, long term trust and loyalty of our shareholder family. With such strong support, it is easy for the Bank to plan mutual growth...yet another great example of journeying together to prosperity!



Shareholder Base

	2013	2012
No. of ordinary voting shareholders	9,091	9,509
No. of ordinary non-voting shareholders	4,336	4,349
Total	13,427	13,858



The market capitalisation of Bank's shares is the highest among all listed Banking and Financial Institutions in Sri Lanka

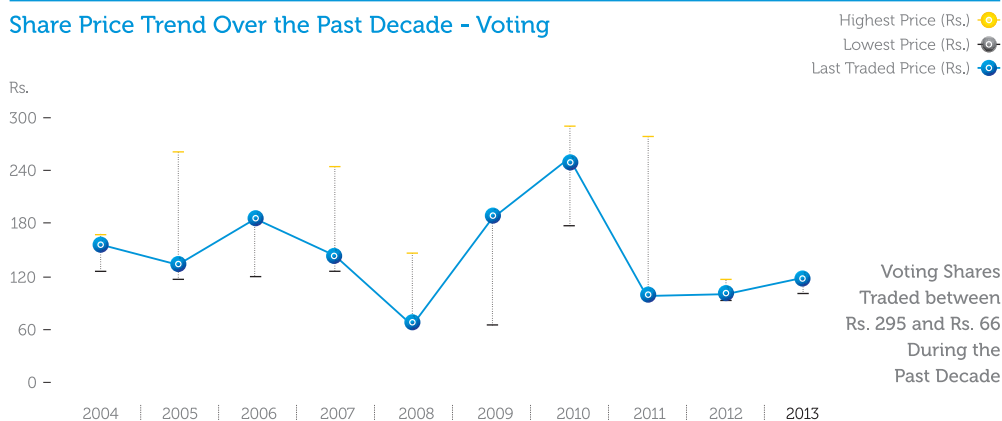
Composition of Shareholders

	As at December 31, 2013				As at December 31, 2012			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Ordinary Shares Voting								
Resident	8,789	96.68	511,640,873	64.39	9,203	96.78	497,768,042	63.82
Non-resident	302	3.32	282,894,946	35.61	306	3.22	282,246,190	36.18
Total	9,091	100.00	794,535,819	100.00	9,509	100.00	780,014,232	100.00
Individuals	8,546	94.01	142,086,949	17.88	8,934	93.95	130,953,368	16.79
Institutions	545	5.99	652,448,870	82.12	575	6.05	649,060,864	83.21
Total	9,091	100.00	794,535,819	100.00	9,509	100.00	780,014,232	100.00
Ordinary Shares Non-Voting								
Resident	4,233	97.62	42,218,874	77.40	4,251	97.75	41,852,800	78.27
Non-resident	103	2.38	12,324,348	22.60	98	2.25	11,620,948	21.73
Total	4,336	100.00	54,543,222	100.00	4,349	100.00	53,473,748	100.00
Individuals	4,119	95.00	32,321,004	59.26	4,127	94.90	32,479,975	60.74
Institutions	217	5.00	22,222,218	40.74	222	5.10	20,993,773	39.26
Total	4,336	100.00	54,543,222	100.00	4,349	100.00	53,473,748	100.00

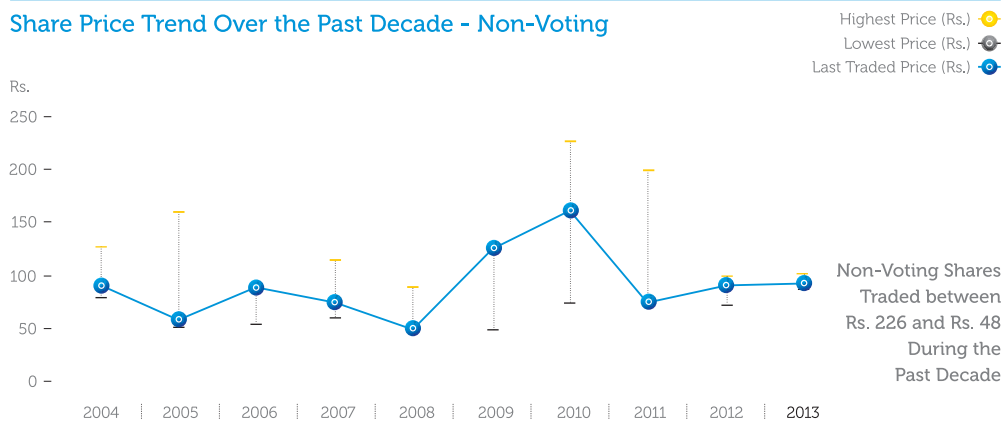
Share Price Trend Over Last Ten Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Ordinary Shares Voting										
Highest price (Rs.)	126.00	119.50	284.00	295.00	192.00	149.75	250.00	192.50	269.00	170.00
Lowest price (Rs.)	103.20	96.80	97.00	178.00	66.00	66.25	128.00	123.00	120.00	130.00
Last traded price (Rs.)	120.40	103.00	100.00	259.90	189.50	67.00	147.00	190.00	135.50	159.75
Ordinary Shares Non-Voting										
Highest price (Rs.)	102.00	99.50	200.00	226.00	131.25	89.50	114.50	90.00	160.00	126.00
Lowest price (Rs.)	87.00	73.00	69.10	75.00	48.25	48.00	60.00	54.00	51.00	80.00
Last traded price (Rs.)	93.00	91.10	74.50	162.00	124.75	49.00	74.50	89.00	57.50	90.00

Share Price Trend Over the Past Decade - Voting



Share Price Trend Over the Past Decade - Non-Voting

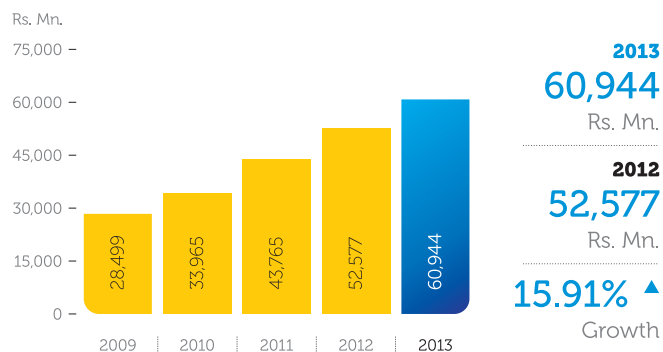


Information on Shareholders' Funds and Market Capitalisation

As at December 31,	Shareholders' Funds	Com Bank's Market Capitalisation (*)	Total Market Capitalisation of the CSE	Com Bank's Market Capitalisation as a Percentage of CSE Market Capitalisation	Com Bank's Market Capitalisation Ranking
	Rs. Mn.	Rs. Mn.	Rs. Mn.	%	Rank
2013	60,944	95,654	2,286,320	4.11	4
2012	52,577	80,341	2,167,581	3.71	5
2011	43,765	76,509	2,268,854	3.37	6
2010	33,965	91,824	2,280,874	4.03	4
2009	28,499	44,309	1,092,138	4.06	5
2008	25,891	15,630	488,813	3.20	4
2007	23,937	34,234	820,652	4.17	4
2006	15,843	25,368	834,763	3.04	5
2005	15,768	17,991	583,786	3.08	4
2004	13,911	10,389	381,913	2.72	6

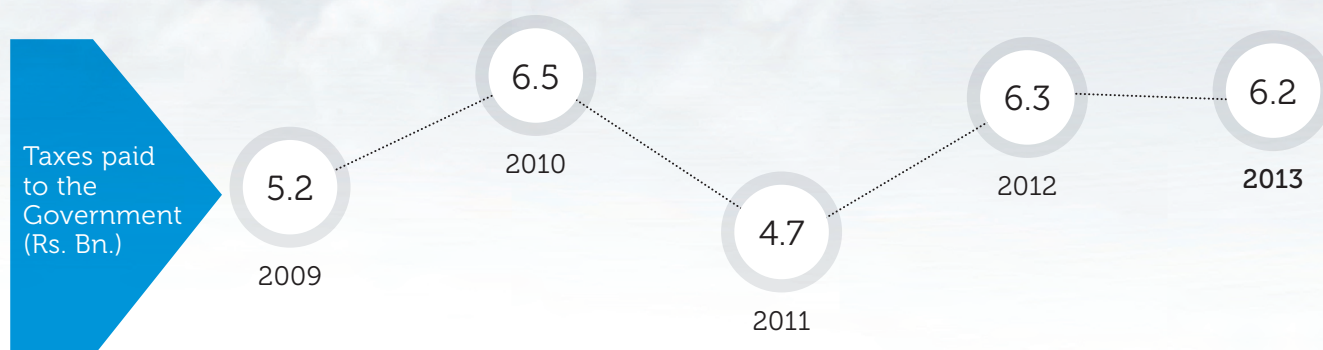
* Commercial Bank's Market Capitalisation includes only voting ordinary shares.

Shareholders' Funds



together with Government Institutions

We never lose sight of the role we play in the national scheme of things. The Bank maintains close and cordial relationships with all Government institutions, including legislators and regulators. We fully comply with all statutory and regulatory requirements in letter and spirit. Through such ethics and initiatives, the Bank stands together with the various institutions of Government as they strive to achieve the broader macroeconomic goals of the Nation.



Rs. '000

	2013	2012	2011	2010	2009
Taxes to Governments					
Income Tax	4,065,008	4,197,004	3,014,361	3,794,100	2,886,853
VAT on Financial Services	1,968,954	1,987,313	1,522,972	2,708,918	2,264,116
Nation Building Tax	81,883	73,513	155,681	-	-
Crop Insurance levy	75,737	-	-	-	-
Sub total - Taxes to Governments	6,191,582	6,257,830	4,693,014	6,503,018	5,150,969
Taxes collected on behalf of Governments					
VAT	674,270	-	102	201,792	518,527
Stamp duty	182,794	168,974	183,797	101,655	61,724
Withholding tax on dividend	120,876	452,386	315,040	169,915	131,736
Sub total taxes collected	977,940	621,360	498,939	473,362	711,987



Government Institutions for the Bank include the Central Bank of Sri Lanka, the Bangladesh Bank, the Department of Inland Revenue, the Ministry of Finance, the Registrar of Companies, the Colombo Stock Exchange, the Securities and Exchange Commission of Sri Lanka, the Sri Lanka Accounting and Auditing Standards Monitoring Board, professional organisations such as The Institute of Chartered Accountants of Sri Lanka, National Chamber of Commerce of Sri Lanka and other Government organisations.

Financial Assistance Received from Government

The Bank in the ordinary course of business granted several loans and advances to its customers and made several investments which are exempt from Income Tax under the Inland Revenue Act No. 10 of 2006 as detailed below:

- Interest Income on loans granted through Investment Fund Account created by the Bank - Section 13 (xxxxxx)
- Interest Income on loans granted to those companies which met the specified criteria - Section 13 (x) (i) & (ii), 13 (xx)
- Interest income and capital gains earned on investments in Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds (SLDBs & SLSBs) issued by the Central Bank of

Sri Lanka - Sections 13 (xxx) & 13 (xxxx) and 13 (xxxxx) (i) & (ii)

- Interest income from investments made outside Sri Lanka where such interest is remitted to Sri Lanka through a bank - Section 9 (m)
- Capital gain on sale of Shares - Section 13 (t)
- Fee and commission income earned in foreign currency - Section 13 (dddd)

The table below summarises the total tax savings earned by the Bank due to the above measures of the Government and also the notional tax credit claimed by the Bank on interest income earned on investments made in Government Treasury Bills and Bonds over the last five-year period.

Rs. 7 Bn.

Total taxes paid and collected by the Bank in 2013.

For the year ended December 31, (Rs. Mn.)

	2013	2012	2011	2010	2009
Tax saving	887.4	574.3	422.5	686.6	543.0
Notional tax credit claimed	903.6	329.9	350.0	572.9	332.5

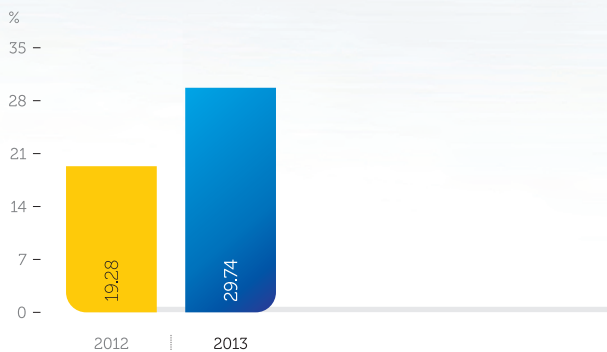


together

with Suppliers & Business Partners

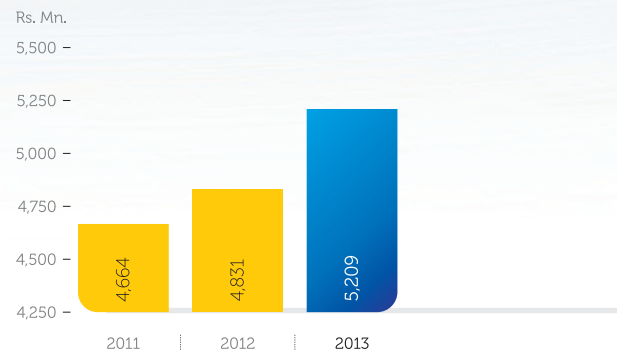
Every link across the Bank's supply chain is invaluable. We are committed to a furtherance of mutual prosperity as we first establish, then strengthen and grow relationships with an ever-widening supplier base who share our values in terms of long term sustainability. We are committed to march together to prosperity.

Bank's supply chain plays a key role as they provide various goods and services required for running the business of the Bank. Following are the various types of suppliers that comprise the Bank's supply chain.



Growth in Supplier Base

2013	2012	Growth	10.46%pt [▲]
29.74	19.28		
(%)	(%)		



Value of Goods and Services Bought-In

2013	2012	Growth	7.82% [▲]
5,209	4,831		
Rs. Mn.	Rs. Mn.		



Value of Goods and Services Bought-in by Types of Suppliers

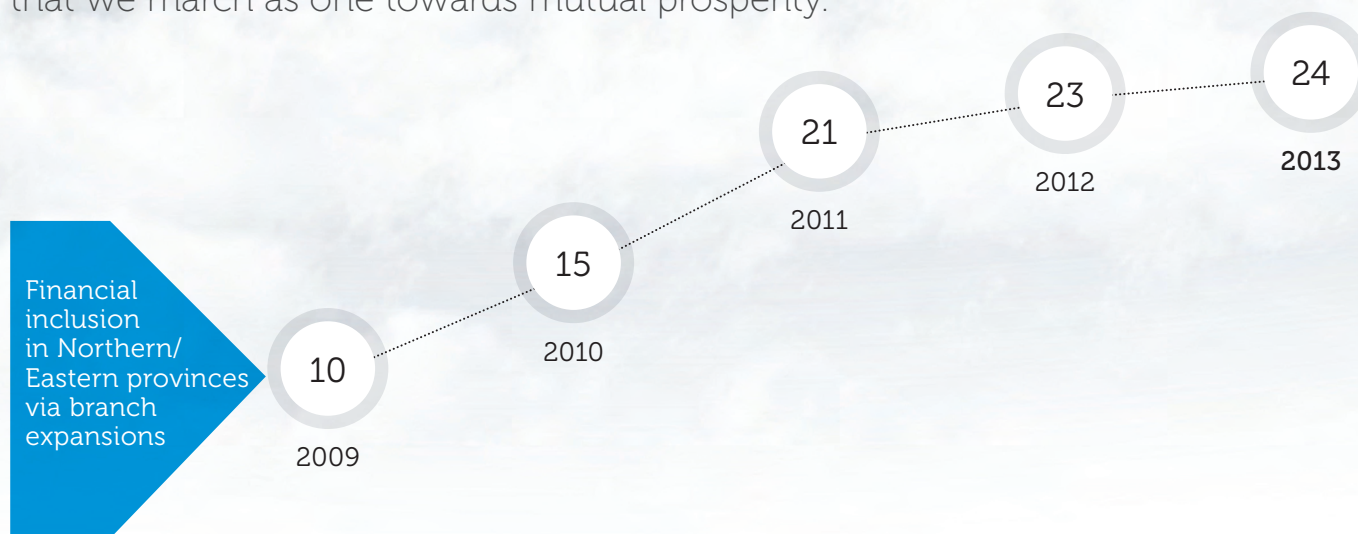
Rs. Mn.	2013	2012	2011
Utility Service Providers			
Energy (Electricity and Fuel), Telecommunication (Data connections)	597.53	526.10	411.81
Material Suppliers			
Suppliers of various materials including Paper, IT and other stationery items	355.25	328.00	334.91
Assets Suppliers			
Vehicle suppliers, IT equipment/Software vendors, furniture/equipment suppliers	969.00	996.74	1,149.50
Premises Providers			
Individual building owners, Firms renting office space, Supermarket chains	767.83	638.86	573.25
Maintenance			
IT equipment/software maintenance companies, Office equipment maintenance companies, Janitorial Services	711.30	606.90	547.49
Human Resource			
Suppliers of Outsourced Employees Including Security Services	529.47	477.21	414.61
Staff Welfare			
Water suppliers, Food & Beverage providers, Trainers & Consultants	45.82	35.72	35.30
Communication			
Media, General Post, Telecommunication (Voice connections)	549.80	494.60	491.25
Services			
Insurance Companies, Lawyers & Law Firms, Auditors, Valuers	224.06	187.43	157.35
Travel and Transportation			
Courier Services (Inland and International), Cash Transporters, Goods Transporters, Rent-a-Car Companies, Air Travel including support services such as Ticketing Agencies	459.27	452.96	428.44
Contractors			
Building, Interior decoration and partitioning, Wiring & Plumbing	–	86.89	120.45
Waste Management			
Waste paper management agents/companies, Waste food management agents/companies, Used Furniture/Equipment management agents/companies	–	–	–
Emergency Aid			
Fire Brigade, Police	–	–	–
Total	5,209.33	4,831.40	4,664.37



together

with Society & Environment

Without a society to serve and an environment within which we may put down roots and grow, the Bank will cease to be. Achieving congruence with society and the environment is crucial to mutual well-being. There is no question but that we march as one towards mutual prosperity.



Bank's Contribution Towards Enhancing Employability

	2013	2012	2011	2010	2009
Graduates recruited	6	14	37	31	40
No. of interns	188	46	10		
No. of interns awarded with certificates	28	4			

Access Points in Low-Populated or Economically Disadvantaged Areas

Sri Lanka's 30-year war cut off a significant part of the country from key economic activities. The Northern and the Eastern Provinces in particular were not able to benefit from opportunities available to the rest of the

country. Since the end of the war, we have expanded Bank's operations in the two provinces by opening 14 new branches, revitalising communities and helping the disadvantaged to

revive their prospects. The following table summarises the number of branches in operation and business volumes, underlining the Bank's contribution to these recovering communities.



	2013	2012	2011	2010	upto end 2009
Northern Province					
Number of branches	15	15	13	12	7
Deposits (Rs. Mn.)	24,573	21,907	18,475	16,564	15,114
Advances (Rs. Mn.)	7,914	10,459	10,002	4,311	1,656
Eastern Province					
Number of branches	9	8	8	5	3
Deposits (Rs. Mn.)	4,870	4,501	4,337	3,970	3,730
Advances (Rs. Mn.)	3,596	3,873	3,792	2,376	1,561




Products Designed to Benefit Society

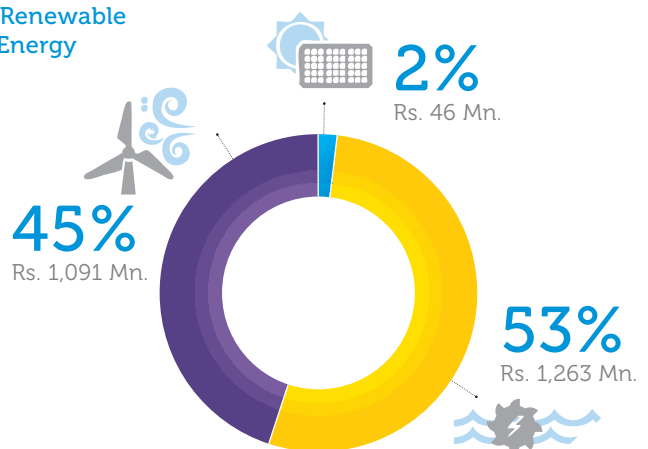
Over the past year Commercial Bank arranged financial facilities through a group-lending model for micro-entrepreneurs and agriculturists who are unable to secure conventional loans because of a lack of acceptable collateral. Financial assistance was provided through both bank-funded and refinance loan programmes.

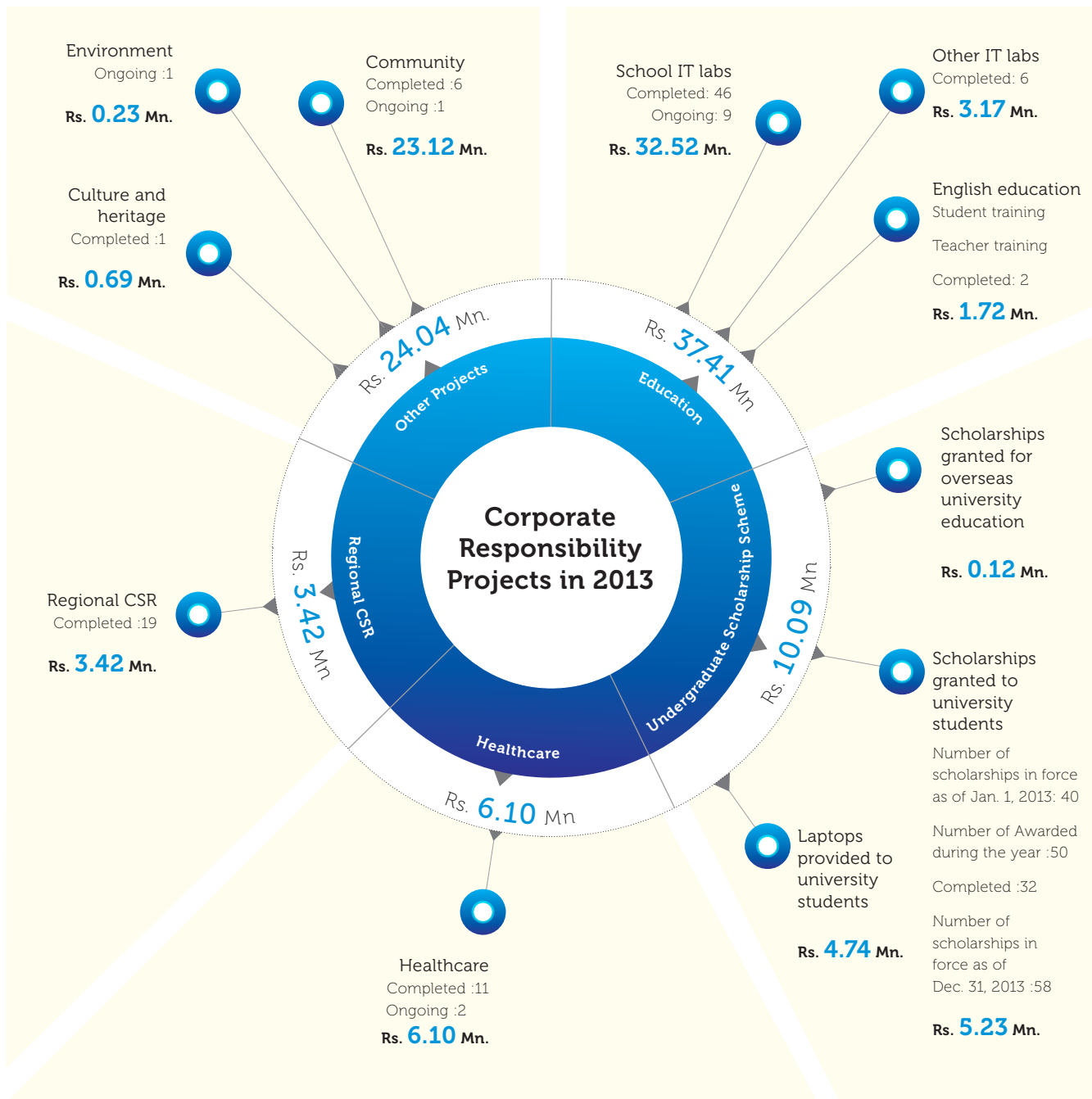
Following are the loan amounts granted during 2013 under the above initiative:

Product Line	No of Beneficiaries	Amount Rs. Mn.
Microfinance	1,870	300
New Comprehensive Rural Credit Scheme	2,721	369

Portfolio of Loans Granted to Renewable Energy Projects by Source of Energy

- Solar 
- Hydro 
- Wind 





92 CSR projects completed **Rs. 81.06 Mn.** in 2013

Business Model and Strategic Imperatives for Value Creation

In pursuing our goals for value creation, Commercial Bank has established a set of clearly defined strategic imperatives. In the following sections we review the imperatives relating to the main strategic business units and the progress made against them over the past year.

The strategic snapshot of the initiatives undertaken by the Bank during the year along with future actions is summarised on pages 125 to 128 in this Report.

Business Model and Strategic Imperatives for Value Creation

Strategic Imperative

01

Prudent Growth

Strategies to Achieve this Imperative

- Improving product portfolio to meet customer needs
- Promoting brand image and product awareness
- Increasing fee-based income
- Expansion of branch network and other channels
- International presence
- Mergers and acquisitions

The business of a financial institution differs dramatically from that of any other enterprise. The principal differentiator is that the Return On Assets (ROA) achieved by a bank is far lower than for other businesses. ROA in the financial services industry hovers around 2%, whereas it can be as high as 20% in other sectors. However, in order to remain attractive to investors, a financial institution must generate a Return On Equity (ROE) comparable to that of other publicly traded companies. Banks meet this challenge by reaching higher levels of gearing. The ability to accept public deposits makes it possible for banks to gear the ROA to a comparatively higher level in relation to shareholders' equity.

The following table presents Commercial Bank's ROA, levels of gearing and ROE over the past five years:

	2013	2012	2011	2010	2009
ROA (%)	1.87	2.12	1.94	1.60	1.43
Gearing (times)	9.84	9.89	10.45	11.17	11.07
ROE (%)	18.40	20.96	20.28	17.87	15.83

Gearing essentially involves growing the bank's business by attracting customer deposits and then lending those funds to prospective borrowers. The extent to which we can expand our operations, thereby 'deriving value' through sustainable growth, invariably depends on our success in 'delivering value' and/or creating opportunities to do so in the future.

Initiatives Taken by Business Units to Achieve Prudent Growth

The Bank's main business units, viz. Personal Banking Division, Corporate Banking Division, Treasury and International Operations with the support service units tirelessly work towards achieving prudent growth. Presented in pages 81 to 95 is a detail review of the initiatives taken by the Bank during the year.

Business Model and Strategic Imperatives for Value Creation

Personal Banking Division

The Personal Banking Division manages the Bank's national network of delivery points, meeting the needs of individual customers, small and medium-sized enterprises (SMEs) as well as large corporates across the country.

Traditional brick-and-mortar branches still play a dominant role in Sri Lankan banking industry. Over the past few years, Commercial Bank has invested substantially in improving the physical infrastructure of our network. While we've been working hard to migrate customers to more technologically advanced channels, we've also continued expanding our physical network to reach a wider base in all geographical locations. Please refer Scale of Operations on page 23 for a complete view of the Bank's delivery network.

Delivery Points

With our extensive reach, Commercial Bank is truly a national bank. In 2013, 8 delivery points were added in the form of new branches. At the year end, the Bank provided its services through a total

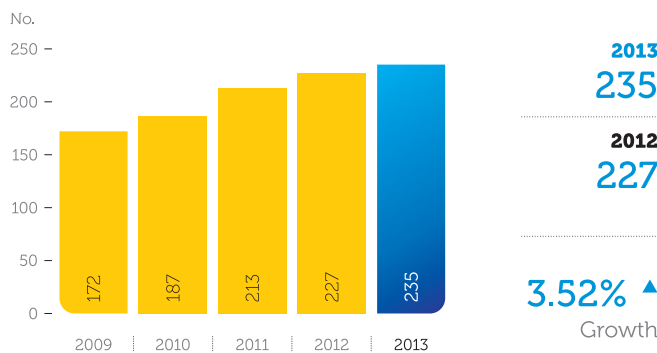
of 235 delivery points in Sri Lanka as presented on pages 24 and 25 of this Annual Report.

Our island-wide network is organised into 14 administrative regions, with decentralised decision-making on credit transactions and day-to-day branch operations.

To deliver convenience for customers, the Personal Banking Division also manages the delivery of 365-day/holiday banking, weekend banking and priority banking services. The Bank operates an 'Elite' branch in Colombo 7, serving both high-net-worth and priority banking customers. Given below is number of such delivery points operated by the Personal Banking Division.

Delivery Points	Number
365-day/Holiday banking centres	20
Weekend banking centres	22
Priority banking centres	3

Delivery Points in Sri Lanka



Deposit Mobilisation

A diversified branch network, stable capitalisation, good governance and a strong corporate image have contributed in building a solid deposit base. We recorded substantial growth in deposits during the year, despite a decline in deposit rates and high activity in the debt market driven by several new debenture issues, which absorbed considerable amount of the market's liquidity. The Bank was compelled to re-price its term deposit products several times during the year to be in line with the market rates and be competitive.

Over the past year, the Personal Banking Division recorded a deposit growth

of 13.71% or Rs. 41.3 Bn. - an average increase of Rs. 3.4 Bn. a month. The branch network recorded approximately 10% growth in the new deposit accounts opened during the year.

The Bank conducted a successful deposit mobilisation campaign - 'Savings Fiesta' across the network in June 2013 with a view to create an awareness among people on the importance of savings and thereby attract new depositors. Savings Fiesta was a great success and established many valuable customer relationships.

Personal Loans

Faced with increased risk arising from comparatively higher growth in NPA, Commercial Bank has adopted a selective approach in granting loans. The Bank strongly promoted our 'top-up' borrowing facility among its high-net-worth customers, the main pillar of our personal loans portfolio.

During the past year, we granted 9,666 new loans totalling Rs. 5,391.0 Mn. In addition, approximately Rs. 700.0 Mn. worth of new personal loans were granted under a special loans scheme for identified professionals. The non-performing loans ratio within our personal loan portfolio recorded an increase when compared to the last year.

Business Model and Strategic Imperatives for Value Creation

Leasing

During the year, we launched a special marketing campaign promoting Commercial Bank's leasing product, boosting consumer recall and attracting new customers. However, leasing business was affected by increased import duties on motor vehicles and reduced overall demand for commercial vehicles. As an alternative product the Bank launched Hire Purchase Financing for registered vehicles.

Despite granting more than 1,800 new facilities, we recorded an overall drop of 14% in our leasing portfolio in the past year. The non-performing ratio of the leasing portfolio recorded an increase when compared to the previous year.

Domestic Factoring

Factoring is now widely accepted as an effective mode of financing for small and medium-size enterprises (SMEs). Factoring and similar asset-backed financing products have gained impressive momentum in emerging markets including Sri Lanka and this trend is expected to continue.

Although the Bank proceeded cautiously due to concerns relating to customer receivables and introduced measures to reduce exposure levels,

the factoring turnover at the year-end recorded Rs. 14.27 Bn., which represented a growth of over 18% compared to the previous year.

Home Loans

Suspension of fixed-interest rates offered to housing loans in mid 2012, affected the growth of loans in early part of 2013. However, reintroducing the fixed rate product in 2013 eased the impact. We also introduced a unique concept branded 'Speed Home Loans', approving of housing loans within three working days. Further, we arranged to offer discounts up to 35% on selected building materials, working in partnership with several suppliers.

Increased demand for apartments and condominiums kick-started a number of condominium building projects over the past year. These projects and a series of strategic tie-ins paved the way for Commercial Bank to extend sizeable amount of home loan facilities, especially to Sri Lankans employed abroad - many of whom contribute significantly to the growth of Bank's loan portfolio.

The following table summarises recent growth in the home loan portfolio:

Home Loans	2013	2012
Portfolio (Rs. Bn.)	26.652	25.092
Growth rate (%)	6.21	15.00

The Government Budget Proposal for 2014 introduced several incentives for promoting construction of condominiums, most notably granting concessions to professionals who collectively construct condominiums with bank financing. The proposed measures would also help to inject new life into the housing loan market.

Agriculture and Microfinance Loans

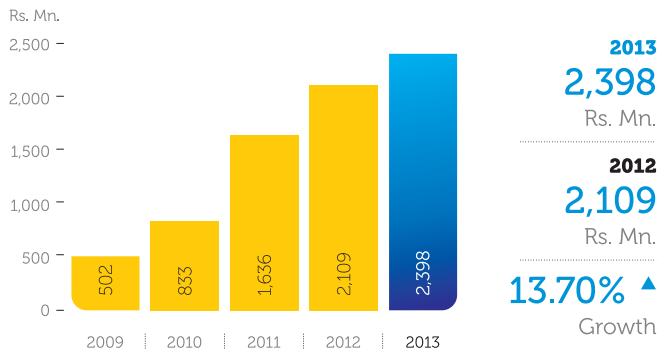
Through our branch network, Commercial Bank continues to offer a wide array of agricultural loans and micro financing for businesses. In addition, the Bank participated in several refinance credit schemes and interest-subsidised credit programmes, all focused on supporting Sri Lanka's agriculture and livestock industries.

In 2013, we also introduced a new loan product, Commercial Agriculture Development Credit Line for professionals, designed to encourage Sri Lankan professionals and executives to explore new opportunities in the field of agriculture. This product is expected to do well specially among the branches in the Western Province.

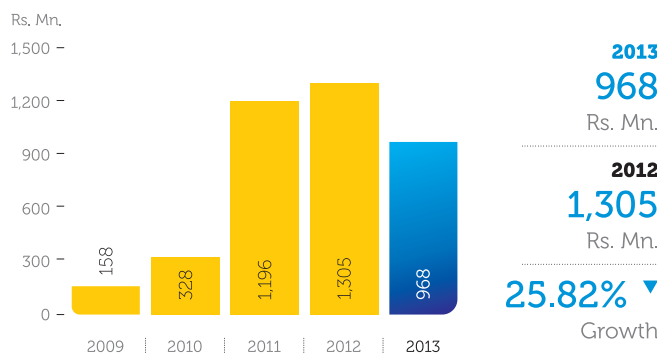
Microfinance borrowers in some parts of the country faced difficulties in repaying credit facilities because of multiple borrowings and adverse weather conditions, particularly in the middle of the year. Despite growth in performance of the agricultural sector, our microfinance portfolio recorded a slight decline in 2013.

With the addition of three more units in 2013, the Bank now operates a network of 12 dedicated agriculture and microfinance centres. The Bank continued to conduct programmes designed to promote financial inclusion, especially in the Northern and the Eastern Provinces.

Loans to Agriculture Sector



Loans to Microfinance Sector



Industrial Loans

In 2013, four out of five industrial credit lines financed by the Bank were refinanced by various funding agencies, including the Central Bank of Sri Lanka. Commercial Bank funds the *DIRIBALA* loan scheme, targeting SMEs with its flexible terms and conditions, particularly those relating to repayment.

The Bank experienced a significant increase in volumes after a campaign to promote development loans offering flexible terms - with a special focus on manufacturing businesses. Over 500 new loans exceeding Rs. 5.0 Bn. were granted during the year.

With the collaboration of the Central Bank, we also carried out a series of entrepreneurship development programs, aiming to improve financial literacy and business skills. Approximately 600 entrepreneurs participated in these programmes.

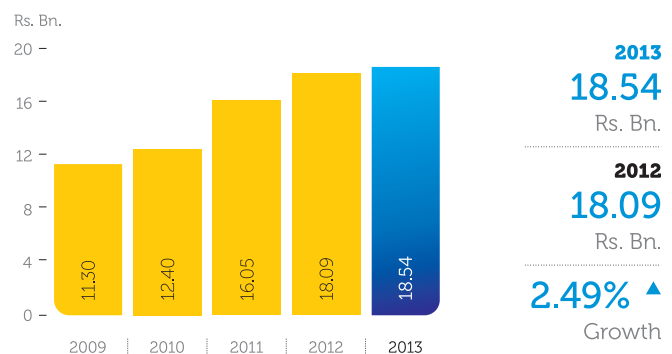
Pawning

Pawning advances have gained popularity among certain sections of population, especially in the agriculture and fishing sectors, that use pawning as their preferred method of raising-capital. We currently operate 187 fully-fledged pawning centres, having opened two new locations in 2013.

Due to intense competition in the market, the average value of loans granted against gold value increased during the early part of the year, disregarding the underlying risk. When the prices of gold dropped in April 2013 due to fall in international prices, it caused many unsecured exposures.

The pawning portfolio of Commercial Bank is relatively small since we were late entrants to the industry and adopted a cautious approach in

Loans to Industrial Sector



Business Model and Strategic Imperatives for Value Creation

granting pawning advances. Even so, the Bank's non-performing pawning advances ratio increased to 15.54% from 3.07% at the end of 2012.

Payment Cards

Strengthening our position as the market leader in debit cards, Commercial Bank issued more than 400,000 new cards in 2013 - a growth of over 16% compared to the previous year, achieving a record total of more than three million cards in use. This contributed to a growth exceeding 30% in debit card purchases which resulted in substantial increase in interchange income compared to 2012.

Credit card purchase volumes saw a moderate growth in 2013 following the aggressive growth of approximately 30% recorded in the previous year. The Bank rolled out many successful credit and debit card promotional campaigns in 2013, encouraging cardholders to use credit/debit cards by offering discounts at various restaurants, hotels, clothing retailers and bookstores.

Last year, we added two new card products to our well-diversified portfolio: the *Udara* card and the *Achievers* card. At the same time, we began enrolling credit and debit cardholders for SMS alerts. In 2013, we entered into agreements with two finance companies and a bank to issue ATM and debit cards. Our

Goldnet ATM switch also provides a gateway to international and local transactions through other networks such as Visa International.

e-Banking

The launch of an iOS application, which provides iPhone and iPad users the ability to access Commercial Bank's Online banking facility was the main highlight during the year. Further, the Bank's Bangladesh operation introduced the Internet Banking personal application, developed on Microsoft.Net, enabling access to the same banking features. The e-banking division also introduced a USSD - based mobile banking application for Dialog subscribers.

In 2013, Commercial Bank also began to support mobile money products such as EzCash by Dialog and mCash by Mobitel, enabling subscribers to top up their mobile wallets directly from their bank accounts. In partnering with Mobitel, we act as custodian bank for mCash.

PayMaster

ComBank PayMaster is a complete online payment solution that enables large corporate clients to make bulk bill payments through a single mechanism. Over the years, we've made significant improvements to this service, which now caters to a wide customer base of medium to large corporations.

26%

growth was recorded in the online banking customer base while the income from online banking grew by 17%.

The popularity of this product is clearly visible in the following statistics:

Product	Customer Base Growth %	Income Growth %
ComBank PayMaster	28	20

Product	Transaction Growth %	Volume Growth %
ComBank PayMaster	12	15



Bancassurance

The Bank witnessed a significant growth in life insurance operation, despite the modest growth in the insurance industry which was hampered due to the low credit growth that prevailed in the country.

Commercial Bank has entered into new agreements with two leading insurance companies to promote their life and general insurance products under the Bancassurance label.

Supermarket Banking

As the Sri Lankan pioneer and market leader in supermarket banking, Commercial Bank has successfully differentiated this service from those of other banks by adopting customer-centric operating models that vary by branch type and location. As some

supermarket branches have moved to standalone locations outside the retail environment, we've seen increases in both customer patronage and banking transactions, resulting in overall business volumes.

Many of Commercial Bank's clients prefer to do their banking at supermarket locations because of the efficient and personalised service provided by our dedicated branch staff. We now operate 27 supermarket outlets, including five that were opened in 2013.

Commercial Bank Elite

Commercial Bank Elite is an exclusive priority banking service for high-net-worth individuals. The Elite concept meets the three key expectations

of discerning customers, delivering banking services distinguished by their convenience, superior quality and degree of personalisation.

Commercial Bank Elite has its own private residence at No. 7, R.G. Senanayake Mawatha (Gregory's Road), Colombo 07, with specially trained relationship officers

who can address the full spectrum of financial needs. Elite customers enjoy many unique benefits and privileges, including premium services provided by other partners of the Bank.

Commercial Bank also operates two other priority centres at our Reid Avenue and Peradeniya branches.



Business Model and Strategic Imperatives for Value Creation

Highlights of 2013

- Dispensing a record Rs. 29.8 Bn. through our ATM network in December 2013.
- Opening a 24-hour automated banking centre at the Ward Place branch.
- Installation of a foreign-exchange ATM at Crescat.
- Commissioning a drive-through ATM at Reid Avenue.

The following table shows the key performance indicators for Personal Banking division in 2013:

Key Performance Indicators	Actual 2013 Rs. Mn.	Budget 2013 Rs. Mn.	Actual 2012 Rs. Mn.	Achievement (Actual over Budget) %
Deposits as at December 31,	342,540.4	355,542.0	301,251.4	96.3
Loans & advances as at December 31,	192,835.4	232,854.5	191,498.5	82.8
Profit before tax	7,147.0	7,629.4	6,996.4	93.7
Cost Income ratio (%)	48.6	50.0	47.0	
NPA ratio as at December 31, (%)	7.6	5.0	5.5	

The above analysis includes the performance of the Card Centre and e-banking unit although these units operate independent to the Personal Banking Division.

Amidst the challenging market environment, the Personal Banking division recorded satisfactory results during the year. The contribution made by the branch network immensely helped the Bank to achieve its corporate objectives.



24-hour

automated banking centre was opened at our Ward Place branch; offering further convenience to our customers.

Corporate Banking Division

Commercial Bank's dedicated Corporate Banking division includes Foreign Branch, Off-shore Banking, Islamic Banking and Corporate Finance units.

Over the years, the Foreign Branch has earned a reputation for providing expert trade finance support to a diverse business clientele, including medium and large Sri Lankan corporations, as well as blue-chip companies and multinationals operating in the country. Excess funds mobilised through the Personal Banking division are mainly channelled to Foreign Branch customers through the Corporate Banking division. Corporate Banking division also overlooks the Bank's credit operations in Bangladesh and does selective lending in the Maldives.

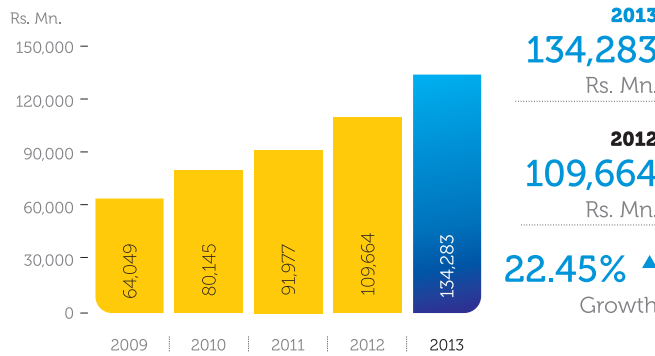
Commercial Bank has a well-established and trusted network of correspondents around the world. This long-standing relationship has provided a distinct advantage to the customers of the Bank in conducting their international business with global counterparts.

Sri Lanka has seen a boom in development activities and mega-infrastructure projects undertaken by the Government. The Bank's Investment Fund Account, built with tax savings announced in the Government Budget 2011, has been used primarily by the Corporate Banking unit in supporting government initiatives to develop the road network of the country. Further, the Fund also disbursed loans for factory modernisation and hotel projects.

6%

Export turnover of the Bank increased to US \$ 1,832 Mn. from US \$ 1,728 Mn. a growth of 6% which was in line with the country's growth in 2013.

Loans and Advances of the Corporate Banking Division



Import Business

Sri Lanka's rapidly developing tourism and construction industries have increased imports of heavy-duty machinery and equipment. Further the growth in the SME sector indirectly impacted the increase in import volumes due to its use of raw materials.

Last year the Government imposed a 100% margin on certain categories of motor vehicles and spare parts, which hindered import turnover in the banking industry. However, this requirement was lifted in mid 2013.

Sri Lanka's import volumes recorded a marginal decrease to US \$ 19.0 Bn. in 2013,

compared to US \$ 19.1 Bn. in 2012. Commercial Bank's import turnover increased marginally to US \$ 1,379.6 Mn., compared to the last year.

Export Business

Sri Lankan exports fared well in 2013, buoyed by strong prices for tea, increased demand for natural rubber, spices, coconut-based products, and the depreciation of the rupee towards the end of the year.

Export turnover of the Bank increased to US\$ 1,832.0 Mn. from US\$ 1,728.0 Mn. a growth of 6% which was in line with the country's growth in 2013. The country's growth was achieved despite the slow economic recovery in the European Union, the United States and the prevailing crisis situation in the Middle East.

Business Model and Strategic Imperatives for Value Creation

Corporate Finance

Commercial Bank's margin trading operations, launched in 2010 as a key capital markets product, were subdued in 2013 owing to adverse market conditions. The weak performance of the stock market was not sufficiently countered by the general improvement in credit conditions and interest rates during the year.

While the Bank's equity funds performed positively, they did not do as well as they would have under more favourable market conditions. The Bank focused on private equity structuring to secure investments from high-net-worth and institutional investors in unlisted company offerings - demand for which is not closely tied to public

investor demand for IPOs.

The year was marked overall by extensive investments in listed debentures, most of which were successful as a result of the special tax concessions afforded to them.

In 2013, Commercial Bank marketed transaction-processing services to selected high-net-worth and institutional customers, securing several key mandates. Transaction-processing services provided by the Corporate Finance unit include settlement of customers' stock market transactions, as well as making investments in debt securities and receiving maturity and interest proceeds on customers' behalf. These services are purely transactional; no investment advice is offered.

Islamic Banking

Islamic deposit products, such as *Mudaraba* savings and investment accounts, along with asset products such as *Murabaha*, *Musharaka*, diminishing *musharaka*, *Ijara* leasing and import financing are available in the local market.

Bank's Islamic Banking Unit (IBU) also took initiatives to introduce *Wakala* as an asset product, which is offered to selected Islamic customers based on their risk profile. IBU received a gold award as 'Emerging Entity of the Year' at the inaugural 'Sri Lanka Islamic Banking and Finance Industry Awards', held in October 2013.

Bullion Trading

Commercial Bank offers facilities for online gold trading, night time gold fixing, pawning and custodial service. In 2013, transactions with reputable gold suppliers helped us achieve sustainable growth in the business volumes handled by our bullion trading centre.

The business environment for bullion trading was favourable up to June 2013. However, the Government imposed new taxes that affected our business performance - which was further challenged by exchange rate fluctuations.

The following table shows the key performance indicators of Corporate Banking division in 2013:

Key Performance Indicators	Actual 2013 Rs. Mn.	Budget 2013 Rs. Mn.	Actual 2012 Rs. Mn.	Achievement (Actual over Budget) %
Advances as at December 31	135,282.5	133,813.1	109,664.2	101.1
Profit before tax	5,102.1	5,026.9	4,192.5	101.5
Import turnover	180,729.8	151,941.4	177,894.0	118.9
Export turnover	240,053.8	253,494.5	225,396.5	94.7
Cost Income ratio (%)	18.8	20.2	20.1	
NPA ratio (%) as at December 31	0.9	1.9	1.2	

The Corporate Banking Division recorded significant growth in advances during 2013, achieving most of its budgeted targets set for the year. Further, the Division has been continuously able to maintain a low NPA ratio of 0.9% for 2013, which is an improvement from the ratio of 1.2% reported in 2012.

Highlights of 2013

- Continued with the low NPA ratio.
- Best local trade bank in Sri Lanka by Trade Finance, UK.
- IBU awarded as the 'Emerging Entity' of the year.

Business Model and Strategic Imperatives for Value Creation

Treasury

The Treasury Department, a separate profit centre within Commercial Bank, is responsible for management of the Bank's liquidity, interest rates, funding, capital and foreign exchange exposures. The department's main sources of income are foreign exchange profits, income from investments and trading of government securities, and cross-currency trading of US dollars and Sri Lankan rupees.

A major portion of last year's exchange profit was earned from trade-related transactions and remittances. Corporate sales posted better than expected results, mainly due to increased trade volumes and healthy margins. Exchange rate volatilities prevailing in the Sri Lankan economy during the year augured well for the US\$/LKR foreign exchange market, enabling Treasury to book substantial exchange gains by managing FOREX trades.

In 2013, Treasury undertook the management of foreign currency funds borrowed from the International Finance Corporation through a foreign currency swap. US \$ 140 Mn. was swapped into Sri Lankan funds and invested profitably in risk-free instruments.

Total government securities volume grew by 81.37% in 2013 to a record Rs. 171.0 Bn., which contributed to a higher interest income in a declining interest rate environment. Treasury increased its US \$-denominated government securities portfolio during the year, after Sri Lankan government relaxed exchange control regulations enabling banks to invest in various Sri Lanka Government bond issues which yielded high tax-efficient returns. Treasury held US \$ 339.0 Mn. in US \$-denominated government securities at the end of the year.

The Treasury Department also acts as the funding centre for the Bank. All financial assets and liabilities are transfer-priced by various business units to Treasury, which is entrusted

with managing interest rate risk through the funds-transfer pricing system.

The economic environment in 2013 was not conducive for Commercial Bank to expand its loan book, resulting in excess liquidity been managed by the Treasury, primarily by investing in Government Securities.

The Bank's liability base comprises of high-rate deposits which were re-priced gradually compared to its asset base. Similarly, a reasonable percentage of loans granted at floating rates were re-priced at lower rates. However, the Bank's low-cost fund base, including demand deposits and savings deposits, did not re-price downward in a reducing interest rate environment, resulting in shrinking interest margins.

The below chart gives a brief summary of the performance of the Bank's Treasury Division:

Key Performance Indicators	Actual 2013 Rs. Mn.	Budget 2013 Rs. Mn.	Actual 2012 Rs. Mn.	Achievement (Actual over Budget) %
Interest income	13,992.1	11,656.7	9,304.0	120.0
Foreign exchange profit	1,070.1	620.2	2,856.1	172.5
Profit before tax	460.9	376.6	1,490.0	122.4
Interest earning assets as at December 31	173,716.7	132,538.3	118,181.2	131.07
Cost Income ratio (%)	38.9	43.3	28.2	

As evident from the above, Treasury is entrusted with increased volumes due to lack of credit demand in the country. Despite the shrinking interest margins, Treasury performed reasonably well and achieved majority of the targets set at the beginning of the year.

Highlights of 2013

- Enhanced volumes handled by Treasury.
- Substantial decrease of the foreign exchange profit compared to 2012.
- Implementation of a dedicated treasury system 'SunGard'
- Raised US \$ 75 Mn. through IFC borrowing

Business Model and Strategic Imperatives for Value Creation

International Operations

Performance of Bangladesh Operation

The financial system of Bangladesh consists of the Bangladesh Bank, four nationalised commercial banks; four Government-owned specialised banks; 37 domestic private banks; nine foreign banks; and 31 non-bank financial institutions. The Government granted nine new commercial banking licenses in the latter part of 2012, which led to the opening of seven banks in 2013.

Our Bangladesh operation which commenced operations with two branches and two booths at the time of acquisition in 2003, has expanded its presence over the past decade to 18 outlets comprising of 10 branches, 2 offshore banking units and 6 SME centres. The bank also has 19 ATMs in the country, which include 4 off-site locations.

Over the past 10 years, Commercial Bank has positioned itself well in relation to the other regional foreign banks operating in Bangladesh. Backed by an extensive array of products, our

operation serves a diverse client base with a healthy mix of corporate and retail customers. The business has made a strong contribution to the overall profitability of Commercial Bank.

The following table depicts the success of the Bank's 10 years of operation in Bangladesh:

	2003	2013	10 Year CAGR (%)
Deposits (BDT - Mn.)	3,894.0	19,526.65	17.50
Gross Loans and Advances (BDT - Mn.)	2,916.0	16,705.12	19.07
Profit before tax (BDT - Mn.)	48.37	1,371.00	
Profit after tax (BDT - Mn.)	18.04	833.41	
Return on Assets (%)	4.69	4.99	
Return on Capital Employed (%)	10.00	15.21	
Cost Income ratio (%)	43.00	30.91	
No. of employees	188	211	
No. of branches	4	18	
No. of ATMs	1	19	

BDT - Bangladesh Taka

During 2013, the Bank opened a new branch, upgraded two of its booths into fully-fledged branches and launched two new deposit products. Further, a proprietary card offered for the Teen Saver's account was converted into a Visa debit card. Our Bangladesh customers now have access to approximately 3,500 Visa ATMs across the country.

Commercial Bank also has agreements with Prime Bank and Islamic Bank of Bangladesh to carry out cash management services and remittance disbursements through their widely distributed branch networks.

28%

The Bangladesh operation recorded improved results, especially post tax profit grew by more than 28% compared to last year.

Business Model and Strategic Imperatives for Value Creation

Performance of our Bangladesh Operations during the year, is given below:

	2013	2012	Growth	Growth (%)
Deposits (BDT Mn.)	19,526.65	18,245.95	1,280.70	7.02
Loans and advances (BDT Mn.)	16,705.12	16,344.90	360.22	2.20
Profit before tax (BDT Mn.)	1,371.00	1,151.02	219.98	19.11
Profit after tax (BDT Mn.)	833.41	648.02	185.39	28.60
Annual profit per employee (BDT Mn.)	6.50	5.70		
Return on Assets (%)	4.99	4.31		
Return on Capital Employed (%)	15.21	13.02		
Cost Income ratio (%)	30.91	33.04		

The Bangladesh operation recorded improved results, especially post tax profit grew by more than 28% compared to the last year. Key performance ratios recorded improvements compared to 2012.

Through prudent lending and risk-management practices, Commercial Bank was able to maintain a healthy NPA ratio of 1% until mid 2013, which increased to 1.52% by the end of the year.

All key performance ratios - including Cost-to-income ratio, Return on Assets and Return on Equity - remained healthy during the year. Prudent fund management allowed us to keep our net interest margin in line with the previous year. We have been able to increase the number of accounts, both in deposits and advances, at a steady pace over the years.

Last year, Commercial Bank received the 2012 Best Corporate Performance Award from the Institute of Cost and Management Accountants of Bangladesh, winning for the fourth time in the foreign bank category.

eRemittances

Remittances by migrant Sri Lankans have made an immense contribution

to the national economy, partly financing the country's much-needed foreign exchange requirements. Despite the many informal remittance methods thriving in the market, remitting money via financial institutions has gained popularity, due to the superior level of service. The trend towards more formal remittance channels was further buoyed by the government's recent implementation of anti-money laundering and know-your-customer practices.

Commercial Bank's internal money transfer platform, ComBank e-Exchange, is available in most parts of the world, providing migrant workers with a safe, convenient and efficient way to send money home. ComBank e-Exchange is strongly endorsed by the Bank's business promotion officers stationed in various overseas locations, who also cross-sell Bank's other products and services.

In light of our wide-ranging eRemittance initiatives, Commercial Bank was adjudged as the most productive network in South Asia for the second consecutive year by MoneyGram, the global funds transfer company, at its annual South Asian Agents Conference held in India in 2013.

ComBank e-Exchange continues to grow, cementing seven new partnerships in 2013. With a total of 83 overseas remittance partners at the end of the year, Commercial Bank now has a 17% market share of worker remittances to Sri Lanka.

Product	Customer Base Growth %	Income Growth %
ComBank e-Exchange	10	15

Product	Transaction Growth %	Volume Growth (US \$) %
ComBank e-Exchange	18	19

Business Model and Strategic Imperatives for Value Creation

The following table shows the key performance indicators of International Operations in 2013:

Key Performance Indicators	Actual 2013 Rs. Mn.	Budget 2013 Rs. Mn.	Actual 2012 Rs. Mn.	Achievement (Actual over Budget) %
Deposits as at December 31,	41,819.5	38,452.4	35,820.2	108.8
Loans & advances as at December 31,	36,138.0	35,715.7	32,647.7	101.2
Profit before tax	2,012.3	2,442.7	1,657.1	82.4
Cost Income ratio (%)	30.9	33.5	33.0	
NPA ratio (%) as at December 31,	1.5	1.3	3.3	

For the purposes of above analysis, international operations are defined according to their streams of income generated outside Sri Lanka. Therefore, the total of Bank's operations in Bangladesh, off-shore banking operations in Maldives and remittance operations of the e-Banking Centre have been included in this analysis.

The total international operations made a satisfactory contribution to the performance of the Bank during the year. Although the total operations did not achieve some of the targets set at the beginning of the year, they achieved satisfactory growth over 2012.

Highlights of 2013

- Successful completion of 10 years operations in Bangladesh.
- 'AAA' rating for Bangladesh operations by 'Credit Rating Information Services Ltd.'
- Commercial Bank adjudged as the most productive network in South Asia for the second consecutive year by MoneyGram.

Business Model and Strategic Imperatives for Value Creation

Support Services

At Commercial Bank, we could not have effectively delivered our products and services without vital input from various support service departments. Many of these departments have become specialised units in their own right, of these support service units, we elaborate the operating highlights of a few departments as detailed below:

As a leading private-sector bank, we have fully embraced emerging technologies in order to evolve our quality of service and operational efficiency. That said, Commercial Bank's bricks-and-mortar locations remain essential to establishing our presence in communities across Sri Lanka. We have invested a substantial value in improving our physical infrastructure over the years.

Marketing

Last year was a busy one for the Bank's marketing division. A number of campaigns were launched, increasing Commercial Bank's visibility, building brand equity and sharpening our competitive edge.

Our greatest challenge was to retain accountholders amidst a declining interest

rate environment. We attracted new customers by launching 'The Achiever', a specialised current account aimed at dynamic young executives, which offers great flexibility and value added features. We also relaunched our existing senior citizens' account, 'Udara', with a new communication strategy. In addition, we launched high-profile promotional campaigns for our women's savings account, 'Anagi', which also saw record-breaking growth during the financial year.

To increase our deposits portfolio, we carried out an extensive month-long 'Savings Fiesta' across all branches island-wide. This mega-savings campaign was launched in June 2013 and offered a range of special account opening gifts to new and existing customers. A comprehensive advertising campaign supporting Savings Fiesta was conducted through mass media, digital and social media, with highly visible outdoor drives. The campaign sparked a huge surge in deposit balances and proved to be one of the most successful marketing efforts in the history of the Bank.

Our *Arunalu* Scholarship Cash Prize campaign also received great publicity by offering an educational support program for three students who scored the highest marks in Sri Lanka. The main winners will receive a monthly cash scholarship until they leave school.

Further, more than Rs. 3.5 Mn. worth of cash prizes were disbursed to fifth-year scholarship winners through our branch network.

Other notable marketing initiatives over the past year include the launch of mobile banking and the relaunch of our online banking service with added features and an improved customer interface. The latter successfully boosted our total number of online customers to more than 100,000.

The Marketing team also carried out various campaigns and promotional activities to support a wide range of products and services, including Bancassurance, the vehicle leasing and hire-purchase programmes, agriculture and development loans, credit and debit cards, and more. Details of these activities are discussed elsewhere in this report.

Information Technology

Over the past year, a number of non-bank service providers became increasingly active in promoting person-to-person mobile phone payment systems in Sri Lanka. While these providers have helped in creating heightened consumer interest and, more generally, in building a mobile payments ecosystem, banks can be expected to play a more central role in developing this area of commerce in the years ahead.

In December 2013, Commercial Bank opened a 24-hour automated banking centre at Ward Place, offering several features that were not previously available in Sri Lanka. The unique service allows customers to apply for loans, open accounts, deposit cash and cheques, conduct Internet banking, withdraw cash, and obtain information on our products and services. There is no other service of its kind in Sri Lanka.

Over the past year we continued to deliver on our promise of superior customer convenience by offering:

- Easy banking on the move using the acclaimed Commercial Bank iPhone mobile app.
- Hassle-free currency exchange from US \$ and Euros to Sri Lankan rupees using our Forex ATM at Crescat Boulevard.
- A new Internet banking system for our customers in Bangladesh.

As always, we worked to establish new standards of excellence in the automation of business processes, spending Rs. 563.8 Mn. in 2013 to further improve our technological platforms.

Business Model and Strategic Imperatives for Value Creation

Contribution of the Bank's Subsidiaries and Associates to Prudent Growth

The Bank's subsidiaries and associates contribute in many ways to achieve the strategic imperatives. The activities they carried out would accrue tangible benefits to the Group. Discussed below are the contribution of the selected subsidiaries and associates to achieve prudent growth of the Group.

Commex Sri Lanka SRL

The Bank incorporated a fully owned subsidiary, Commex Sri Lanka SRL, after recognising the potential in growing our remittance business in Italy, where a large Sri Lankan expatriate population resides. During 2013, we extended the company's operations, along with the MoneyGram service, through several Italian cities, including Milan, Verona, Florence and Naples.

In 2012, Commercial Bank made arrangements with Ria Financial Services, the world's third-largest money transfer company to act as Sri Lankan agent. Commex has since collaborated with Ria on a new service, launched in January 2014, that will enable customers to make foreign currency remittances to non-resident foreign currency (NRFC) accounts.

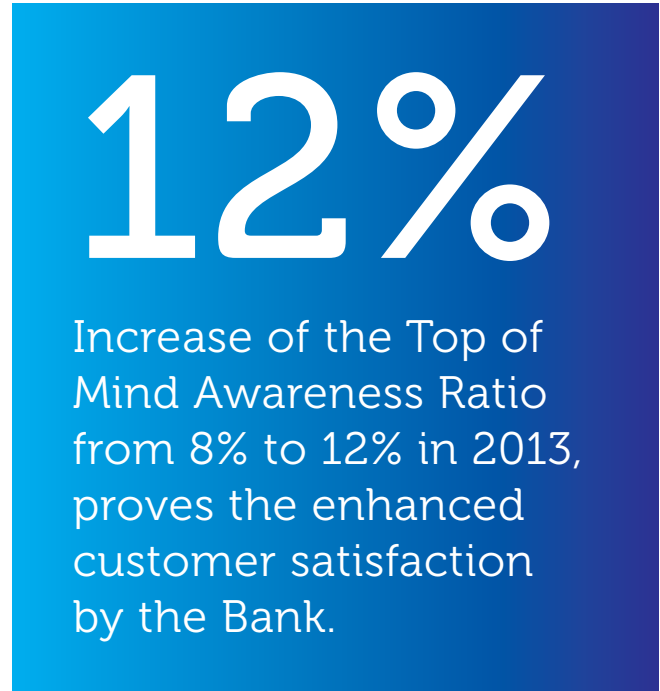
During the past year, we achieved substantial growth in remittances compared to 2012. Further, all arrangements have been made to submit a new application to the Bank of Italy to obtain a money transfer licence for Commex, empowering the company to launch its own transfer operation.

Equity Investments Lanka Ltd.

Equity Investments Lanka Ltd. (EQUILL) is one of Sri Lanka's pioneering venture capital companies, with a history of success stretching back more than two decades. Commercial Bank holds 22.92% of EQUILL, which is in the business of financing entrepreneurs, mainly in the form of equity contribution.

In 2013, the Company's performance was hampered by the challenging market conditions prevailing on the Colombo Stock Exchange. The company could not exit from some of its ventures due to drop in market indices during the year. This situation was further worsened by the decline in interest rates over the past year, which reduced the amount of interest income earned by the company.

The performance of some of EQUILL's portfolio companies in the 'mini-hydro' energy sector was affected due to bad weather in key reservoir/catchment areas, which reduced the



amount of hydroelectric power that these fledgling businesses could generate. As a result, EQUILL recorded a substantial drop in revenue and bottom-line profit.

Commercial Insurance Brokers (Pvt) Ltd.

Through its subsidiary, Commercial Development Company Ltd., the Bank has an indirect stake of 18.91% in Commercial Insurance Brokers (Pvt) Ltd. (CIBL), one of the premier insurance brokering firms in Sri Lanka for both life and general insurance policies. The company also boasts of a strong partnership with CA Technologies of the United States and Pronto XI ERP of Australia, making it one of the most technologically savvy firms in the industry -

and ensuring that its customers are provided with speedy insurance solutions that meet global standards.

In 2013, the Company recorded a post-tax profit of Rs. 17.8 Mn., a drop of 9.35% compared to the previous year.

Market Surveys on Customer Satisfaction

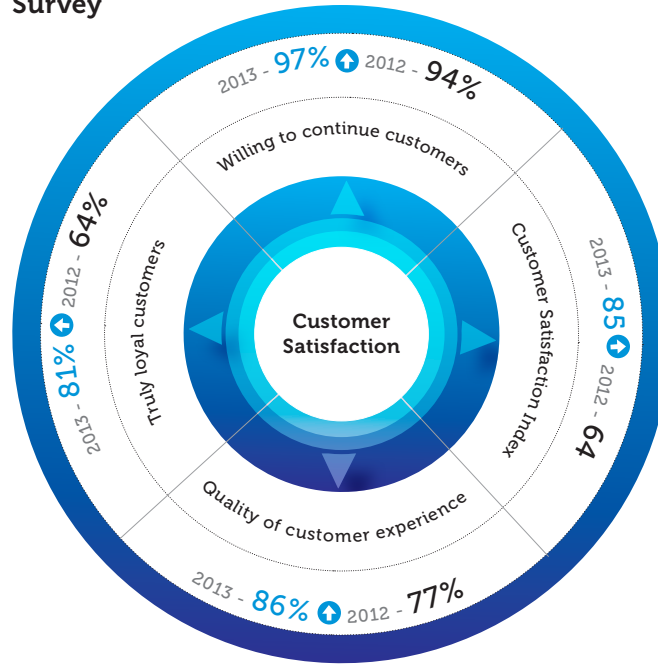
In 2013, Commercial Bank conducted a market survey through a reputable independent research agency to obtain feedback on customer satisfaction. Applying internationally recognised analytical tools and standards, the survey was based on a research sample that included both deposits and loans customers.

The key objectives of the survey were as follows:

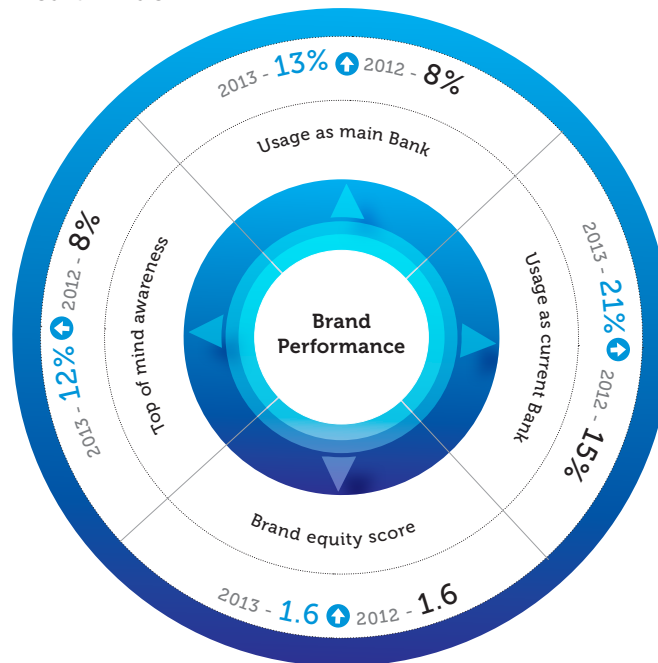
- Appraise the needs and expectations of Bank's customers.
- Determine current satisfaction levels relative to customers' service requirements.
- Determine the relative impact of specific responses on overall customer loyalty.
- Provide strategic direction for improvement in critical areas.
- Identify opportunities that can be leveraged in comparison with competing banks.

In addition to revealing loyalty scores for current customers, the survey measured trends in shifting loyalty, areas of dissatisfaction, prospects for potential growth and much more. These findings will help the Bank improve service-quality standards, process efficiencies and our overall approach to communications.

Customer Satisfaction Survey



Brand Health Track



The results of the survey showed a marked increase in Commercial Bank's customer satisfaction scores compared to the previous year, with a higher growth rate than that of our closest competitors. These positive results can be attributed mainly to increased customer loyalty metrics and a reduction in the score related to perceptions of 'inertia'. Process-related scores, including those focused on new accounts and loan acquisitions, also increased compared to previous years.

Apart from the customer satisfaction survey, a brand health track was conducted to:

- Understand the main factors of brand equity of Commercial Bank
- Track performance of Commercial Bank against key competitor and key customer segments based on drivers such as brand awareness, brand associations, overall performance including Bank's use by customers
- To obtain understanding of the banking and finance category
 - Banking category drivers such as consideration and imagery
 - Behaviours towards the banking category
 - Identify different consumer profiles

Business Model and Strategic Imperatives for Value Creation

Strategic Imperative

02

Cost Efficiency via Innovation

Strategies to Achieve this Imperative

- Process efficiency through innovation
- Automation of manual functions
- Centralisation of core functions
- Channel migration

Initiatives taken by the Business Units to achieve Cost Efficiency via Innovation

Discussed below are the initiatives taken by the Bank during the year to achieve the above strategic imperative.

ATM Network

The Bank's well diversified ATM network which serves as a catalyst for mobilising deposits contributes immensely in achieving a distinct edge in the highly competitive retail banking environment. As operator of the country's largest ATM network, the Bank actively promotes this alternative channel as a more convenient way to do banking which significantly reduces the counter traffic at branches while boosting productivity.

Automating and improving our cash-dispensing capabilities remain a priority for the Bank as we work to make life more convenient for our customers. In the past year, we relaunched the cash deposit capability on selected ATMs and also improved cash dispensing across our network, allowing more denominations.

The Bank recorded the highest-ever number of transactions (325,000) and the most amount of money dispensed on a single day (Rs. 1.8 billion) on our ATM network in 2013. The Bank achieved yet another milestone by dispensing a

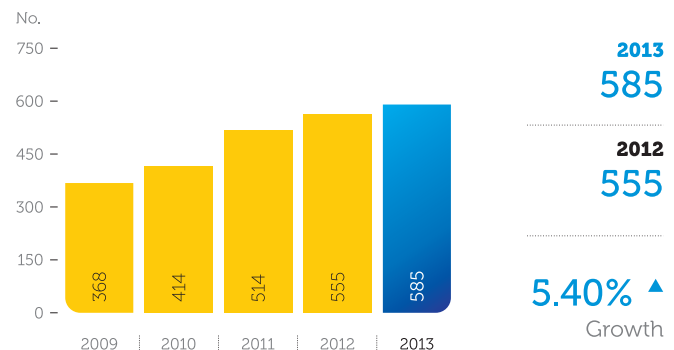
total of Rs. 29.8 Bn. in 6.4 Mn. transactions in December 2013 which is equivalent to 206,000 transactions per day or 143 transactions per minute.

Continuing the trend in recent years, uptime performance of the Bank's ATM network maintained over 99.9% during 2013.

Treasury

The Treasury Department has completed implementation of Ambit Sierra Treasury, an end-to-end treasury management solution provided by SunGard Inc. The new software brings all Treasury products onto a single platform, with significant improvements in straight-through processing,

Expansion and Growth of ATMs



	2013	2012	Growth %
No. of ATMs at the end of the year	585	555	5
Value of cash dispensed during the year (Rs. Bn.)	295.30	249.73	18
Total no. of transactions during the year (Mn.)	66.40	57.73	15
Daily average value of cash dispensed during the year (Rs. Mn.)	809	682	19
Daily average no. of transactions during the year	181,918	157,755	15

Leasing

Leasing related operations in all Bank branches have been brought under the lease operations module, improving operational efficiency, as well as the marketability of our leasing products.

Business Model and Strategic Imperatives for Value Creation

risk management and limits monitoring, and the management of real-time positions and exposures.

The Treasury Department intends to realise cost savings by improving the productivity of both its front and back offices, offering an enhanced range of products and strengthening overall risk management. The Bank has adopted market practices introduced by SunGard, in making our treasury one of the best managed among Sri Lankan banks.

Recoveries Department

Weak credit profiles and borrower cash flows in key economic segments affected the entire Sri Lankan banking sector in 2013.

As a bank's financial health depends on efficiency of the recovery process on loans and advances disbursements, Commercial Bank has a well-established process for recoveries, clearly defining the functions of our branches and the Central Recoveries Department.

The branch recovery process commences with disbursement of the advance. During the first three months that a borrower is in arrears, the branch and the Branch Credit Monitoring Unit conduct a comprehensive follow-up in an effort to recover the instalments in arrears and regularise the account.

The Central Recoveries Department assists branches in their quest for early

recovery of Non-Performing Advances (NPA). This joint effort helps the Bank maintain the targeted NPA ratio, make timely loan loss provisions (in line with regulatory directions and our provisioning policy) and monitor all rescheduling and restructuring of advances. Monitoring includes classifying and declassifying advances according to regulatory guidelines.

In 2013, pressure on borrower cash flows prevented the timely repayment of many credit facilities. However, we were able to improve this situation by restructuring those facilities to suit borrowers' ability to repay.

A worldwide drop in gold prices also affected the NPA ratio of the portfolio. Nevertheless, the Bank was able to mitigate the impact partly by auctioning unredeemed pawned articles in a timely manner.

For all of the above reasons, and also because of lower growth in loans and advances portfolio, the Bank's NPA ratio deteriorated compared to 2012.

We have taken steps to reallocate resources so that we can effectively monitor advances and maintain our NPA portfolio at a low level. In addition, we have automated our loan loss provisioning process to better manage customer provisioning and write-backs, while increasing efficiency and ensuring integrity.

Information Technology

Last year, Commercial Bank leveraged technology advances across all channels, products and services, creating improvements to the banking experience that were welcomed by our customers. Other IT advances included the initiative to launch a new Data Centre that reflects global standards; by reducing the number of physical servers from 70 to 4 through server virtualisation, we have saved approximately 9,000 cubic feet of space.

Other Support Departments

In addition to the support services units discussed above, all other units in the Bank - including Legal, Administration, Logistics, Procurement, Inspection, Operations, Finance and Planning, and Human Resources - made enormous contributions to achieve the cost efficiency of the Bank over the past year.

Contribution of the Bank's Subsidiaries to Cost Efficiency

The activities of the subsidiaries would directly accrue benefits to the Bank, especially in terms of cost efficiency. Detailed below are the activities carried out by identified subsidiaries which would have a direct impact on cost efficiency of the Bank.

Commercial Development Company PLC

Commercial Development Company (CDC) was formed in 1980 to construct the head office building of the Bank and continues to rent it to the Bank while providing various other value-added services. The Bank holds 94.55% of the Company's share capital.

CDC recorded a post-tax profit of Rs. 151.4 Mn. in 2013, a 35.40% decrease over the previous year. The company's profit decrease was mainly due to a substantial decrease in fair value gain on investment property recorded in 2013, compared to 2012. However, the operating profit recorded a growth of 35.40% mainly due to an increase in building rent, in line with market rates. Expansion of CDC's staff-outsourcing business also contributed to its higher revenue. Despite a significant drop in its vehicle-hire business, CDC posted an improvement in operating profit with reduced operating costs.

ONEzero Company Ltd.

ONEzero Company, a 100%-owned subsidiary of the Bank, provides information technology services and solutions - primarily to the Bank, but also to a few selected outside customers. ONEzero's scope of services includes IT support, hardware, software development and post-warranty maintenance.

In 2013, the Company recorded a post-tax profit of Rs. 17.1 Mn. a drop of 17.40% compared to 2012.

Business Model and Strategic Imperatives for Value Creation

Strategic Imperative
03
Exemplary Governance

Strategies to Achieve this Imperative

- Adhere to the required guidelines on corporate governance.
- Conduct business according to the established code of ethics.
- Comply with all other regulatory requirements.

Governance

At Commercial Bank, we operate our business according to the highest ethical standards, based on widely recognised principles and best practices, and conforming to all applicable laws and regulations. In drafting policies and executing plans, we follow strict principles of corporate governance that define the structure and responsibilities of our Board of Directors, ensure legal and regulatory compliance, protect stakeholder interests, manage business risks and govern the quality of information we disseminate.

Governance Structure of the Bank

As illustrated, the Board of Directors, as the highest governance body of the Bank, ensures the alignment of business strategy with sustainable business performance by providing direction for our effective engagement with all stakeholders.

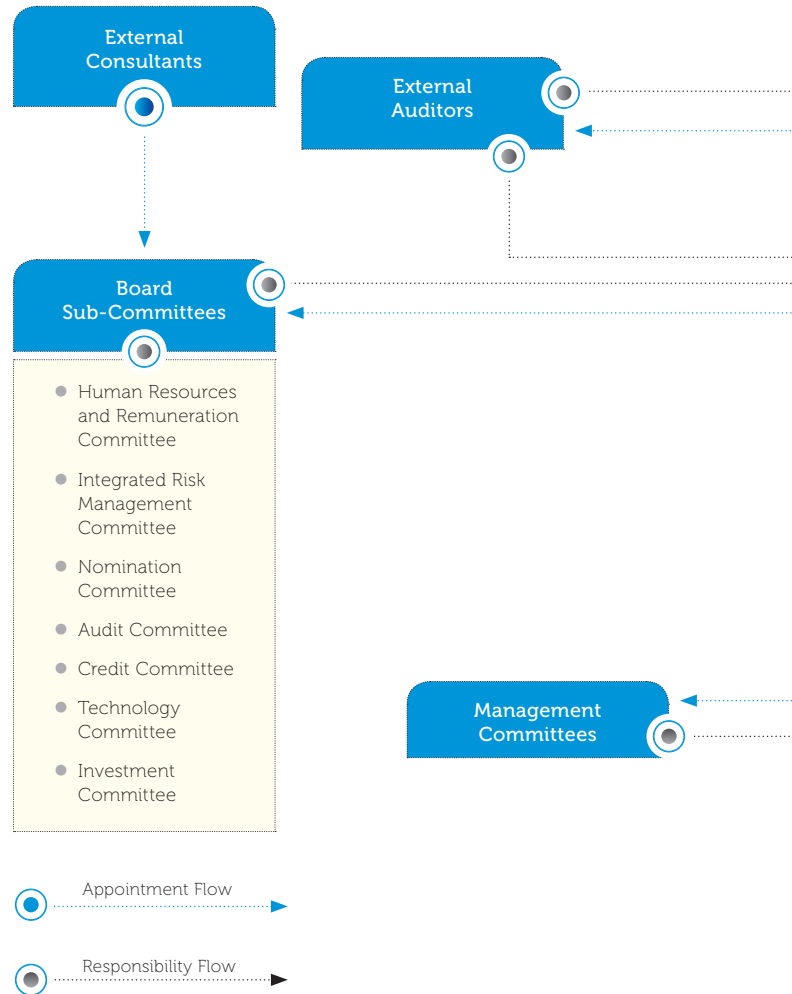
The Directors serving on the Board as of December 31, 2012 continued in their roles through 2013. The Chairman of the Board is an Independent Non-Executive Director, while the Managing Director/ Chief Executive Officer is a Non-Independent Executive Director. Board members are eminent professionals drawn from a range of industrial and financial disciplines. They use their experience and expertise to guide Commercial Bank as it pursues excellence in

terms of triple bottom-line performance. Profiles of Board members appear on pages 132 and 133.

The Board evaluates the strategies set out in the Bank's Corporate Plan and Budget, and gauges the relevance of its vision and mission, as well as the various policies and goals set out by each division of the Bank. The Board Nomination Committee assesses the qualifications, experience and abilities of

Directors, along with key management executives. In doing so, the Committee takes into account the Bank's strategic, economic, social and environmental objectives, applying them in judging the accountability of Key Management Personnel.

The Bank has formed 4 mandatory and 3 voluntary Board Sub-Committees to fulfil regulatory and other requirements and to provide direction for better



Business Model and Strategic Imperatives for Value Creation

governance of the Bank's activities. These Sub-Committees meet regularly to discuss matters falling within their respective charters, and their recommendations are duly communicated to the main Board. The composition of the Board and its Sub-Committees is given on page 186.

Avoiding Conflicts of Interest

The governance structure of the Bank ensures that Directors take all necessary steps to avoid conflicts of interest or the appearance thereof. If a Director is found to have a conflict of interest, the matter is discussed at Board meetings that includes Independent Non-Executive Directors who have no material interest in the transaction. Directors abstain from voting on any Board resolution in which they or their close relations

have interests. Their votes are also not counted in establishing the quorum for the relevant agenda item.

In pursuance of the requirements under Sections 192 and 193 of the Companies Act No. 07 of 2007, Directors have duly disclosed any financial accommodation from and/or deposits made with the Bank by entities where they function as Chairman or a Director - as disclosed in the section on 'Directors' Interest in Contracts with the Company' on pages 208 and 209. Further disclosures have been made in Note 53 to the Financial Statements on page 359 as required by the Sri Lanka Accounting Standard LKAS 24 on 'Related Party Disclosures'.

related issues, as part of its deliberations leading to the preparation of the Corporate Plan, which sets out the Bank's strategic direction. During this process, heads of the Bank's main business and support service divisions make presentations on how they intend to reach performance targets, taking into account challenges related to economic, social and environmental aspects. These presentations provide inputs for the Board's strategy development.

The following methodologies are used by the Board in ensuring that the targets set out in the Corporate Plan are met:

- Review of the Bank's performance at monthly Board meetings, assessing its progress towards economic, social and environmental goals.
- Recommendations through Board-appointed Sub-Committees on governance, including compliance with internal controls, human resources and remuneration, risk management, credit appraisal, the role of information technology and strategic investments.

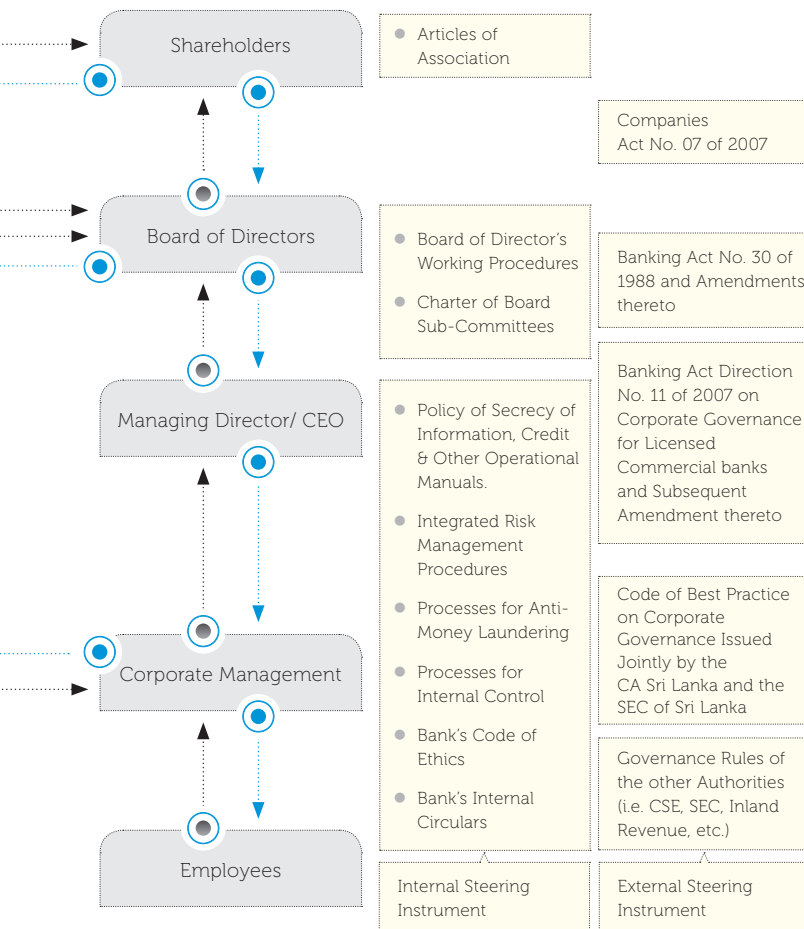
- Review of statutory and other forms of compliance through a quarterly paper on the operations of the Bank, including those in Bangladesh. The content of this paper is validated by the Internal Audit Department, which carries out checks on a random basis covering all areas.

As required by the Listing Rules of the Colombo Stock Exchange, all Directors have submitted annual declarations to the Company Secretary on their shareholdings in other companies.

Role of the Board in Risk Management

The specific tasks undertaken by the Board in managing risk are discussed in the section on 'Managing Risk at Commercial Bank' on pages 210 to 240

It is customary for the Board to carry out an in-depth SWOT (strengths, weaknesses, opportunities and threats) analysis, including sustainability-



Business Model and Strategic Imperatives for Value Creation

- Obtaining input from the SEMS co-ordinator, who focuses on social and environmental issues backed by a Board-appointed team that is charged with identifying and managing the Bank's economic, social and environmental performance - including relevant risks and opportunities, as well as compliance with regulatory requirements.
- Representation of the Board on the CSR Trust Fund, linking the Bank's strategy to the activities carried out via the fund and vice versa. The activities of the CSR Trust Fund are discussed on pages 105 to 111.
- The stakeholder engagement process, which helps the Board to identify sustainability issues faced by shareholders and employees, and to take remedial action.

Remuneration and Incentives

The Board of Directors receives monthly remuneration as recommended by the Board Human Resources and Remuneration Committee. Remuneration is approved by the full Board based on criteria linked to the achievement of strategic objectives and targets. Directors are not entitled to bonuses, shares, incentive payments, termination benefits or any kind of retirement benefits.

Commercial Bank has a well-established target-driven culture focused on achieving the goals set out in our Corporate Plan. Executive Directors of the Board, as well as other executive officers and Key Management Personnel are remunerated based on how well they achieve mutually agreed targets. All criteria for determining performance-based compensation, along with succession arrangements, are detailed in the 'Board Human Resources and Remuneration Committee Report', which appears on pages 187 to 188. We do not employ any outside consultants in determining remuneration. The two employee associations - the Executive Association and the Ceylon Bank Employees' Union (CBEU) - maintain a regular dialogue with the Board and Bank management on the subject of remuneration, and their views are given due consideration in the formulation of remuneration policies and proposals.

The Bank's Credit Policy encompasses a Social and Environmental Policy with a view to sustaining our position while aiming to be the best player locally and regionally. The executive officers responsible for implementation and monitoring of the SEMS of the Bank are remunerated based on the level of achievement of targets linked to SEMS. Similarly, those executive officers attached to Departments

who deal with employee remuneration, welfare, staff training and development and other employee - related services too are remunerated based on achievement of targets set for them in terms of labour practices and decent work and human rights.

The remuneration package of the Non-Executive Officers of the Bank are covered by the Collective Agreement signed with the CBEU.

The business success of the Bank demands independent decision-making, ethical behaviour, transparency, effective risk management and long term planning. These qualities ensure an ethical, legal and compliant organisation at every level and help prevent illegal or unethical business activities. Commercial Bank has taken steps to ensure that all critical processes and procedures are well-documented to promote smooth functioning and avoid potential misinterpretations.

To achieve the objectives outlined above, in 2006 Commercial Bank prepared a Business Continuity Plan (BCP) that was sanctioned by the Board of Directors. The Bank also has a Business Continuity Management Steering Committee (BCMSC) comprising members from the corporate and senior management teams who drive all business continuity efforts. The BCMSC provides overall guidance to the

BCP committee, which consists of 'business champions' whose mandate is to develop and update continuity planning for all aspects of the Bank's operations. We also have a disaster recovery plan to supplement the BCP and ensure the continuity and functionality of information systems. The BCP includes policies on staff succession, crisis communications, staff travel, supply chain management, and awareness and training.

In addition, the Integrated Risk Management Department analyses and reports on all types of risks associated with the Bank's operations.

The Bank's management team has also established several committees that are responsible for carrying out market surveys, developing products and analysing customer expectations, all aimed at ensuring the sustainability of its business. Several specialised departments continuously update all levels of staff with developments in the financial markets. Others conduct peer reviews, conveying the results to the Board and management.

Commitment to External Charters

Commercial Bank has committed to a number of external charters, codes and standards that reflect our operating values, principles and commitments to stakeholders.

Business Model and Strategic Imperatives for Value Creation

External Charter	Year of Adoption	Countries/ Operations Where Applied	Range of Stakeholders Involved in the Development and Governance of These Initiatives	Compliance Requirement	
				Mandatory	Voluntary
United Nations Global Compact principles	2003	Sri Lanka	Multi stakeholders		✓
International Finance Corporation guidelines and performance standards that shape the Bank's Social and Environmental Management System	2010	Sri Lanka	Multi stakeholders		✓

Memberships in Associations

The Bank has general memberships in a number of sectoral, industrial and professional organisations and associations which are listed below. The Bank's Managing Director is an active member of the National Chamber of Commerce. Although, the Bank does not hold positions on the governance bodies of other institutions, we extend our fullest support for their activities attending various events organised.

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

- The Council for Business with Britain
- Association of Compliance Officers of Banks, Sri Lanka

Ethics and Integrity

Commercial Bank's Code of Ethics spells out the expected standards of behaviour and sets the operating principles to be followed. Our Code of Ethics requires that it is necessary to ensure that the standards of behaviour expected of Management and employees are followed to the letter and spirit. Every officer is required to ensure that the Bank at all times maintains high ethical standards and adequate internal control measures are in place guarding against unethical practices and irregularities. In this connection, the Bank's Code of Ethics clearly stipulates the expected standard of behaviour and the "Do's" and "Don'ts" the employees must observe. Further, the Code provides guidance on identification, follow up action and reporting of malpractices, if any.

We operate according to well-defined values, principles and rules governing the conduct of

our Board of Directors, Key Management Personnel, Executives and other staff. Our core values guide us in assessing the economic, social and environmental impacts of our actions, and in mitigating any impacts. The Bank's ethical commitment is articulated through a variety of means including the following:

- An Oath of Secrecy signed by every staff member, accepting accountability for their actions.
- The Bank's Code of Ethics and Whistle-Blowers Charter, which encourage staff members to report any suspected wrong-doings. The Whistle-Blowers Charter is based on guidelines issued by the International Chamber of Commerce.
- Making every staff member aware of the Bank's Code of Conduct during induction programmes, binding them to meet its requirements from recruitment until their employment ends.
- The Bank's grievance-handling process, which ensures that all issues referred to the Human Resource Department are adequately addressed with strict confidentiality.

Operations Assessed for Risk-Related Corruption

The Integrated Risk Management Department (IRMD), along with other units of the Bank, carries out operational risk assessment for all types of corruption and internal fraud. These assessments, covering the full spectrum of banking operations, are carried out on a half-yearly basis by the risk 'owners' in each area. The IRMD regularly reviews and updates these risk assessments. Controls relating to risk are tested by the Inspection Department. The officers of the Inspection Department examine the activities of the Bangladesh operation too as part of their periodic inspection programmes.

All incidents of corruption and internal fraud identified through key operational risk indicators and from operational losses are analysed by the IRMD on a monthly basis. The officers of IRMD evaluate existing controls and the actions taken to avoid repetition of such incidents. Any new mitigating measures developed in this process are applied to all operating units of the Bank. This

Business Model and Strategic Imperatives for Value Creation

process also covers our operation in Bangladesh through a continuous dialogue with the Risk Management Division in Bangladesh.

Training on Anti-Corruption Policies and Procedures

Over the past year, the Bank's Anti-Money Laundering (AML) Department continued to educate staff at all levels on the requirements of the Prevention of Money Laundering Act. These training programmes also covered 'Know Your Customer' requirements and any unlawful activities, which includes corruption, bribery and insider dealing. During the year 2013, the AML Department conducted 25 such programmes, which were attended by 887 participants covering 1,712 person hours. In addition, the Bank's Bangladesh operations conducted one programme dedicated on corruption. Further, staff at all level is made aware of the requirements, procedures for detecting and informing any suspicious transactions via circular instructions.

We intend to communicate our anti-corruption policies and procedures to our suppliers and other business partners, which at present are not included in the business contracts.

Actions Taken in Response to Incidents of Corruption

Incidents of corruption are brought to the notice of the Bank's Executive Integrated Risk Management Committee in monthly meetings by the officers of the AML Department. In 2013, no incidents of corruption were detected.

It is the Bank's practice to table the details of fraud - if the financial losses involved exceed a predetermined threshold - at quarterly meetings of the Board Integrated Risk Management Committee. In such events, we identify any lapses in our internal control systems that led to the incident, then take steps to avoid a recurrence and discipline any staff who were involved. Further, follow-up action is taken via internal circulars to employees, educating them about the effectiveness of existing internal control mechanisms.

Last year, neither the Bank nor its employees faced any corruption-related charges.

However, the Bank's AML Department detected ten accounts involving suspicious transactions during the year 2013 and those accounts promptly reported to the Financial Intelligence Unit of the Central Bank of Sri Lanka. It is pertinent to mention that the Bank took steps to close one of above accounts opened to operate a pyramid scheme.

Fines and Non-Monetary Sanctions

The Bank received no fines or sanctions in the past year for breach of laws and regulations.

Product and Services Labelling

The following is required for the labelling of all products and services of the Bank:

- The source of components for the product or service.
- Contents, particularly substances that may have an environmental or social impact.
- Instructions on the safe use of the product or service.

No incidents were reported in which the Bank was fined or warned because of non-compliance with regulations or voluntary codes on product and service information and labelling.

Sale of Banned or Disputed Products

Commercial Bank does not sell or market products or services that are banned in any market or subject to stakeholder questions or public debate. During 2013, the Central Bank of Sri Lanka issued a Direction to banks prohibiting the issue of certificates of deposit to customers, and Commercial Bank duly complied with the requirement. No incidents were reported where the Bank was fined or warned

due to non-compliance with regulations and voluntary codes concerning marketing communications.

Breach of Customer Privacy and Loss of Customer Data

In 2013, the Bank received two complaints claiming that account information had been compromised to a third party. The complaints were duly investigated, and it was determined that in neither case had account information been divulged to any unauthorised persons.

Apart from the above incidents, the Bank neither received any complaints regarding breach of customer privacy nor identified any leaks, thefts or loss of customer data during audits carried out by the Internal Audit Department.

Fines for Non-Compliance with Laws and Regulations

During the past year, no incidents were reported in which Commercial Bank was fined or warned as the result of non-compliance with laws or regulations concerning the provision and use of bank products and services.

Business Model and Strategic Imperatives for Value Creation

Strategic Imperative

04

Managing Capital

Strategies to Achieve this Imperative

- Manage risk-weighted assets through prudent capital allocation.
- Manage a dividend policy that balances shareholder expectations with the needs of future expansion.
- Review product pricing periodically to ensure optimum returns for the given risks.
- Include capital planning as part of the Bank's annual strategic planning and budgeting exercise.
- Maintain reasonable level of provision cover thereby lowering the open credit exposure ratio and unencumbering capital.
- Creating awareness among the staff on the relationship between risk and return.

Given the low gearing ratio of our Balance Sheet and risk-weighted assets, Commercial Bank is comfortably capitalised. This is further evidenced by our Tier I and total capital adequacy ratios of 13.27% and 16.91%, respectively, as at the end of 2013. The Bank's end-of-year capital adequacy ratio, along with the comparable figures for 2012, are presented on pages 213 to 215.

Commercial Bank's strong capitalisation gives us sufficient financial muscle to expand our business operations in future. Apart from compliance with the minimum capital requirements specified by the regulator, the objectives

of our capital management efforts include:

- Maintaining internal capital targets, which are more stringent than regulatory requirements.
- Optimising capital usage for maximum profitability, meeting the expectations of shareholders.
- Supporting future business expansion.
- Supporting current and future credit ratings.
- Ensuring smooth transition to potentially higher capital requirements under the advanced approaches of Basel II and requirements under Basel III, once implemented.

The success of the Bank's capital management efforts in recent years is evident from the following data:

Specific initiatives undertaken in the past year included a borrowing of US \$ 75 Mn. from the International Finance Corporation on a 10-year subordinated debt agreement.

In light of our low levels of non-performing advances and the significant provisioning already made, the capital of Commercial Bank is relatively unencumbered. This stability is also evident from our higher credit rating and excellent relationships with shareholders, whose support we can rely on if additional capital is required for business expansion.

Indicator	2013	2012	2011	2010	2009
Growth in total assets (Rs. Mn.)	94,864.4	70,413.1	71,039.1	47,745.0	41,101.0
Growth in risk-weighted assets (RWA):					
- Total	31,267.4	41,674.7	44,318.2	53,707.2	(4,632.9)
- RWA for credit risk (Rs. Mn.)	22,678.2	38,994.1	40,616.0	47,680.9	(10,693.2)
- RWA for market risk (Rs. Mn.)	2,230.1	(552.6)	218.4	1,778.5	779.4
- RWA for operational risk (Rs. Mn.)	6,359.1	3,233.2	3,483.8	4,247.8	5,280.8
Capital adequacy ratios:					
- Tier I (%)	13.27	12.64	12.11	10.87	11.90
- Total (%)	16.91	13.85	13.01	12.27	13.91
ROA (%)	1.87	2.12	1.94	1.60	1.43
ROE (%)	18.40	20.96	20.28	17.87	15.83

Business Model and Strategic Imperatives for Value Creation

Strategic Imperative

05

Managing Risk

Strategies to Achieve this Imperative

- Establishment of a well- defined risk appetite framework covering key business areas to maintain the desired risk profile of the Bank consistently.
- Comprehensive risk governance framework covering Board and Senior Management oversight, risk related policies and committee structures.
- Implementation of Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing to ensure resilience against wider spectrum of risk factors.
- Undertake comprehensive risk analysis and management in all key areas, including the activities of subsidiaries.
- Maintain business continuity planning.
- Pricing of products and services to be commensurate with the level of risk undertaken.

- The Bank embarked on a journey in implementing a Basel - II compliance software solution to facilitate migrating to advanced approaches in capital computation in 2013. The risk related data derived through this system would enhance the risk based decision making.
- ICAAP framework implemented during 2012/13 has enabled the Bank to gauge capital adequacy in relation to its present/potential risk profile. This integrates the Bank's strategic plan with risk management and capital planning in an objective manner.
- The Stress Testing framework implemented during the year under review helps the Bank in assessing the resilience on hypothetical but plausible potential events and to take proactive decisions to mitigate such risks.

Overall business strategy of the Bank is well-supported by its risk strategy which focuses on optimising the risk-return trade off. The responsibility of driving the Bank's risk strategy and governance framework lies with the Board and the Senior Management. The Bank's Risk Governance Framework is the foundation for its risk strategy which in turn supports the effective management of capital adequacy in relation to the overall risk profile of its

business model. The Risk Management Framework is a set of independent components based on which risk management at the Bank is designed, implemented, monitored, reviewed and continuously improved. A comprehensive set of risk related policies, procedures and processes have been established in the Bank to formulate a formal risk management function within the organisation. Risk related committees with well-defined responsibilities support an effective risk management mechanism covering key business areas of the Bank. The integrity, effectiveness and transparency of risk based decision making is well-supported by this Risk Governance framework.

Detailed risk management report on how we manage our risks as a responsible financial intermediary is given on pages 210 to 240.

Business Model and Strategic Imperatives for Value Creation

Strategic
Imperative

06

Being
Responsible
to the
Community

Strategies to Achieve this Imperative

- Support the Bank's Corporate Social Responsibility (CSR) policies.
- Prioritise target areas in community-focused sustainability.

Commercial Bank Social Responsibility Trust Fund

Recognising our Bank's responsibilities in the communities where we do business, we have undertaken a variety of social initiatives, the most important of which is the Commercial Bank Social Responsibility Trust Fund (CSR Trust), founded in 2004 with a seed capital of Rs. 25 Mn. To back up our commitment, the Bank contributes up to 1% of annual post-tax profits to the Fund. With last year's contribution of Rs. 50 Mn., total funding to date exceeds Rs. 340 Mn. rupees.

The deed of the CSR Trust outlines the following objectives:

- To support education in Sri Lanka.
- To assist in improving health services in Sri Lanka.
- To preserve and improve the environment.
- To support and provide community services.
- To preserve and promote the cultural heritage of Sri Lanka, and to promote culture and arts generally.
- To undertake other charitable activities decided by the Trust.

Goals and Performance

As part of our corporate responsibility strategy, Commercial Bank has adopted 'education' as the

principal theme of our local community engagement activities. We support school children and young adults across Sri Lanka, regardless of gender, race, religion or social background. Our main focus is on IT education and English language proficiency - areas selected after careful consideration of the Bank's broad vision and the development priorities of the Government.

Organisational Responsibility

The Board of Trustees of the CSR Trust includes five representatives of Commercial Bank. The Chairman of the Trust has overall responsibility for the Bank's commitment to community. A dedicated senior officer of the Bank serves as the CSR co-ordinator, reporting directly to the trustees and assisting them in achieving the objectives of the Trust.

The Trustees of the CSR Trust are:

- Mr. L. Hulugalle -
Trust Chairman
Director,
Commercial Bank
- Prof. U.P. Liyanage
Director,
Commercial Bank
- Mr. W.M.R.S. Dias -
Managing Director/
CEO, Commercial Bank

- Mr. K.D.N. Buddhipala -
CFO, Commercial Bank
- Mr. L.H. Munasinghe -
Deputy General
Manager - Marketing,
Commercial Bank
- Mrs. Priyanthi Perera -
CSR Co-ordinator,
Commercial Bank

Training and Awareness

In addition to training arranged for CSR unit officers, the Trust Chairman sends written advice to all Commercial Bank Branch Managers regarding the activities of the Trust, with guidelines for implementation thus creating awareness amongst staff members.

Business Model and Strategic Imperatives for Value Creation



Main focus areas of the CSR Trust

- Education
- Healthcare
- Culture and heritage
- Rehabilitation of war heroes
- Regional social initiatives
- Disaster relief, and preservation of the environment

Monitoring and Follow-up

The CSR Co-ordinator is responsible for keeping the Board of Trustees informed on all corporate responsibility activities. The trustees meet once a month to approve strategic project proposals and ensure that proper follow-up action is taken for all current projects.

Overview of Corporate Responsibility Activities in 2013

The Trust's corporate responsibility initiatives are focused on six key areas: education, healthcare, culture and heritage,

rehabilitation of war heroes, regional social initiatives and disaster relief, and preservation of the environment. While the advancement of children's education has been the Trust's main focus area, many other notable projects were undertaken during the past year. These were selected for their significance to the community and for their ability to deliver sustainable long-term benefits to direct recipients and to the country at large.

Method of Identification and Selection of Projects

The Chairman of the CSR Trust sent letters to all Commercial Bank Branch Managers in 2013, asking them to help identify projects supporting their local communities. Bank branch staff voluntarily submitted the highest number of proposals ever received by the Trust, with a particular emphasis on education and regional corporate responsibility projects. A number of organisations also submitted proposals, which the CSR Co-ordinator and her team evaluated according to the

Business Model and Strategic Imperatives for Value Creation

52

IT labs were completed during 2013, which included the landmark 100th IT lab. This initiative has benefited more than 125,000 students island-wide.

Trust's guidelines. After the Board of Trustees evaluated and ratified shortlisted proposals, approved projects were implemented by volunteer staff at branches and in support service divisions such as IT, procurement, logistics, premises and marketing.

Brief Accounts of the Projects

Education

The CSR Trust's education focus extends to three key areas: the promotion of IT skills among children, strengthening English-language education and providing annual scholarships for deserving undergraduates.

IT Lab Project

With the aim of boosting computer literacy across Sri Lanka, in 2013 too the CSR Trust continued to provide fully-equipped IT

labs to Government schools and non-fee-levying institutions. This assistance included new computer equipment with warranties and licensed software, as well as furniture and funds for IT lab renovation. Throughout the year, the CSR Trust invested Rs. 35.69 Mn. in 52 new IT labs - including the milestone 100th lab at the Mirihanegama Kanishta Vidyalaya, situated in the Kurunegala District. An IT lab was also donated to the Pain Management Unit at the National Hospital in Colombo to automate its work processes and assist specialist doctors who use Internet-based services to deal with critical illnesses.

As of the end of 2013, the CSR Trust had established a total of 123 IT labs, investing Rs. 74.94 Mn. and benefitting more than 125,000 students in rural and urban communities all over the country.

As the second phase of this ongoing project, Commercial Bank - in a strategic partnership with the University of Colombo - is introducing online educational programming into schools equipped with donated IT labs. Under the University's Service Learning Programme, third-year undergraduates in the science faculty are required to work with a Sir Lankan company on a corporate responsibility project, as an assignment towards their degree. A group of eight such undergraduates, supported by the CSR Trust, designed web-based study packs based on the national school curriculum and integrating free educational websites such as the Khan Academy. By the end of 2013, 20 online education programmes had been launched, helping both students and teachers to use the Internet more effectively for learning and teaching.

English Language Education

Fluency in English is important for young people hoping to pursue higher education and/or good career opportunities. Since 2012, the CSR Trust has sponsored programmes to improve English language skills among school children, particularly in remote regions of the country. In 2013, the CSR Trust conducted two projects, one for a group of 160 students in the ordinary and advanced level grades, and the other for a group of 121 teachers in the Kalutara

Educational Zone. The teacher-training program, conducted by the British Council, is considered to be sustainable, as participating teachers can immediately apply new methods and ideas in their own lessons, enhancing the English language skills of their students. While the British Council has been conducting this programme - known as 'The Road Show' - across the country for the past four years, this was the first time that it had received funding from a corporate donor. The Bank invested a total of Rs. 1.72 Mn. to sponsor the two projects and intends to fund further Road Shows for school teachers in other districts down the road.

Scholarships for Undergraduates

The CSR Trust awards 50 scholarships a year based on the recommendation of the University Grants Commission. Scholarships are provided under the 'Sarasaviyata Nawa Saviyak' community initiative to support deserving undergraduates, each of whom receives Rs. 30,000/- per year for the duration of his/her degree studies. Since 2012, each scholarship recipient has also received a laptop computer; to date, 75 laptops have been distributed. So far 250 scholarships have been awarded to undergraduates of Colombo, Peradeniya, Jaffna, Sri Jayewardenepura, Rajarata, Kelaniya and Ruhuna universities.

Of these students, 58 will continue to receive the grant in 2014; the others have already graduated in the fields of medicine, management and engineering. The CSR Trust disbursed a total of Rs. 10.09 Mn. for scholarships in 2013.

Healthcare

Bank's CSR Trust continued to invest in community healthcare projects, enhancing medical facilities at Government hospitals with essential equipment. In 2013, donations were made to the Lady Ridgeway Hospital and the National Eye Hospital in Colombo,

The National Cancer Institute in Maharagama, General Hospital in Kalutara, District Hospital in Matara, District Base Hospital in Wathupitiwala, Base Hospitals in Mawanella, Warakapola and Marawila and the Kelebogawewa Medical Centre in the Vavuniya District. As well, four air conditioners were donated to the language and speech therapy unit at the Lady Ridgeway Hospital, Colombo, creating a more agreeable environment for the 10,000 or so patients who benefit from the unit's services each year. In total, Rs. 6.10 Mn. rupees were invested in 11 completed healthcare projects in 2013.

The Bank reconstructed the Kilinochchi Railway Station as a part of the Government's

Northern Line Extension Programme.

Kilinochchi would become one of the strategic locations of the country in bridging the North and the South.





**10,000
or more
patients
will
benefit**

every year through a donation made by the Bank to the Language and Speech Therapy Unit of the Lady Ridgeway Children's Hospital.

Culture and Heritage

The ancient Dambulla Temple, a UNESCO World Heritage Site, is the largest and best preserved cave temple complex in Sri Lanka, enjoyed by large numbers of citizens and foreign visitors alike. Last year, as a heritage conservation initiative, the CSR Trust renovated the lamp posts constructed by the Bank in 1998 to light up the precincts of the temple. A total of Rs. 0.69 Mn. were spent on this project.

Regional Corporate Responsibility

Regional corporate responsibility initiatives include developing local infrastructure; assisting children, the aged and those needing medical attention; and responding to urgent community needs, such as recovery from a natural disaster. Staff at Commercial Bank Branches volunteer ideas for potential projects. Last year, we donated furniture and vital equipment to schools, and helped to renovate and 'colour-wash' school buildings and hospitals in rural areas. The CSR Trust spent Rs. 3.42 Mn. on 19 projects in 2013.

Community Development

Construction of the Kilinochchi Railway Station

The Kilinochchi Railway Station was abandoned many years ago after the Northern railroad was closed during the war. Under the Government's Northern Line Extension Programme, and at the request of the Sri Lanka Railways Authority, Commercial Bank agreed to reconstruct the station. The district capital of Kilinochchi, with a population of more than 100,000, is expected to become a thriving industrial and agricultural hub, supported by the Government's ongoing development initiatives. A commercial centre,

Business Model and Strategic Imperatives for Value Creation

Government offices, private-sector enterprises and educational institutes are planned for the near future.

With the restoration of the Northern railway line, train service should become the preferred mode of transport for people and goods, as it requires less travel time and is more convenient than roads. Kilinochchi would become a major hub for all trains, including the proposed inter-city express, driving commerce and connecting people to the other cities on the island.

Built to the standards of the Sri Lanka Railways, the station also has various public amenities, including access for the disabled and a Commercial Bank ATM. Bank staff, and in particular engineers attached to the Premises Department, volunteered to help with the project, ensuring that it was completed on time. The station was constructed within 45 days and declared open by President of the Democratic Socialist Republic of Sri Lanka in September 2013. CSR Trust invested Rs. 21.5 Mn. in the project.

Mirihanegama Village Development Programme

Commercial Bank once again helped Mirihanegama Village, where we carried out substantial development activities in 1995–1996. This time around, we established a landmark 100th IT lab in the Mirihanegama Kanishta Vidyalaya (see page 107) and sponsored a sustainable village development and livelihood diversification

programme to help raise living standards. Located in the District of Kurunegala, the village consists of 247 families who cultivate paddy, grow vegetables and run dairy farms. The Bank's support includes establishing a milk-collection project in collaboration with dairy companies and providing micro finance loans to the community. The programme also had a tree planting campaign to help create a greener village and convey the importance of protecting the environment.

Operations with Significant Negative Impact on Local Communities

Commercial Bank, as a matter of policy, does not finance any project that will have negative impacts on communities.

Grievances Filed About Impacts on Society

The Bank did not encounter any significant grievances over the past year.

Impact of Infrastructure Investments and Supported Services

As noted in the 2011 Annual Report of the Central Bank of Sri Lanka, the country's road system carries more than 90% of all passenger and freight traffic. Upgrading and expanding the national road network significantly

improves connectivity - shrinking distances, driving commerce and connecting people with economic opportunity. Moreover, reducing the isolation of remote communities promotes pluralism and harmony, as Sri Lankans share culture, values, beliefs and interests.

Therefore, as a contribution to the economy of Sri Lanka - at the request of the Road Development Authority - Commercial Bank became the first domestic financial institution to fund a trunk road development project. This initiative may represent a turning point in the financing of infrastructure in a country once largely dependent on foreign funds for sizable projects.

Commercial Bank is in the process of financing two more national roads. So far we have committed Rs. 2.76 Bn. to these projects, of which Rs. 1.292 Bn. was provided in 2013. Our commitment of a further Rs. 1.560 Bn. will be disbursed over the next year and a half. The Integrated Risk Management Department monitors the risks involved in funding projects of this nature and advises the lending officers.

Initiatives to Improve Access to Financial Services for Disadvantaged People

Commercial Bank has undertaken several initiatives to improve the

financial services offered to disadvantaged customers, including:

- Executing advertising materials in three languages - Sinhala, Tamil and English.
- Deploying staff in the Northern and the Eastern Provinces who can communicate in all three languages.
- Providing access for wheelchairs in branches where such facilities can be accommodated. Wheelchair accessibility will be a prominent consideration when opening new branches or relocating existing ones. Currently, 66 branches have wheelchair access and all branches have lower counters.

Percentage of new suppliers that were screened using criteria for impacts on society

As reported earlier, all new and existing suppliers of the Bank are screened by the Procurement Department and the Human Resources Department using predetermined criteria set to ensure that they do not have any negative impact on society and are continuously monitored that they continue to do so.

Business Model and Strategic Imperatives for Value Creation

Strategic
Imperative

07

Minimising
Our
Environmental
Footprint

Strategies to Achieve this Imperative

- Apply the criteria of the Bank's Social and Environmental Management System (SEMS) to all credit proposals.
- Move towards the widespread adoption of green banking practices.

A CSR Trust Environmental Project

The CSR Trust has partnered with the National Department of Wild Life Conservation on a joint environmental conservation project to replant live coral in the Hikkaduwa Marine National Park. The coral had been damaged by the warm ocean temperatures of El Niño in 1998, and was further affected by the tsunami of December 2004. In this rehabilitation project, live coral collected from other locations will be replanted in the Walduwa area of the marine park using techniques perfected in the Philippines. The aim is to restore the coral reef to its original state so it can continue to flourish - while also providing a major eco-tourist attraction in Hikkaduwa. An increase in tourism will benefit local hospitality and transportation services, as well as many self-employed entrepreneurs. Initiated in March 2013, the project is scheduled to be completed in 2015. Total expenditure is estimated to be about Rs. 0.76 Mn.

Products Designed to Benefit to the Environment

The Bank's Development Credit Department has conducted an environmental awareness programme with suppliers

of machinery for sawmills. Installing modern band saws can reduce total electricity consumption by 60%. At the same time, more efficient equipment can cut timber wastage by 30%, slowing down deforestation and minimising the pollution caused by disposal of sawdust. About 20 entrepreneurs have benefited from this initiative, under which the Bank last year granted loans totalling to Rs. 10.6 Mn.

Awareness programmes have also been conducted with automobile spray-painting companies, educating them on 'greening' their businesses by installing environmentally friendly spray booths, controlling emissions of paint spray into the atmosphere and improving working conditions. In 2013, loans to these businesses totalled Rs. 11.5 Mn.

The Bank's Corporate Finance Division actively promotes lending to renewable energy generation projects and has disbursed Rs. 634.92 Mn. for two wind-power projects during the year. The total value of the loans portfolio outstanding to this sector as at the year end amounted to Rs. 2.40 Bn. The Bank expects to provide further financial assistance to this sector in the short to medium term.

Business Model and Strategic Imperatives for Value Creation

A Greener Bank

Motivated by a deep collective commitment to protecting the environment, Commercial Bank has taken several steps in our plan to become 'A Greener Bank':

Reduction of Energy Consumption

The electricity consumption for this year in our Sri Lankan operations was reduced to 14.331 Mn. kWh, a reduction of 0.736 Mn. kWh compared to last year. Similarly, our Bangladesh operations recorded a consumption of 0.969 Mn. kWh, reflecting a reduction of 0.199 Mn. kWh. These reductions are a clear indication of the positive impacts of initiatives taken by the Bank to reduce the consumption of power as explained on page 113.

Waste Management

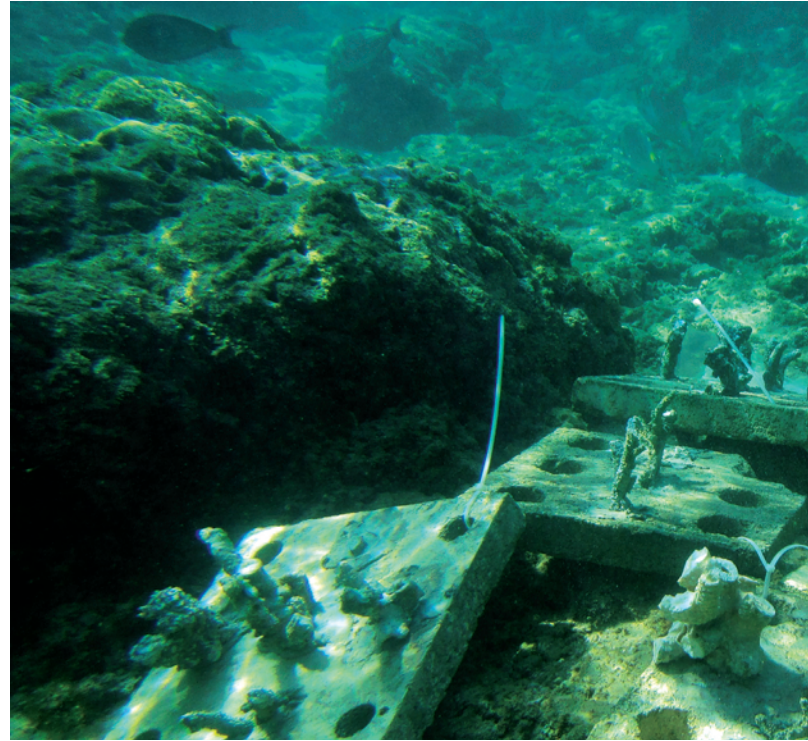
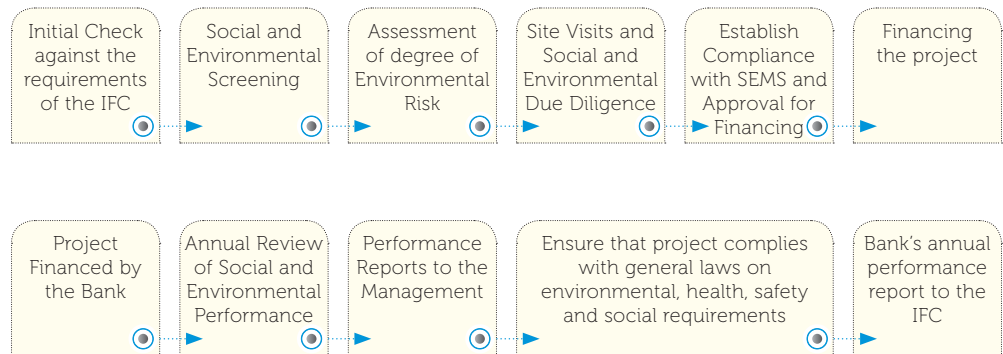
Commercial Bank has a programme to return the decommissioned and discarded IT equipment to vendors who follow international standards for environmentally-responsible waste management. However, there were no disposals of IT equipment during the reporting period. Similarly, our waste paper

is also handed over to a recycling agent. We intend to measure and report the quantity of paper waste delivered for recycling starting 2014.

Products and Services: SEMS as an Impact Mitigation Tool

During the past year, 590 loan proposals were referred to the Bank's SEMS Co-ordinator for screening and evaluation, and were successfully recommended - confirming that these projects did not have a significant impact on the environment. As well, the SEMS co-ordinator and his team conducted 10 site inspections during which no cases of non-compliance were noted.

Bank's Social and Environmental Management System





Bank's CSR Trust partnered with the National Department of Wild Life Conservation on a joint environmental conservation project to

replant live coral in the Hikkaduwa Marine National Park

Supplier Environmental Assessment

The Bank includes restriction of hazardous substances (RoHS) as a compliance requirement in all requests for proposals (RFPs) issued to suppliers when procuring ATMs, personal computers, printers and other equipment. How well vendors can be expected to maintain compliance is considered during the evaluation process.

Energy Management

In the past year, Commercial Bank continued to encourage customers to adopt energy-efficient practices in their businesses by providing loans for such purposes. We also delivered

a training programme on energy use through our e-Friends refinance scheme.

Commercial Bank's own buildings use environmentally friendly technologies wherever possible. These include variable air volume units to control temperature and ventilation systems with energy-saving features. Airconditioning use at our head office and branches is limited to normal working hours. We intend to continue these measures in the future as well while exploring other ways to minimise energy consumption.

Last year, Commercial Bank's Bangladesh operation continued implementation of the Green Banking Policy formulated in 2012, in line with Bangladesh Bank's

guidelines in this area. The Green Banking Policy is being rolled out in two phases:

Phase One

- Policy formulation and governance.
- Incorporation of environmental risk in customer relationship management.
- Initiating in-house environmental management.
- Introducing green finance.
- Online banking.
- Disclosure and reporting of green banking activities through the Bank's intranet.

Phase Two

- Formulation of sector-specific environmental policies.
- Green strategic planning.
- Setting up green branches.

Green IT Initiatives

In 2013, Commercial Bank purchased 57 ATMs conforming to RoHS standards (compared to 51 units in 2012), reiterating our commitment to investing in green IT.

We continued our policy of replacing old equipment with more energy-efficient solutions. During 2013, we purchased 612 personal computers (709 in 2012), 208 validators (259 in 2012) and 85 laser printers (152 in 2012).

Business Model and Strategic Imperatives for Value Creation

Strategic Imperative

08

Human Resource Development

Strategies to Achieve this Imperative

- Ensure consistent and fair wage policies.
- Manage talent effectively to maximise our employees' potential.
- Provide training and development to build a better organisation.
- Maintain the Bank's position as 'most preferred' employer.

Compensation and Benefit Strategy of the Bank

There is no regulation in place under Sri Lanka's Shop & Office Employees Act indicating the minimum wage for covered employees. Through collective bargaining and an ongoing dialogue with the employee organisations, as well as with labour authorities and our corporate peers, Commercial Bank keeps abreast of current trends and policies relating to wage practices in the banking industry and in the mercantile sector as a whole. Our wage policy is based mainly on collective agreements - covering specified employee categories - and periodic market surveys indicating the high and low range of wages in our industry.

The 2012 collective agreement between Commercial Bank and the Ceylon Bank Employees Union stipulates the minimum wages for Junior Executive Assistants and allied grades. Both of our collective agreements - covering Junior Executive Assistants, as well as the non-executive grades - specify the annual increment to which an employee is entitled. In addition, the collective agreement for Junior Executive Assistants specifies the annual increment an employee will receive based on his/her grading in the annual performance appraisal.

Other benefits detailed in the agreements include out-of-pocket allowance, travelling allowance, disturbance allowance and other allowances that may accrue to the employee apart from his/her monthly wage.

The wages and perquisites of all Bank officers who are placed as Business Promotion Officers (BPOs) in Italy and the Middle-Eastern countries are also as same as those officers in Sri Lanka, except that BPOs receive a special allowance to meet the expenses incurred abroad. The wages and perquisites of the staff of Bangladesh operation are determined based on market practices and they receive increments based on the results of the annual performance evaluations.

For all executive officers, the wages and perks are decided mainly by considering the market rates applicable for similar categories and jobs.

The Bank has the economic wellbeing of its employees at heart and recognises that some aspects of employment can be difficult to negotiate. For instance, we have given due consideration to the state of local facilities at newly opened branches. Based on the recommendations of our regional offices, and also weighing direct requests from staff, we have provided various benefits to those stationed in difficult locations, as detailed later

under 'Benefits provided to full time employees that are not provided to temporary or outsourced employees' as detailed below. Further, examples of the Bank's commitment to employees' welfare include our subsidised medical programme, staff loan programmes and the professional association subscription/honorarium payments paid to employees.

Benefits Provided to Full-Time Employees that are not Provided to Temporary or Outsourced Employees

As mentioned earlier, as a policy the Bank does not recruit employees on part-time basis. The permanent employees of the Bank are provided with the benefits listed below:

- Performance-related bonus or bonus under the collective bargaining agreement.
- Fuel allowance for executive cadre and transport allowance for non-executive cadre.
- Holiday bungalows.
- Staff loans at concessionary interest rates.
- Membership of a private provident fund administered by an Independent Board of Trustees according to the provisions of the Employees' Provident Fund Act.

Business Model and Strategic Imperatives for Value Creation

- Medical benefits including, special health insurance cover for critical illnesses and special staff loans, at concessionary interest rates, to tide over an illness in the family.
- A death gratuity scheme entitles the legitimate dependents of a confirmed employee to a compassionate payment of two months' gross salary for each year of completed service (subject to a minimum of nine months' gross salary) in the event of his or her demise. Under the group life policy, those dependents also receive a sum equal to 24 months' salary (based on the last drawn salary) of the deceased.
- A personal accident insurance scheme under which, in the event of an accident causing the death of an employee,

entitles his or her legal dependents to a sum equal to 60 months' salary based on the last drawn salary.

- Staff members assigned to various branches of the Bank may be entitled to certain benefits designed to offset the difficulties and hardships arising from employment at a particular branch. Depending on staff requests and the recommendation of the Regional Manager under whose purview the branch in question operates, an employee may receive benefits such as the provision of staff accommodation free of charge, transport, a difficult-station allowance or a house rent allowance.
- The reimbursement of selected professional-association subscriptions

and the honoraria paid to employees provide further examples of the Bank's commitment to its employees' welfare.

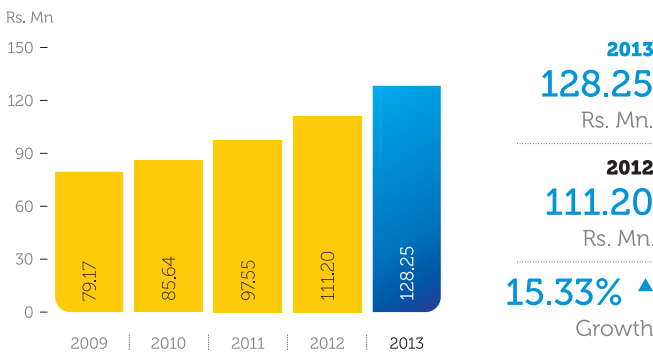
- The Bank also encourages all its branches/ departments in organising their annual get-together/ excursion by providing an annual allowance for each of its employee.

Although the employees outsourced by the Bank are not entitled for all of the above benefits, the Bank has mechanisms in place to ensure that they are paid at least the minimum wages under the applicable statutes and that all mandatory contributions to defined contribution plans such as Employees' Provident Fund and Employees' Trust Fund are made in addition to gratuity payable under the Payment of Gratuities Act.

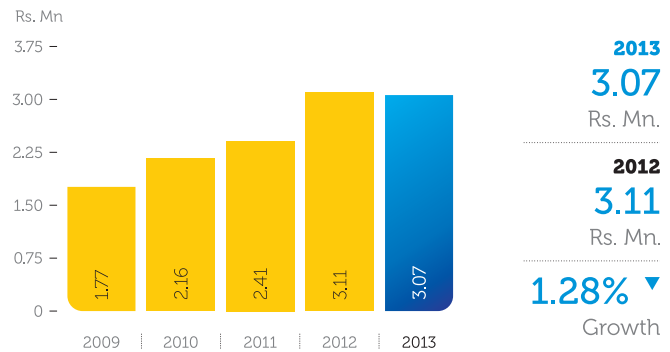
Proportion of Senior Management Hired from the Local Community

All recruits to corporate management and senior management are drawn from citizens of the respective country, Sri Lanka and Bangladesh, except in the case of the Bank's Bangladesh operation, where two out of the nine members of the corporate management are seconded from Sri Lanka. Accordingly, in Sri Lanka 100% of the corporate and senior management is drawn from citizens of Sri Lanka, whereas in Bangladesh the corporate management is comprised of 78% of citizens of Bangladesh and 22% are from Sri Lanka, while 100% of the senior management of Bangladesh is comprised of citizens of Bangladesh.

Average Assets Per Employee



Average Profit Per Employee (Before Tax)



Business Model and Strategic Imperatives for Value Creation

Training and Education

In 2013, Commercial Bank spent a total of Rs. 54.9 Mn. on training and education, compared to Rs. 47.45 Mn. in 2012. A total of 484 programmes (455 in 2012) involving 153,928 person-hours of training (103,956 in 2012) were executed during the year.

Please refer the table below for the average hours of training per year per employee by gender, and by employee category.

Topics covered by the Bank's internal training programmes included both technical skills and soft skills. These were supplemented by several external programmes, including some offered in overseas locations.



Average hours of training per year per employee by employee category and gender in Sri Lanka

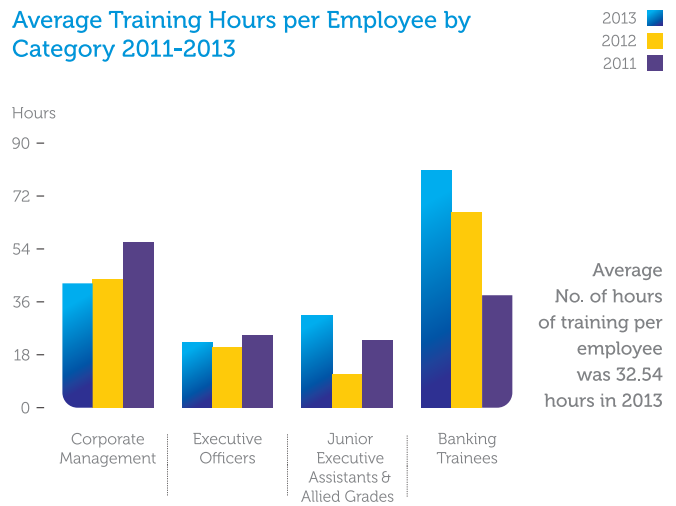
Employee Category and Type of Programme	2013				2012				2011			
	Training Hours			Per Employee	Training Hours			Per Employee	Training Hours			Per Employee
	Male	Female	Total		Male	Female	Total		Male	Female	Total	
Corporate management	1,312	78	1,390	42.12	1,454	38	1,491	43.85	1,953	126	2,079	56.19
Technical	782	66	848	25.2	825.5	38	863	25.38	1,214	88	1,302	35.19
Soft skills	234	12	246	7.45	156	0	156	4.59	219	38	257	6.95
Overseas	296	–	296	8.97	472	0	472	13.88	520	0	520	14.05
Executive officers	32,275	9,037	41,311	21.99	29,489	8,527	38,016	20.58	33,953	10,264	44,217	24.58
Technical	24,887	6,641	31,527	16.78	25,891	6,793	32,684	17.70	25,665	7,373	33,038	18.36
Soft skills	6,716	2,204	8,920	4.75	2,654	1,454	4,108	2.22	6,792	2,451	9,243	5.14
Overseas	672	192	864	0.46	944	280	1,224	0.66	1,496	440	1,936	1.08
Junior executive assistants and allied grades	59,588	9,846	69,074	31.45	19,423	3,014	22,437	11.33	35,427	8,511	43,938	23.02
Technical	55,388	8,418	63,806	29.06	18,295	2,596	20,891	10.55	34,649	8,252	42,901	22.47
Soft skills	4,072	1,068	5,140	2.34	1,128	418	1,546	0.78	690	259	949	0.50
Overseas	128	–	128	0.06	0	0	0	–	88	0	88	0.05
Banking trainees	30,169	11,984	42,153	80.75	29,360	12,652	42,012	66.69	20,244	4,810	25,054	38.13
Technical	28,381	11,392	39,773	76.19	28,104	12,336	40,440	64.19	20,116	4,806	24,922	37.93
Soft skills	1,788	592	2,380	4.56	1,256	316	1,572	2.50	128	4	132	0.20
Total	123,344	30,584	153,928	32.54	79,726	24,231	103,956	22.59	91,577	23,711	115,288	25.48



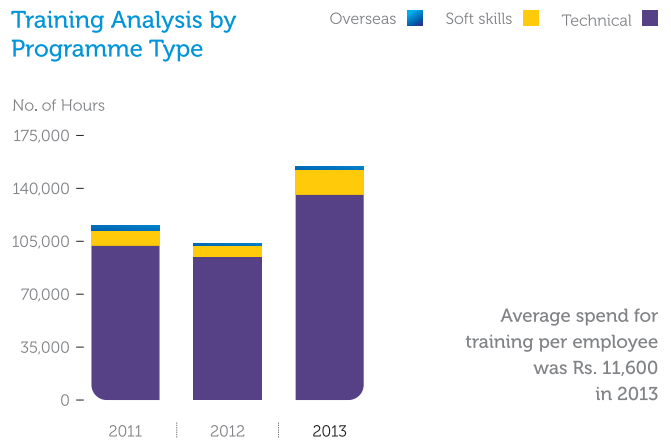
484

employee training programmes involving 153,928 person hours were conducted during the year. The Bank incurred a sum of Rs. 54.9 Mn. on training and development.

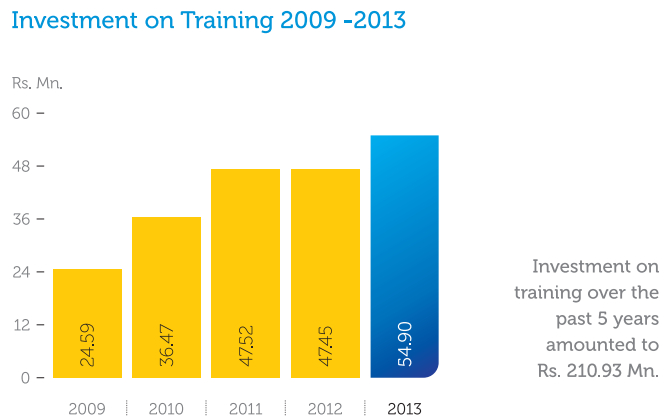
Average Training Hours per Employee by Category 2011-2013



Training Analysis by Programme Type



Investment on Training 2009 -2013



Business Model and Strategic Imperatives for Value Creation

Security Personnel Trained in Procedures on Human Rights

We did not carry out formal training programmes on Bank's human rights policies and procedures for any of the security personnel in Sri Lanka or Bangladesh. However, all security officers, have been adequately briefed on the Bank's policies and procedures with regard to human rights.

Name of the Programme	2013			2012		
	No. of Programmes	No. of Participants	Man Hours	No. of Programmes	No. of Participants	Man Hours
Special training programme for newly-recruited security officers	Nil	Nil	Nil	2	318	2,544
Special training programme for contracted security officers	Nil	Nil	Nil	3	467	3,736
Special training programme for senior security officers	Nil	Nil	Nil	1	169	1,352
Total	Nil	Nil	Nil	6	954	7,632

Performance and Career Development Reviews

All the Commercial Bank employees receive regular performance and career development reviews. Our 2013 performance in this area can be summarised as follows:

Employee category	Male %	Female %
Corporate Management	100	100
Executive Officers	100	100
Junior Executive Assistants & Allied Grades	100	100
Banking Trainees	100	100
Office Assistants and Others	100	100

Minimum Notice Period Regarding Operational Changes

Type of Change	Minimum Notice
Collective Bargaining	36 weeks
Transfers	2 weeks
Retirements	3-4 weeks
Terminations	immediate
Voluntarily Resignations Scheme	As specified in the scheme

Employee Representation on Health and Safety Committees

Although, there are no special Health and Safety Committees appointed at the Bank, the responsibility for this subject is vested with the Human Resource Department. In order to effectively address concerns related to health and safety of the employees, the HR Department often works together with the employee associations and make proposals to the top management on changes, initiatives and measures that should be adopted by the Bank to create a safe working environment for its employees.

Special work arrangements and transport facilities to distant branches are some processes implemented by the Bank considering the safety of its employees.

The Bank's Security Department conducts periodic fire drills at the Bank's Head Office and the Union Place Building in order to impart awareness and to ensure that all staff

Business Model and Strategic Imperatives for Value Creation

could respond appropriately in emergency situations. Subsequent to fire drills, an email communication is sent to all staff highlighting the feedback obtained, lapses observed and recommendations for remedying the lapses. Further, all staff of the Bank have access to the Intranet site of the Security Department which has clearly spelt out the procedure to be followed in case of an emergency. In addition, the Security Department has identified a dedicated team representing each business/ service unit of the Bank to supplement their work and provide them with a comprehensive training on prescribed and desired response to incidences of fire, burglary, earthquakes and other similar situations of threat.

Health and Safety Topics Covered in Formal Agreements with Trade Unions

The Collective Agreement also covers health and safety topics. Under one of the key provisions on this subject, employees who are 40 years or above in age are entitled to claim the expenses that they incur on account of full medical check-ups without being admitted to a hospital, subject to a maximum threshold. This is a special benefit available to employees over and above their entitlement under the Medical Scheme of the Bank.

Return to Work and Retention Rate after Maternity Leave

Country and Description	2013	2012	2011	2010
Sri Lanka				
No. of employees entitled for maternity leave	1,147	1,088	1,023	993
No. of employees who took maternity leave	58	58	64	63
No. of employees who returned to work after maternity leave	56	60	70	63
No. of employees who are still employed for the last 12 months after the return from maternity leave	60	70	62	40
Return to work rate (%)	98	100	100	98
Retention rate (%)	100	100	100	98
Bangladesh				
No. of employees entitled for maternity leave	33	30	30	24
No. of employees who took maternity leave	5	4	3	2
No. of employees who returned to work after maternity leave	5	4	3	2
No. of employees who are still employed for the last 12 months after the return from maternity leave	4	3	2	2
Return to work rate (%)	100	100	100	100
Retention rate (%)	100	100	100	100

Labour Practices and Grievance Mechanisms

There were ten grievances about labour practices referred to the Human Resource Department and of the identified grievances nine grievances were assessed during 2013 and all nine grievances were resolved.

Non-Discrimination

Our 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 no room is left for any incidents of discrimination to take place. Last year we

did not come across any incident involving any sort of discrimination.

Freedom of Association and Collective Bargaining

As already reported, all employees of the Bank have membership either in CBEU or ACBE and have the right to collective bargaining through their employee associations. Although there is no employee association in Bangladesh or at suppliers who provide outsourced staff they are encouraged to discuss incidents of discrimination with the Bank's Human Resource Departments.

Child Labour, Forced or Compulsory Labour

Commercial Bank recruits only those applicants who are above the age of 18 and does not encourage any sort of forced or compulsory labour. In addition, our Human Resource Department ensures that all business partners who provide outsourced employees to the Bank also comply with the above requirement. It is our intent to further strengthen monitoring by arranging to obtain written declarations on an annual basis effective 2014.

Assessment

The Bank does not normally carry out human rights reviews. However, the various mechanisms in place within the Bank such as whistle blowing, open door policies, freedom of joining an employee association of their choice and employee satisfaction surveys, etc. provide a vehicle for bringing any violation on any human rights practices to the notice of the Bank's Human Resources Department. During the year, we did not encounter any such complaints.

Human Rights Grievance Mechanisms

There were no grievances reported about violation of human rights to the Bank's Human Resource Department during the year 2013.

Business Model and Strategic Imperatives for Value Creation

Strategic Imperative

09

Adding Value to Investors

Strategies to Achieve this Imperative

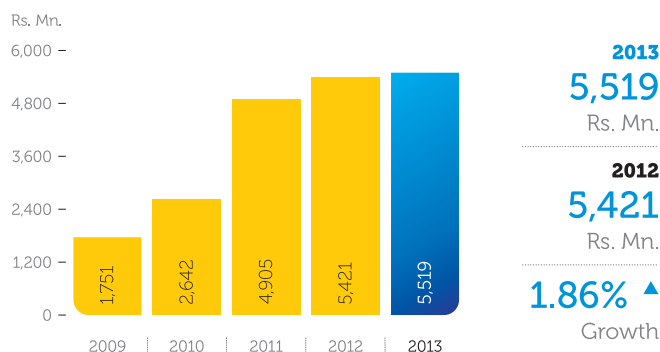
- Strategic decisions to focus more on medium to long term value creation.
- Explore opportunities for non-organic growth while focusing on organic growth.
- Reward those who create value to the Bank.
- Periodically update the shareholders of the progress via timely and transparent dissemination of information.
- Adopting a win win dividend policy.

Dividends

The Bank's dividend policy is designed to address multiple objectives. The main considerations were to maximise the shareholder wealth, market capitalisation, ploughing back of additional profits for business expansion and consistent stream of dividend to shareholders both in cash and in the form of shares.

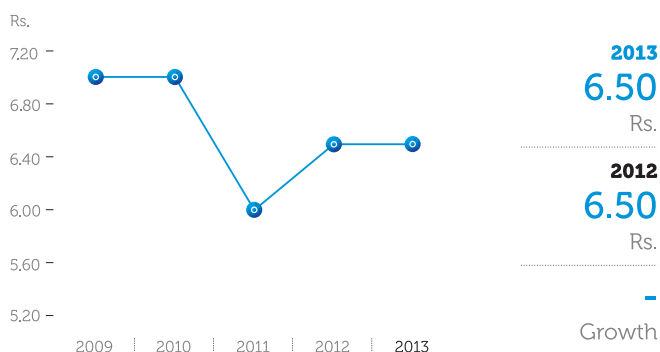
The Bank paid two interim dividends totalling to Rs. 2.50 per share to ordinary shareholders during 2013 and 2014. The Board of Directors of the Bank also recommended Rs. 4.00 per share as final dividend for 2013, Rs. 2.00 to be paid in the form of cash and the balance Rs. 2.00 to be satisfied in the form of issue and allotment of shares, similar to the payment made in 2012. Total dividend payment (paid and proposed) for the year amounts to Rs. 5,519.2 Mn. (Rs. 5,421.4 Mn. in 2012) of which Rs. 3,820.9 Mn. paid/to be paid in cash (Rs. 3,752.6 Mn. in 2012) and the balance Rs. 1,698.3 Mn. to be satisfied in the form of issue and allotment of shares (Rs. 1,668.8 Mn. in 2012). Dividend payments in the form of issuing of new shares, would strengthen the capital base of the Bank.

Gross Dividend Paid



The total dividend payout ratio of the Bank amounted to 52.84% (53.69% in 2012) out of which 36.58% is the cash dividend payout ratio (37.16% in 2012)

Dividend per Share



Dividends	Rs. Per Share		Rs. Mn.	
	2013	2012	2013	2012
Interim dividend - cash	2.50	2.50	2,122.6	2,083.8
Final dividend - cash	2.00	2.00	1,698.3	1,668.8
- in the form of issue and allotment of shares	2.00	2.00	1,698.3	1,668.8
Total	6.50	6.50	5,519.2	5,421.4

Market Capitalisation

Commercial Bank reports the best market capitalisation among all listed banking and financial institutions operating in the country today. It ranks number four among all listed companies in the Colombo Stock Exchange (CSE). The market capitalisation of the Bank's shares increased to Rs. 95.6 Bn. as at December 31, 2013 compared to Rs. 80.3 Bn. as at end 2012.

As at December 31	2013	2012
Market capitalisation (Rs. Bn.)	95.60	80.30
Market price per share - Voting (Rs.)	120.40	103.00
- Non-voting (Rs.)	93.00	91.10
Price earnings ratio (Times)	9.79	8.50

Economic Value Added (EVA)

EVA is a measure of profitability based on the cost of total invested equity and provides an indication of true economic value created to the shareholders by an organisation as opposed to accounting profits. 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.

The EVA created during 2013 amounted to Rs. 5.956 Bn., while cumulative EVA created over the past five years amounted to Rs. 19,762 Bn.

Economic Value Added



For the Year Ended December 31,

Invested equity

	2013 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.	2010 Rs. Mn.	2009 Rs. Mn.
Shareholders' funds	60,944	52,577	43,766	33,302	28,499
Add: cumulative loan loss provision/provision for impairment	15,787	13,501	11,601	4,900	5,015
Total	76,731	66,078	55,367	38,202	33,514
Earnings					
Profit after tax and dividends on preference shares	10,446	10,098	7,883	5,523	4,305
Add: loan losses and provisions/impairment provision	4,627	3,197	1,808	1,192	1,534
Less: loan losses written-off	(99)	(5)	(24)	(6)	(23)
Total	14,974	13,290	9,667	6,709	5,815
Cost of equity (based on 12 months weighted average treasury bill rate plus 2% for the risk premium)	12.63%	13.97%	9.53%	10.49%	15.45%
Cost of average equity	9,018	8,483	4,459	3,761	4,972
Economic value added	5,956	4,807	5,208	2,948	843

As we enter 2014,
the banking landscape of
Sri Lanka is poised to
change significantly -
and **Commercial Bank is
ideally positioned
to evolve** with it,
pursuing even higher
levels of success.

The Future

The Global Economy

Global activity strengthened during the second half of 2013 and is expected to improve further in 2014-15, largely on account of recovery in the advanced economies. Growth in the United States is expected to pick-up in 2014 and will be carried by final domestic demand, supported in part by a reduction in the fiscal drag as a result of the recent budget agreement.

The Euro area is turning the corner from recession to recovery. High debt, both public and private, and financial fragmentation will hold back domestic demand, while exports should further contribute to growth. In many emerging markets and developing economies, stronger external demand from advanced economies will lift growth, although domestic weaknesses remain a concern.

Source: IMF

The Sri Lankan Economy

In Sri Lanka, GDP growth in 2014 will be led by strong performance in tourism, services, and public and private construction. Indeed, a growing tourism boom should cause spin-off benefits in both construction and services as the hospitality sector expands to welcome more visitors from abroad. At

the same time, we expect that wholesale and retail trade will be boosted from rising consumption rates, which will be buoyed by a more accommodating national monetary policy and the increased flow of remittances from Sri Lankans working overseas. Lastly, improved growth prospects in the US economy are likely to have a positive impact on Sri Lanka's manufacturing sector through the coming year and beyond.

We also foresee an expansion of private-sector credit, following a reduction in policy rates and in the statutory reserve ratio, which will help to drive growth in 2014 and 2015.

The Banking Industry

According to Fitch Ratings, the 2014 outlook for most Sri Lankan banks remains stable. The agency forecasts that Sri Lanka's real GDP growth will continue to be high, providing banks with opportunities for further market penetration while boosting their individual performance and profiles.

Fitch also expects the pace of credit expansion to accelerate, albeit moderately.

According to the Central Bank, in order to sustain the current positive economic outlook and ensure stability in the financial system, Sri Lanka's banking sector must develop a new vision for the future. By 2016, the Central Bank expects at least five Sri Lankan banks to have an asset base of over Rs. 1 Tn. each, along with strengthened presence in all regions of the country.

Sri Lanka's State-owned banks are expected to make significant contributions to building a strong and dynamic financial services sector. At the same time, foreign-owned banks will be invited to play a stronger role in the national economy. Those banks that currently have assets of less than 100 Bn. Rupees will be expected to grow beyond this threshold through organic development, as well as through consolidations or mergers with other banks or non-banking financial institutions. Further, it is also expected to form a large development bank by merging two banks currently operating independently specialised in development banking.

In the near future, the regulatory framework for risk management and monitoring mechanisms will be further strengthened by the following measures:

- Migrate to the advanced methodologies set out by the Basel II Capital Adequacy Framework requirements, implementing the Standardised approach for calculating capital charge for operational risk under Pillar 1.
- Adopt the Basel III Capital Standards in order to achieve:
 - an increase in the quality and quantity of bank capital.
 - introduction of a capital conservation buffer, during periods of comparative prosperity, that can be used to absorb shocks in times of economic stress.
 - activation of a counter-cyclical buffer to prevent excessive credit growth.
- Implement a stress-testing framework.
- Introduce a new liquidity risk management framework through the introduction of the Basel III Liquidity Coverage Ratio.
- Introduce a regulatory framework for property valuation of licensed banks.
- Introduce prudent measures to regulate the exposure of the banking system to assess markets and other potential economic shocks and concentrations.

2014 Budget Proposals Relating to the Banking Sector

Nation Building Tax (NBT)

Banking and financial services, which were previously exempt from NBT, are now subject to this business tax on profits attributable to financial VAT. This proposal was introduced with the cessation of the transfers to the Investment Fund Account (IFA).

Tax Concessions

Qualifying payment relief will be granted, for a period of three years, on the costs incurred by any bank in acquiring another financial institution through a merger or acquisition.

Any bank, finance company, insurance and manufacturing activities liable to tax at 28% will be given a half tax holiday of 3 years provided such company is listed its shares on the CSE by April 2014.

The Strategic Direction of the Bank

From our founding in 1969 through early 1990, Commercial Bank was a preferred bank for trade finance, thanks largely to the business heritage of our predecessor institutions. Since then we have grown to become a truly national bank - one that many consider the benchmark for Sri Lanka's private banking industry.

Today, our bank is firmly established in all areas of commercial banking and other related services.

Having ventured offshore with our acquisition of Credit Agricole Indosuez operation in Bangladesh, we are now the only Sri Lankan bank with a fully-fledged branch network in a foreign country.

Our journey to the top of Sri Lanka's banking industry was guided by a well-formulated strategy and disciplined planning. We recently tabled Commercial Bank's 30th Corporate Plan and Budget, covering the five-year period from 2014 through 2018. The plan includes profit and service-centre targets for the coming year and outlines a time frame and specific strategies designed to expand market share. Each of the Bank's principal divisions - Personal Banking, Corporate Banking, Treasury and International Operations - as well as our key support service areas, all carry out comprehensive SWOT analyses prior to formulating their own strategies (some of which are detailed earlier in this Report). At the same time, because banking depends on the public trust, Commercial Bank's business strategy is complemented by a wide-ranging marketing and communications strategy designed to further build our corporate brand image.

In line with the vision set out by the Central Bank, the Sri Lankan banking sector is undergoing major structural changes. The ultimate goal is to ensure that the country's banks and non-banking financial institutions are well-positioned to cater to US \$ 100 Mn. economy while effectively managing risk. As we enter 2014, the banking landscape of Sri Lanka is poised to change significantly - and Commercial Bank is ideally positioned to evolve with it, pursuing even higher levels of success.

Strategic Snapshot

Initiatives undertaken by the Bank during the year against the identified strategic imperatives along with the planned activities for the future, are listed below:

Strategic Imperatives	Achievements during the Year	Future Actions
Prudent Growth	<ul style="list-style-type: none"> • Deposits grew by 15.50% and advances grew by 10.31% • Branch network expanded by 8 branches in Sri Lanka, 01 branch in Bangladesh • Expanded the ATM network by 30 in Sri Lanka and 02 in Bangladesh including the first ever Foreign Exchange ATM • Opened a twenty-four-hour automated banking centre • Expanded our online banking system to reach 100,000 • Growth in Debit Card portfolio by 400,000 • New products introduced during the year - Speed Home Loans, 'Achiever' current account, hire purchase facilities, agriculture loans for professionals, Two new electronic cards namely 'Udara' and 'Achievers' • Launch of iOS application to facilitate iphones and ipads • Many Awards and Accolades of recognition 	<ul style="list-style-type: none"> • Expand the delivery channels of the Bank by 12 in the ensuing year. • Five more twenty-four-hour automated banking centres • Improving the investment banking and custodian services arm of the Bank • Introduce a mobile application for Android users with functionality similar to the iOS version • Launch an enhanced online banking platform for corporate customers • Sustaining market leadership in interbank FX market • Expand our mobile banking system to reach 130,000
Cost Efficiency via Innovation	<ul style="list-style-type: none"> • Introduction of two new regional offices to reduce approval time of loans • Completion of the Loan Origination System (LOS), the centralised credit approval process • Automating and improving our cash-dispensing capabilities and relaunching cash deposit capabilities • Upgrade ComBank PayMaster processing to eliminate all paper-based applications • All leasing-related operations of the Bank brought under a new lease operations module to improve the operational efficiency of the leasing function • Implementation of Ambit Sierra Treasury, an end-to-end Treasury management solution provided by SunGard Inc. • Launching web-based board papers, salary slips, e-attendance, e-leave systems, e-internal returns etc. to reduce the consumption of paper for internal documentation. 	<ul style="list-style-type: none"> • Implement the security module on Bank's Loan Originating System (LOS) • Introduce new cost effective model for new branches • Automating the generation of internal security documents • Expand the Bank's KIOSKs network to automate fundamental functions relating to customers • Reduce customer turnaround time by centralising certain identified customer related functions of the Bank • Set up a specialised and centralised marketing and recoveries team to further improve operational efficiency • Automate recruitment process • Introduction of a biometric system to replace the manual attendance registers used at present • Debit card PIN mailers to be replaced with SMSs

Strategic Imperatives	Achievements during the Year	Future Actions
Exemplary Governance	<ul style="list-style-type: none"> • Refining the self assessment process of the Directors • Complied with all external regulatory requirements governed by the Corporate Governance directives and codes (CBSL, ICASL and SEC) • All Non-Executive Directors reached independent status by end 2013 • Reviewed the status of compliance of regulatory requirements throughout the year • A new Board - sub-Committee introduced during the year to further strengthen the governance structure 	<ul style="list-style-type: none"> • Continue to strengthen the corporate governance mechanism within the Bank • Further strengthen the monitoring mechanism of related party transactions
Managing Capital	<ul style="list-style-type: none"> • Managing the risk-weighted assets through prudent capital allocation • Declaring Rs. 2/- per share to be satisfied in the form of issue and allotment of new shares as part of the final dividend of 2012 • Raised US \$ 75 Mn. borrowing from International Finance Corporation which is eligible to be treated under Tier II capital of the Bank • Improved CAR of the Bank • Well-structured capital budgeting practices in the Bank 	<ul style="list-style-type: none"> • Managing/maintaining the capital levels consistent with the risk profile of the Bank • Maintain a sound Capital Adequacy Ratio to support future expansion plans of the Bank • Maintain the Bank's dividend policy in line with the overall goals of the Bank
Managing Risk	<ul style="list-style-type: none"> • Implemented the Internal Capital Adequacy Assessment Process (ICAAP) • Implemented Basel II compliance software solution • Implemented a robust stress testing framework • Obtained the ISO 27001:2013 standard certification, the premier global information security standard • Strengthened the Integrated Risk Management Department 	<ul style="list-style-type: none"> • Setting up a new I.T data centre with enhanced security measures in line with the international standards • Integrate ICAAP guidelines with the Bank's overall strategy • Data intensive MIS approach for risk based decision making • Moving into advanced approaches of Basel II

Strategic Imperatives	Achievements during the Year	Future Actions
Being Responsible to the Community	<ul style="list-style-type: none"> • Bank contributed Rs. 50 Mn. to the CSR Trust Fund to be in line with the policy • 52 IT labs were donated to under-privileged schools which benefited 34,400 students through CSR • 50 scholarships and laptops were granted to deserving university students • 92 projects completed by the CSR Trust Fund • Expanded/Improved the access points to low-populated or economically disadvantaged areas • A customer survey designed to identify level of satisfaction of the Bank's products and services, revealed improved customer satisfaction • Designed products to benefit society (lending models for micro-entrepreneurs and agriculturists) • Multilingual communication through media, point of sale materials to serve all ethnic groups • Internship programme to facilitate 188 advanced level students 	<ul style="list-style-type: none"> • Bank to continue its contribution up to 1% of its profit to the CSR Trust Fund • Donate 40 IT labs to underprivileged schools through the CSR Trust Fund • Continue to award scholarships to deserving university students
Minimising Environmental Footprint	<ul style="list-style-type: none"> • Screened the environmental impact through the Social and Environmental Management System (SEMS) when evaluating large lending propositions • Installation of ATMs with RoHS (Restriction of Hazardous Substances) standards • A formal process in place to dispose decommissioned ATMs through a body approved by the Central Environment Authority • Predetermined screening on environmental and social aspects on all suppliers prior to sourcing • Lending to renewable energy generation projects • The Bank funded a project for coral replanting, which was commenced in 2013 and is expected to be completed in 2015 • Effectively manage the energy consumption by adopting various energy saving methods. (e.g. usage of LED bulbs within the entire network, efficient usage of Air conditioners, etc.) 	<ul style="list-style-type: none"> • Continue to promote the paperless culture within the Bank • Undertake CSR projects to preserve environment • Continue the environmental screening process for large lending projects and selecting suppliers • Continue to dispose decommissioned ATMs in accordance to the standards set by the Central Environment Authority • Set up a primary data centre incorporating latest energy saving features. This project will save 300,000 kWh per annum of energy • Develop smart buildings which used space and natural lightening efficiently

Strategic Imperatives	Achievements during the Year	Future Actions
Human Resource Development	<ul style="list-style-type: none"> • Benchmark the salaries of the staff with a pool of banks through salary surveys conducted by an external organisation • Career development through annual performance appraisal system • Conducted programmes to enhance staff relations, productivity enhancement and talent management • An employee satisfaction survey was conducted during the year • Spent Rs. 54.9 Mn. on staff training and development • Selected as the No. 1 Employer of choice among all corporates in Sri Lanka by LMD 	<ul style="list-style-type: none"> • Develop an attractive Employer Brand Plan for new entrants of better quality • Identify skill gaps of potential employees for grooming them to take higher responsibilities • Further improve the existing grievance handling procedure • Aggressively promote staff suggestion scheme • Provide overseas training on a structured manner to enhance the knowledge and motivation of staff • Identify and select young, dynamic and qualified group of employees and provide them comprehensive training similar to that of Management Trainees
Adding Value to Investors	<ul style="list-style-type: none"> • Consistent stream of dividend • High dividend payout ratio • Close monitoring of the share transactions as well as the movement in share prices • Market capitalisation of the Bank improved by 19.05% • Maintained strict internal control mechanism in order to secure the confidentiality of information which will have direct impact on the share prices of the Bank • Return on Equity of 18.40% is above the industry average • Continue with the shareholder loyalty card 	<ul style="list-style-type: none"> • Maintain the Bank's dividend policy in line with the overall goals of the Bank • Continue to participate in investor promotions activities

Stewardship

SCAN to view
the HTML web version of Stewardship
<http://combank2013.annualreports.lk/ip/stewardship.html>



<u>Board of Directors</u>	<u>130</u>
<u>Corporate Management Team</u>	<u>134</u>
<u>Senior Management Team</u>	<u>138</u>
<u>Corporate Governance</u>	<u>142</u>
Board Human Resources and Remuneration <u>Committee Report</u>	<u>187</u>
Board Integrated Risk Management <u>Committee Report</u>	<u>189</u>
<u>Board Nomination Committee Report</u>	<u>191</u>
<u>Board Audit Committee Report</u>	<u>192</u>
<u>Board Credit Committee Report</u>	<u>195</u>
<u>Board Technology Committee Report</u>	<u>196</u>
<u>Board Investment Committee Report</u>	<u>197</u>
<u>Annual Report of the Board of Directors</u>	<u>198</u>
<u>Directors' Interest in Contracts with the Company</u>	<u>208</u>
<u>Managing Risk at Commercial Bank</u>	<u>210</u>
Investor Relations Supplement	241

Board of Directors



9

Mrs. R.R. Dunuwille

Company Secretary

7

S. Swarnajothi

Independent/
Non-Executive Director

8

J. Durairatnam

Executive Director/
Chief Operating Officer

6

M.P. Jayawardena

Independent/
Non-Executive Director

5

L. Hulugalle

Independent/
Non-Executive Director



2

K.G.D.D. Dheerasinghe
Deputy Chairman

3

W.M.R.S. Dias
Managing Director/
Chief Executive Officer

1

D.S. Weerakkody
Chairman

4

Prof. U.P. Liyanage
Independent/
Non-Executive Director

Board of Directors

1

D.S. Weerakkody

Chairman

Dinesh Weerakkody joined the Board of Commercial Bank of Ceylon PLC on July 29, 2005. Prior to his appointment as the Chairman on December 30, 2011, he was the Deputy Chairman of the Bank and the Chairman of the Board Audit Committee.

Dinesh is a former Chairman/CEO of the Employees' Trust Fund Board of Sri Lanka and was a Director of DFCC Bank PLC. He was also Advisor to the Prime Minister of Sri Lanka from 2002-2004. He has served in many Cabinet Sub-Committees and national level committees on Economic Affairs, International Affairs and Labour Management. During his Public Sector career, he engaged proactively and innovatively in economic, trade, labour and cultural matters in both bilateral and multilateral contexts.

From 2005-2009, he was a Council Member and during 2008-2009 he functioned as Chairman, Employer Relations, CIMA Sri Lanka Division.

He is a Graduate in Business Administration, an Associate of the Chartered Institute of Management Accountants, United Kingdom, a Fellow of the Certified Management Accountants of Sri Lanka, and Professional Member of the Singapore Human Resource Institute and has a MBA from the University of Leicester,

England. He has received extensive Leadership, HR and Management Training in the UK, USA, France, Japan, Singapore and India. Dinesh has been on the Sri Lankan Board of GlaxoSmithKline Sri Lanka since 2000 and is the Chairman of Cornucopia Lanka Ltd. and Director/Advisor of Cornucopia Bangalore, India. He presently serves and had served in many Government and Private Sector Boards. He is also a Vice-President of the International Chamber of Commerce Sri Lanka Chapter and a Vice-President of Sri Lanka Tennis Association.

Dinesh has published widely on HR, Leadership, Management, International Relations and Development issues. He has been involved in large scale research projects in the USA and has presented many papers at national and international level. He is a recipient of two national awards.

He holds 26,452 Voting Shares and 12,220 Non-Voting shares.

2

K.G.D.D. Dheerasinghe

Deputy Chairman

Dharma Dheerasinghe, an eminent Economist with a distinguished career of over 39 years in the banking industry was first appointed to the Board on December 20, 2011 and was appointed as the Deputy Chairman of the Bank on December 30, 2011. He is also the Chairman of Board Integrated Risk Management

Committee, Board Credit Committee and Board Investment Committee.

Previously he was the Senior Deputy Governor of the Central Bank of Sri Lanka and was also the Chairman of the Monetary Policy Committee, Sovereign Ratings Committee and Secretary to the Monetary Board. He was also the Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka at the International Monetary Fund.

He has been an independent Non-Executive Chairman of Bartleet Finance PLC, since January 2012.

Dheerasinghe has published widely on many aspects of economics including debt capital markets and financial globalisation and has over 30 referred articles in reputed journals and as book chapters in Sri Lanka and overseas. He has presented more than 50 papers at international seminars.

He has been a Visiting Lecturer and Moderator/Examiner in Universities of Colombo, Kelaniya, Sri Jayewardenepura and Moratuwa and several professional bodies in Sri Lanka. He has made a significant contribution to the development of the Government debt securities market by innovating and structuring key financial instruments and developing its institutional framework.

He is a graduate of the University of Colombo where he obtained B.Com and B.Phil (Econ.) with first class honours. He has obtained M.A.(Econ.) from the University of Leeds,

UK. He is an Honorary Fellow of the Institute of Bankers of Sri Lanka and holder of Honorary ACI Diploma.

He holds 20,334 Voting Shares.

3

W.M.R.S. Dias

Managing Director/Chief Executive Officer

Ravi Dias was first appointed to the Board on December 14, 2010. He was appointed as the Managing Director/CEO of the Bank on April 27, 2012. Prior to that, he functioned as the Chief Operating Officer of the Bank from February 2008 to March 2012.

He possesses substantial professional experience in Banking, out of which 18 years was as a member of Corporate Management. He holds a Degree in Law (LL.B.) and is a Fellow of the Chartered Institute of Bankers (UK). He is also a Hubert H. Humphrey Fellow.

He is a Council Member of the the Employers' Federation of Ceylon and is also a Committee Member of the Ceylon Chamber of Commerce and Chairs the Banking Finance & Capital Markets Steering Committee, a Sub-Committee of the Chamber.

He functions as the Managing Director of Commercial Development Company PLC, a Subsidiary of the Bank and also serves on the Boards of Lanka Clear (Pvt) Ltd., and Lanka Financial Services Bureau Ltd.

He holds 696,594 Voting Shares.

Board of Directors

4

Prof. U.P. Liyanage

Prof. Uditha Liyanage was first appointed to the Board on December 14, 2010. He is the Chairman of the Board Technology Committee.

He is a Fellow of the Chartered Institute of Marketing, UK and holds an MBA and a Ph.D. in Business Management from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. He is a Director of Chemanex PLC, Kuruwita Textile Mills PLC, Diesel & Motor Engineering PLC, Richard Pieris & Co. (Plastic Sector), Ceylon Cold Stores PLC and Talawakelle Tea Estate PLC. He is presently the Professor of Management of the PIM. He counts 18 years executive experience in 3 leading private sector organisations. He possesses 20 years of teaching/research experience in Marketing/Management at postgraduate level. He has published widely on branding and strategic marketing and addressed numerous local and international conferences.

5

L. Hulugalle

Lakshman Hulugalle was first appointed to the Board on March 30, 2011.

He is the Director General of the NGO and INGO Secretariat of the Ministry of Defence, Deputy Chairman of National Livestock

Development Board and Director of Waters Edge Hotel PLC. He is also the Advisor to the Provincial Council of Sabaragamuwa. He is a degree holder (Hotel Management) of the Sri Lanka Hotel School. He has followed a diploma course in Advertising, Sales and Marketing at the Sri Lanka Institute of Marketing.

He has also served as the Director General of Media Centre for National Security (2006-2013), Vice-Chairman of Ceylon Fisheries Corporation (2006-2010), Consultant to the Ministry of Youth Affairs, Sports and Rural Development (1995), Co-ordinating Secretary to Hon. Mahinda Rajapaksa, Minister of Labour and Vocational Training (1994), Co-ordinating Secretary of Hon. Gamini Dissanayake at the Ministry of Lands, Land Development and Ministry of Mahaweli Development (1978-1989) and Ministry of Plantations (1989-1990). He was the Former Chairman of Satnet (Pvt) Ltd., and Star TV Lanka (Pvt) Ltd. (2001-2005). He has also represented the Government of Sri Lanka in many international conferences and workshops.

6

M.P. Jayawardena

Preethi Jayawardena was first appointed to the Board on December 28, 2011.

He is a Fellow of The Institute of Chartered Accountants of Sri Lanka. He serves as the Group Consultant at Chemanex PLC and a Group

Director of CIC Holdings PLC. He is also the Chairman of The Finance Company PLC and serves on the Boards of many other public and private companies. Prior to joining Chemanex PLC, he served in Zambia Consolidated Copper Mines in Africa for over 13 years in various senior positions including Head of Treasury, managing a loan portfolio in excess of US\$ 2 Bn.

He is a Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka and the Vice-Chairman of the Sri Lanka Institute of Directors.

7

S. Swarnajothi

S. Swarnajothi was first appointed to the Board in August 20, 2012. He is the Chairman of the Board Audit Committee.

He is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Certified Management Accountants of Sri Lanka and also a member of the Institute of Certified Management Accountants of Australia. He holds a BSc Degree in Management from the University of Sri Jayewardenepura and a Msc in Project Management from the University of Moratuwa.

Swarnajothi held office as Auditor General of Sri Lanka from January 2008 to August 2010 and prior to that held many senior positions in the Public Sector as well as in the Private Sector. He currently

functions as the Project Director of the Public Sector Capacity Building Project which position he had held since September 2010.

He holds 8,332 Non-Voting Shares.

8

J. Durairatnam

Jegan Durairatnam was first appointed to the Board on April 28, 2012. Since April 2012 he functions as the Chief Operating Officer of the Bank. He possesses substantial professional experience in Banking, out of which 8 years as a member of Corporate Management. His Banking experience covers all aspects of International Trade, Off-shore Banking, Credit, Operations and Information Technology. He has served the Bank in several management positions, including Deputy General Manager, Assistant General Manager - International Division and Head of Imports. He holds a Bachelor's Degree from the University of Peradeniya.

He holds 344,336 Voting Shares.

9

Mrs. R.R. Dunuwille

Company Secretary

Mrs. Dunuwille, an Attorney-at-Law and a Chartered Secretary (UK) was appointed as the Company Secretary of Commercial Bank in 1998. She has received extensive training on secretarial and legal fields.

Corporate Management Team



6

Isuru Tillakawardana

Deputy General Manager -
Human Resource Management

12

Carmelita De Silva

Assistant General Manager -
Corporate Banking I

9

Hasrath Munasinghe

Deputy General Manager -
Marketing

11

Richard Rodrigo

Assistant General Manager -
Plan Implementation/Compliance Officer

8

Marion Abeywardena

Deputy General Manager -
Corporate Banking

10

Chandana Gunasekera

Assistant General Manager -
SME/Personal Banking I

Corporate Management Team



4

Nandika Buddhipala
Chief Financial Officer

2

Jegan Durairatnam
Chief Operating Officer

1

Ravi Dias
Managing Director/
Chief Executive Officer

3

Nimal Luxshman
Deputy General Manager -
Management Audit

5

Rohan Muttiah
Chief Information Officer

7

S. Renganathan
Deputy General Manager -
Personal Banking



23

Selva RajasooriyarAssistant General Manager -
Personal Banking III

24

Naveen SooriyarachchiAssistant General Manager -
Corporate & Investment Banking

14

Krishan GamageAssistant General Manager -
Information Technology/
CEO-ONEzero Co. Ltd.

17

Prins Perera

Head of Global Markets

16

Sandra WalgamaAssistant General Manager -
Personal Banking II

18

Palitha PereraAssistant General Manager -
Operations

Corporate Management Team



22

15

13

21

19

20

Shantha Balasuriya

Head of Global Treasury

Chinthaka Dharmasena

Assistant General Manager -
Services

Prasanna Indrajith

Assistant General Manager -
Finance

C.M. Abeysekera

Assistant General Manager - International
(Since retired)

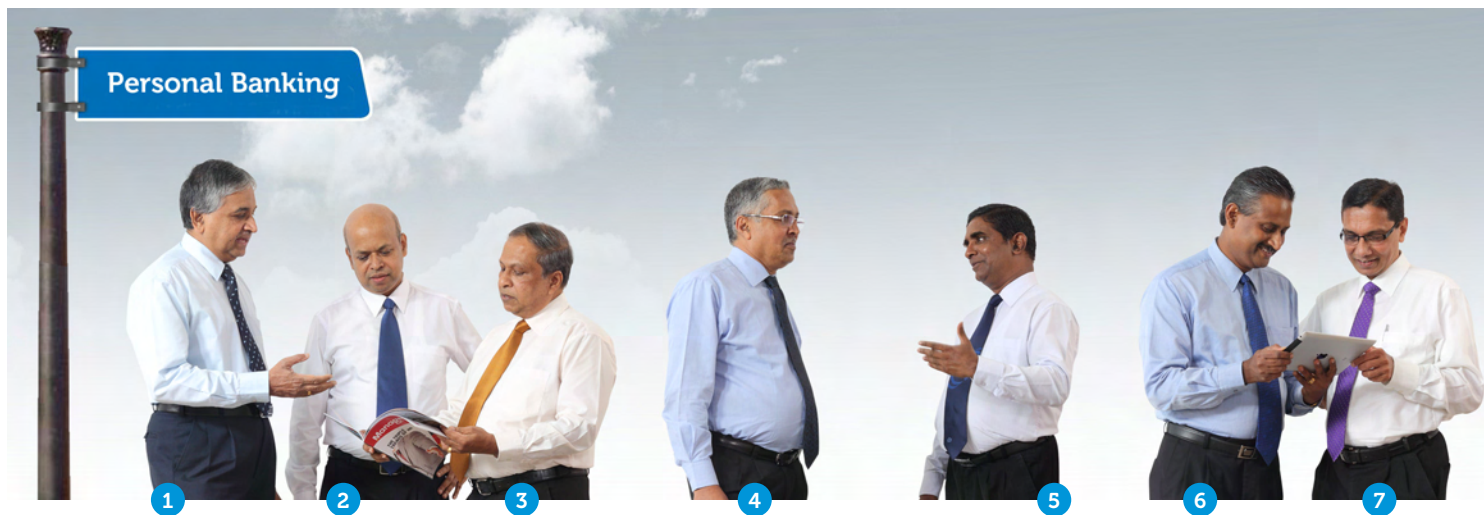
Felician Perera

Assistant General Manager -
Recoveries

Sanath Manatunge

Chief Risk Officer

Senior Management Team



1. Roshan Perera

Senior Regional Manager -
Colombo Metro

2. Leel Rodrigo

Senior Regional Manager -
Colombo South

3. Niran De Costa

Senior Regional Manager -
Colombo Inner

4. Ivan Fernando

Senior Regional Manager -
Greater Colombo

5. Priyantha De Silva

Head of Branch Credit Monitoring

6. Saman Kalansuriya

Head of Leasing, Factoring &
Personal Loans

7. Chanura Wijetillake

Senior Regional Manager -
Uva - Sabaragamuwa



14. Darshanie Perera

Regional Manager -
Colombo North

15. Pradeep Banduwansa

Chief Manager -
eBanking Division

16. Athula Samarasinghe

Regional Manager - Central

17. Udaya Dissanayake

Chief Manager -
Central SME Unit

1. Risijaya Srikantha

Head of Imports

2. B.A.H.S. Preena

Head of Corporate Banking

3. Eric Bastian

Chief Manager - Exports

Senior Management Team



8. Siva Sivakumar
Chief Manager -
Business Promotion Unit
(Since retired)

9. Thusitha Suraweera
Chief Manager - Card Centre

10. Delakshan Hettiarachchi
Regional Manager - Southern



11. Yasmin Weerasuriya
Regional Manager -
South Western

12. Sri Padmanathan Rajievan
Regional Manager - Northern

13. Mithila Shamini
Regional Manager -
Colombo Outer



4. Kelum Amarasinghe
Chief Manager - Travels & NFRC
Department

5. Sidath Pananwala
Chief Manager -
Corporate Banking

6. Anura Wickramarachchi
Chief Manager -
Foreign Operations



1. Asela Wijesiriwardane
Chief Dealer - Assets & Liabilities
Management

2. C.P. Fernando
Chief Manager -
Treasury Processing

Senior Management Team

**1. S. Kutubuddin Ahmed**

General Manager -
Risk, Compliance and Corporate
Affairs

2. Dilan Rajapakse

Chief Operating Officer -
Bangladesh

3. Ajith Naranpanawe

Country Manager - Bangladesh

4. D. Das Gupta

Senior General Manager

5. A.K. Nandy

Senior Deputy General Manager -
Chittagong

6. Binoy Gopal Roy

Deputy General Manager -
Finance and Accounts

7. Mahmood Rashid

Senior Assistant General
Manager - Internal Control and
Compliance

**6. Esala Silva**

Chief Manager - Central Clearing

7. Bindu Perera

Chief Manager - Premises &
Engineering

8. S. Shanmugarajah

Head of ICBS Unit

9. M.P. Dharmasiri

Chief Manager - Finance

10. John Premanath

Chief Manager - Inspection

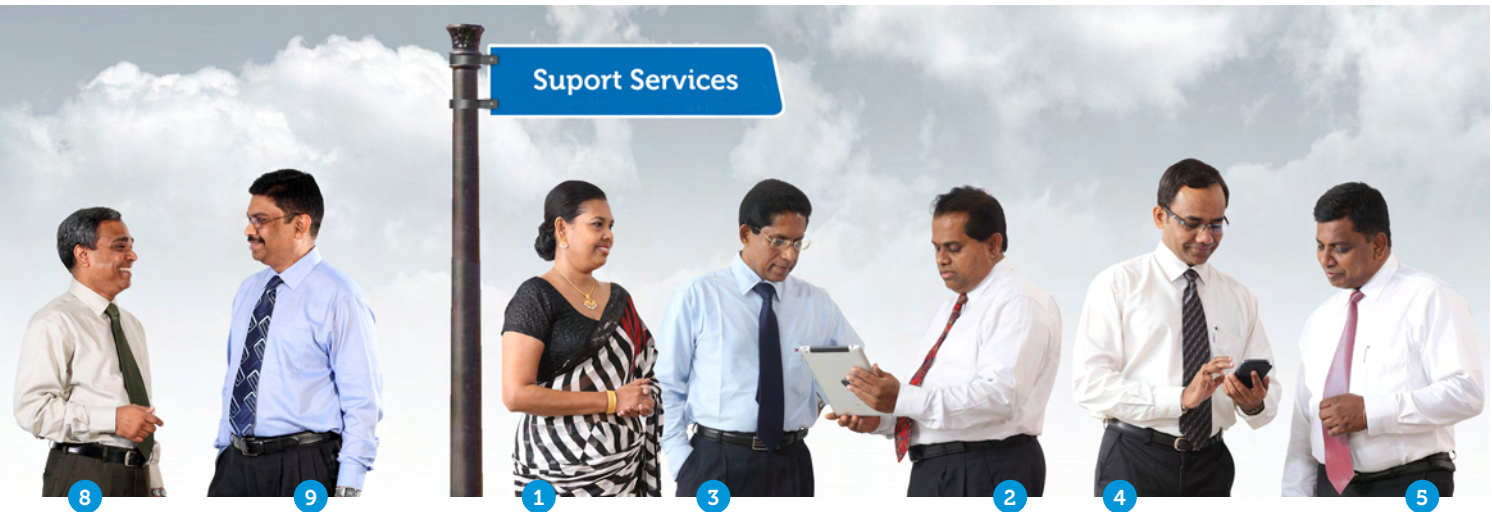
11. Priyanthi Perera

Chief Manager - Operations

12. Kapila Hettihamu

Chief Manager - Risk

Senior Management Team



8

8. Mostafa Anowar Sohel

Senior Assistant General
Manager - Human Resources

9

9. Reaz Wahid

Senior Assistant General
Manager - International Trade

1

1. Renuka Dunuwille

Company Secretary

3

2. S. Yoganandasivam

Head of Information
Technology - Research &
Development

2

3. Vajira Thotagammana

Head of IT Operations

4

4. S. Prabagar

Head of Management Audit

5

5. Amitha Munasinghe

Head of Information Systems
Audit & Business Continuity
Planning



13

**13. Thayalan
Gnanapragasam**

Chief Manager -
Central Administration

14

14. Sujeeva Ranasinghe

Chief Manager -
Human Resource Management

15

15. Udayakanth Fernando

Chief Manager -
Staff Development Centre

16

16. Namal Gamage

Chief Manager - Legal

17

17. Shanthikumar Fernando

Chief Manager - Research &
Development

18

18. Thilani Perera

Chief Manager - Tax & Finance

19

19. Sampath Weerasuriya

Chief Manager - Security

Corporate Governance

Governance Structure of the Commercial Bank is aimed at satisfying the legitimate claims of all stakeholders and to fulfil the Bank's economic, social and environmental responsibilities in an exemplary and transparent manner.

Chairman's Statement

Dear Stakeholder,

Let me begin by saying that your Bank was able to successfully meet the challenges in relation to all aspects of governance in 2013 as well.

As you are well aware, the Governance Structure of the Commercial Bank is aimed at satisfying the legitimate claims of all stakeholders and to fulfil the Bank's economic, social and environmental responsibilities in an exemplary and transparent manner. Your Board ensures that the right strategies and controls are in place in order to deliver value to shareholders, customers, employees and the community in achieving the above goal.

Good Corporate Governance is part and parcel of our culture and business practices. As a well-governed Bank we place strong emphasis on corporate governance; striving to align business practices with the best interests of all our

stakeholders, and also maximise transparency through timely information disclosure and financial reporting. The governance framework of the Bank provides for effective decision making.

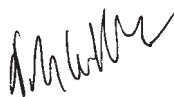
As the Chairman of the Bank, I wish to assure all our stakeholders that your Board of Directors is fully committed to raise the bar to realise the Bank's strategy through ethical behaviour and promoting good governance practices across all units of the Bank.

This Section of the Annual Report demonstrates the Corporate Governance framework in place at Commercial Bank and how it ensures adherence to the requirements of the Banking Act Direction No. 11 of 2007 and amendments thereto, on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka 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).

Whilst assuring you that we take every effort to continuously improve our Corporate Governance Philosophy, we hope that this brief message will be of value to you in assessing how the regulatory requirements and best practice are being put into action within your Bank. We welcome your valuable feedback to continue with our commitment to practice good governance at the highest levels at Commercial Bank.

Finally, I wish to confirm that to the best of my knowledge, I am not aware of any material violations of any of the provisions of the Codes and Directions referred to above.

Yours Sincerely,



D.S. Weerakkody
Chairman
Colombo
February 24, 2014.

Highlights in 2013

Re-elections to the Board at the Annual General Meeting held on March 28, 2013.

1. Mr. K.G.D.D. Dheerasinghe, appointed as the Deputy Chairman of the Bank effective from December 31, 2011, was re-elected to the Board as the Deputy Chairman upon his re-election as a Director.

Mr. Dheerasinghe is an Independent Non-Executive Director.

2. Prof. U.P. Liyanage, a member of the Board since 2010 was re-elected to the Board as a Director.

Prof. Liyanage is an Independent Non-Executive Director since March 31, 2013.

3. Mr. Jegatheesan Durairatnam, a member of the Board since April 2012 was re-elected to the Board as an Executive Director.

4. Mr. S. Swarnajothi, a member of the Board since August 2012 was re-elected to the Board as a Director.

Corporate Governance

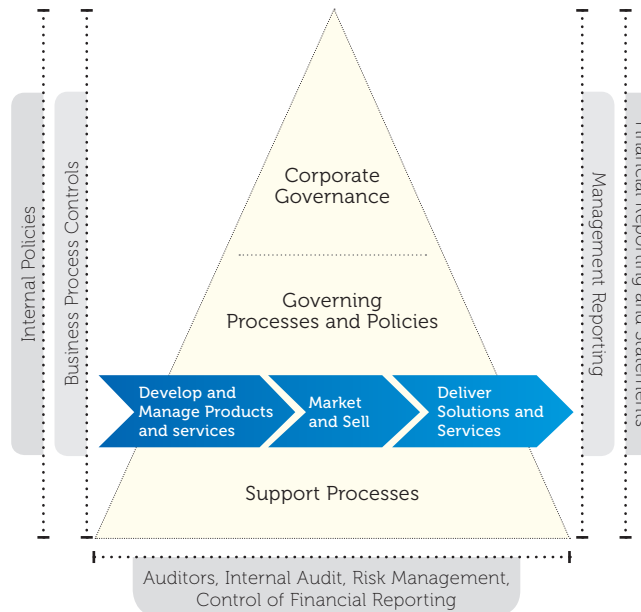
Exemplary Governance Model at Commercial Bank

"A company that is well governed is one that is accountable and transparent to its shareholders and other stakeholders, such as employees, creditors, customers and society at large" ACCA

We at Commercial Bank believe in building an exemplary Corporate Governance Model which will enable the Bank to create value (through entrepreneurialism, innovation, development and exploration) and provide accountability and control systems, commensurate with the risks involved. Corporate Governance is a key element in improving organisational performance and sustainability as well as enhancing stakeholder confidence.

The diagram above portrays the key elements which support the Banks Governance Model together with the business strategy and direction through continuous engagement and communication with its owners, Board of Directors, Board Sub-Committees and Management which has strengthened the four governance pillars of the Bank.

This mechanism assures that the Bank sustains its potential to deliver its promised value to the stakeholders.



Although mainstream governance principles have traditionally focused on legal and risk issues, finances, management structures, individual competencies, leadership and independence, we at the Bank also look into governance issues related to sustainability which

operate beyond mere legal requirements and focus on process innovations that engage key knowledge-brokers through 'softer' forms of governance that take account of values and principles. Sustainability is gradually reshaping the way organisations approach Corporate Governance.

Steps Taken in 2013 to Uphold a Strong Governance Model at the Bank

- Re-election of a Non-Executive Deputy Chairperson, two Non-Executive Directors, Independent and Non-Independent in addition to the re-election of an Executive Director
- Refining the self-assessment process of the Directors
- Arrangements were made to ensure that all Non-Executive Directors were Independent by the end of 2013.
- A new Board Sub-Committee for Investment Governance was formed to strengthen the governance procedures in place at the Bank.

Statement of Compliance

The Bank is fully compliant with the requirements of the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for the Licensed Commercial Banks in Sri Lanka and subsequent amendments thereto issued by the Central Bank of Sri Lanka. See the tables on pages 150 to 170 for the rules on 'Corporate Governance Principles' and the response of the Bank on its degree of compliance to the said rules.

Since the Bank is in compliance with the requirements of the aforesaid Direction of the Central Bank of 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 issued in 2010.

In addition, tables appearing on pages 171 to 185 demonstrate your Bank's adherence to 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 (SEC) of Sri Lanka.

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

Summary of Compliance

The table below depicts the requirements of the Direction No. 11 of 2007 and amendments thereto of the Central Bank of Sri Lanka and the Governance Code issued jointly by the ICASL and the SEC of Sri Lanka.

Summary of Requirements as per the Direction of the Central Bank of Sri Lanka	Code Ref.	Page/s
Responsibilities of the Board	3 (1)	150 - 154
The Board's Composition	3 (2)	155 - 156
Criteria to Assess the Fitness and Propriety of Directors	3 (3)	157
Management functions delegated by the Board	3 (4)	157
Chairman and Chief Executive Officer	3 (5)	157 - 159
Board Appointed Committees	3 (6)	159 - 165
Related Party Transactions	3 (7)	165 - 167
Disclosures	3 (8)	168 - 170
Transitional and Other General Provisions	3 (9)	170

Summary of Requirements as per the Joint Code of the ICASL and the SEC	Code Ref.	Page/s
Chairman and Chief Executive Officer	A.2.1	172
Board Balance	A.5.1	173
Nomination Committee	A.7.1	175
Appointment of New Directors	A.7.3	175
Appraisal of Board Performance	A.9.3	176
Board-related Disclosures	A.10.1	176
Members of Remuneration Committee	B.1.3	177
Disclosure of Remuneration	B.3 & B.3.1	178
Communication with Shareholders	C.2.2 - C.2.7	179 - 180
Major Transactions	C.3 & C.3.1	180
Directors' Report	D.1.2	180
Financial Statements	D.1.3	181
Statement on Internal Control	D.1.3 & D.2.3	181
Management Report	D.1.4	181
Going Concern	D.1.5	181
Related Party Transactions	D.1.7	181
Audit Committee Report	D.3.3	182
Audit Committee	D.3.4	182
Code of Business Conduct and Ethics	D.4.1 & D.4.2	182
Corporate Governance Report	D.5.1	183
Sustainability Reporting	G.1 - G.1.7	184

This is not an exhaustive list and is provided purely for the convenience of the readers of this Report in assessing the Bank's level of adherence to the aforesaid Code and the Direction.

Major External Steering Instruments on Governance

- 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 in Sri Lanka' and amendments thereto
- 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 (a voluntary Code)
- Listing Rules of the Colombo Stock Exchange

Major Internal Steering Instruments on Governance

- Articles of Association of the Bank
- Board of Directors' working procedure
- Board approved policies on all major operational aspects
- 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
- Bank's whistle-blowers charter

The Bank has in place a number of mandatory and voluntary Board Sub-Committees to fulfill regulatory requirements and for better governance of its activities. These committees meet regularly to consider and discuss matters falling within respective Charters and their recommendations are duly communicated to the main Board. These committees consist of Executive and Non-Executive Directors in varying proportions, as set out in the next page.

Reference Web Links for Further Information

- Banking Act: http://www.cbsl.gov.lk/pics_n_docs/09_lr/_docs/acts/BankingAct30_1988.pdf
- Banking Act Direction No. 11 of 2007: http://www.cbsl.gov.lk/pics_n_docs/09_lr/_docs/directions/bsd/BSD_2011/bsd_directions_oct2011_LCB.pdf
- Listing Rules of the Colombo Stock Exchange: http://www.cse.lk/listing_rules.do
- Companies Act: [http://www.drc.gov.lk/App/ComReg.nsf/200392d5acd b66c246256b76001be7d8/\\$FILE/Act%207%20of%202007%20\(English\).pdf](http://www.drc.gov.lk/App/ComReg.nsf/200392d5acd b66c246256b76001be7d8/$FILE/Act%207%20of%202007%20(English).pdf)

Corporate Governance

Composition of Main Board and Board Committees as at end 2013

Name of Committee	Executive Members	Non-Executive Members	Independent Members	Non-Independent Members	Gender		Age Group	
					Male	Female	Below 30-50 Years	Over 50 Years
					Main Board	02	06	06
Board Human Resources and Remuneration Committee	01*	03	03	01	04	Nil	04	
Board Integrated Risk Management Committee	02	05	05	02	07	Nil	07	
Board Nomination Committee	01*	03	03	01	04	Nil	04	
Board Audit Committee	02*	04	04	02	06	Nil	06	
Board Credit Committee	01*	02	02	01	03	Nil	03	
Board Technology Committee	02	01	01	02	03	Nil	03	
Board Investment Committee	02	01	01	02	03	Nil	03	

* Attends by invitation

Information on composition, charter/mandate and methodologies of all Board Sub-Committees are given on pages 187 to 197.

Ownership Structure

As per the share register at year-end 2013, the Bank had a total of 9,091 voting shareholders (9,509 voting shareholders as at end 2012) DFCC Bank PLC continued to be the largest shareholder, with a stake of 14.85% of the Ordinary Voting Shares of the Bank (14.87% in 2012). The top 20 voting shareholders of the Bank accounted for 68.83% of the total shareholding of the Bank (67.43% in 2012). These statistics amply demonstrates the strong confidence these shareholders have placed in the Bank. Details of the ownership structure is found on Item 4 of the Section on 'Investor Relations Supplement' on pages 248 and 249 including the names of the Twenty Largest Shareholders of the Bank as at end 2013.

All voting shareholders have the right to exercise their votes to impact decisions at the Annual General Meeting of the Bank and the Extraordinary General Meeting called upon as needed.

The information on ownership structure is published in the Interim Financial Statements of the Bank and it is also available on the Bank's website, <http://www.combank.net/newweb/interimfinancials>

Annual General Meeting 2013

The Bank's 44th Annual General Meeting (AGM) was held on March 28, 2013. At the AGM 345 (357 in 2012) voting shareholders and 130 (149 in 2012) non-voting shareholders were present by person or by proxy.

The following Resolutions were passed at the last AGM:

- Approval of Annual Report of the Board of Directors on the affairs of the

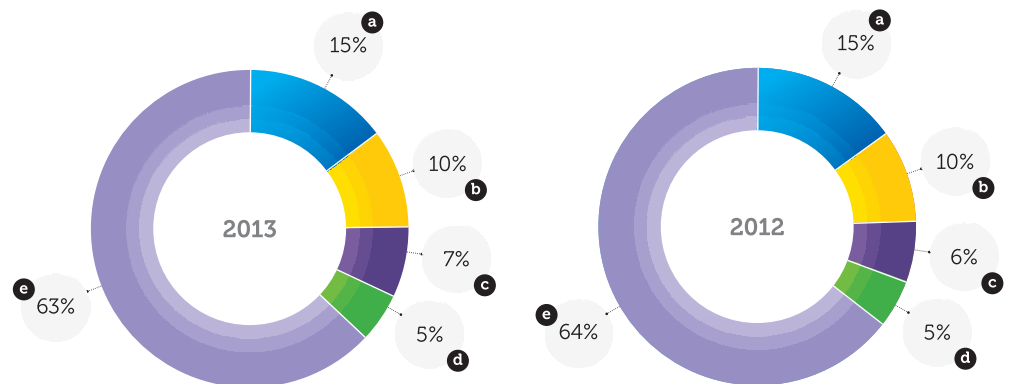
Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2012 and the Report of the Auditors thereon.

- Approval of a Final Dividend of Rs. 4.00 made for 2012 (Satisfied by way of Rs. 2/- in cash and Rs. 2/- in shares)
- Re-appointment /re-election of four Directors in place of those vacating, retiring by rotation or otherwise.
- Appointment of Messrs KPMG, Chartered Accountants, as the External Auditors of the Bank for 2013 and to authorise the Directors to approve their remuneration.
- Authorisation of the Board of Directors to determine donations for 2013.

A diagram detailing the Governance Structure of the Bank is illustrated on pages 98 and 99 of this Annual Report.

Ownership Structure

- a. DFCC Bank PLC
- b. Employee Provident Fund
- c. HSBC Intl Nominees Ltd. - JPMLU Franklin Templeton Investment Funds (2013)/International Finance Corporation (2012)
- d. Sri Lanka Insurance Corporation Ltd. - Life Fund
- e. Other Shareholders



Operational Governance

"A Governance Operating Model is the mechanism used by the Board and Management to translate the elements of governance framework and policies into practices, procedures and job responsibilities within the Corporate Governance infrastructure"

Developing an effective Governance Operating model- by Deloitte Development LLC

The Board and Management of the Bank face the challenge of translating governance principles into practices. The Operating Governance model at the Bank acts as a vehicle for the Board and its committees to address these challenges by clearly defining the roles, responsibilities, accountabilities, information flows, and guidelines that the stakeholders require in order to implement a good governance framework.

Further, to fulfil the governance responsibilities, the Board should also have clear lines of sight into management's decision-making and risk-management processes. In the governance operating model present at the Bank, the Board is able to establish clear lines of sight of the operational decisions made by the management and the risk exposures that may arise from same.

The Bank's Operating Governance model also addresses the complexity inherent in governance due to multiple business units/products available in the Bank and ensures effective co-ordination is prevalent at all times. It also ensures balancing considerations regarding centralisation versus decentralisation and considering local business, customer, compliance, legal, and other stakeholder needs.

The Governance model at the Bank clearly specifies the information that the Board and its Sub-Committees require and from whom, how often, and

under what circumstances they will receive that information - this assists the Board in executing governance principles far more effectively.

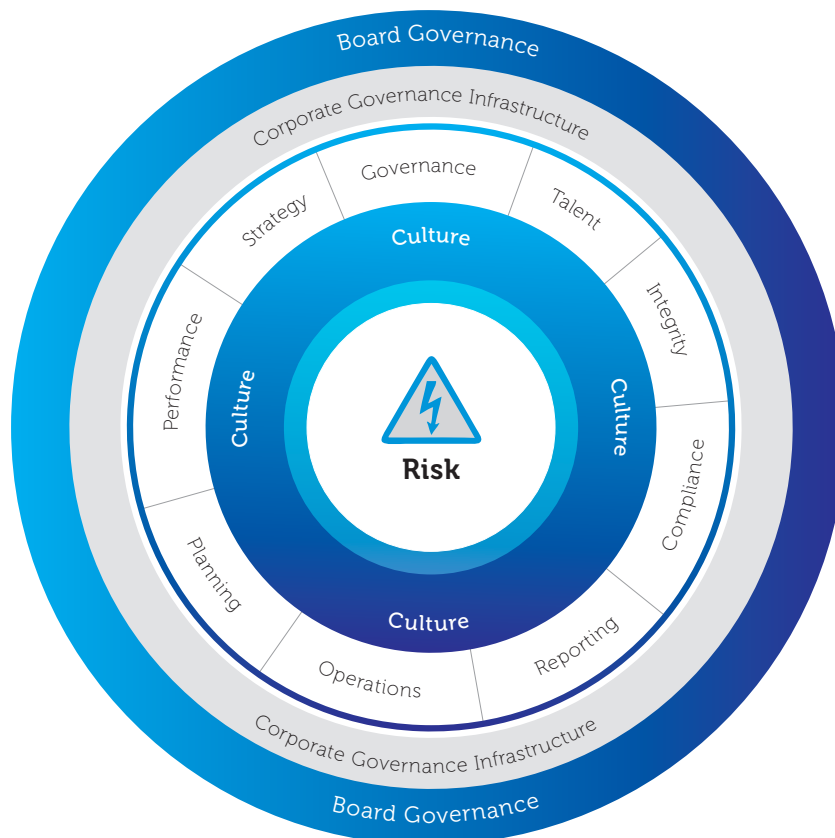
The Board appointed Sub-Committees play a key role in assisting the Board in this regard.

IT Governance

Information Technology has become the backbone for conducting banking business with almost exclusive reliance on the use of Information and Communication Technologies. Increasing complexities and criticalities

in IT decision-making demands the Bank to adopt an effective IT Governance System.

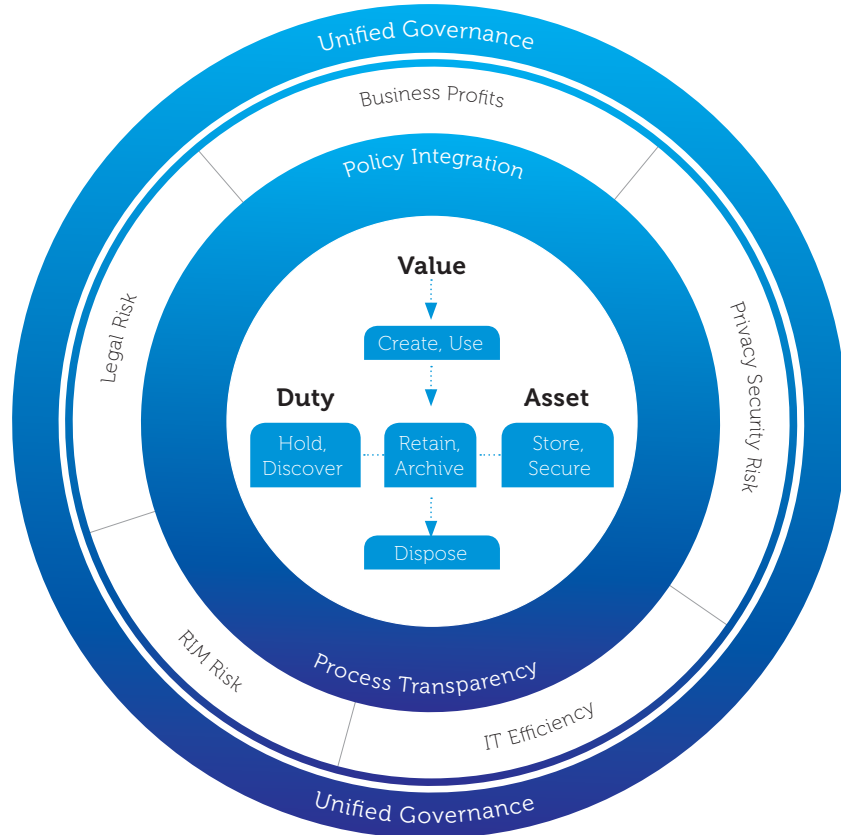
As such, the right alignment of IT objectives with those of the Bank defined in the business terms is ensured by the Information Technology Governance Mechanism in place at the Bank. IT Governance which forms an integral part of the Bank's Corporate Governance, deals primarily with optimising the linkage between Strategic Direction and Information Systems Management of the Bank. In this regard, having an organisational structure with well-defined roles for those



Corporate Governance

responsible for information, business processes, applications, infrastructure, etc., ensure generation of value for our stakeholders while mitigating the risks associated with incorrect deployment and use of Information Technology.

The Board Technology Committee took several measures to further strengthen the IT Governance Mechanism at the Bank and this Committee is primarily responsible for ensuring implementation of the IT Governance Mechanism illustrated below:



The core objectives of the Bank's Strategic Information Technology Governance which impact the diverse functional areas of the Bank are set out below:

Objective	IT Governance Mechanism in place at Commercial Bank
Compliance	<ul style="list-style-type: none"> 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.
Operational Efficiency	<ul style="list-style-type: none"> Streamlining of payments process so that integrity is maintained across value chain through near real-time processing. Use of a world-renowned Enterprise Resource Planning System to assist Financial Reporting.
Reliable Financial Reporting	<ul style="list-style-type: none"> Close integration of the different IT systems used by the various functional areas of the Bank. Use of a world-renowned Enterprise Resource Planning System for Financial Reporting.
Information Security Management	<ul style="list-style-type: none"> Achieving the ISO/IEC 27001:2005 Information Security Management Systems certification in 2010 with re-certification in 2013 to reaffirm our commitment to customer confidentiality. Ensuring that information security extends throughout the Bank and beyond as a means of proactive management of information security risks and controls.
Prudent Capital Expenditure	<ul style="list-style-type: none"> All major IT-related procurement is reviewed by an independent 3rd party Evaluation Committee. Final approval of IT capital expenditure is sought from the Board of Directors of the Bank based on value and recommendations of Assistant General Manager - Services, Chief Information Officer, the Chief Operating Officer and the Managing Director.

Objective	IT Governance Mechanism in place at Commercial Bank
Customer Convenience	<ul style="list-style-type: none"> • 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. • Ensuring process efficiencies and disciplines through certification to increase the contribution to customer convenience.
IT Risk Management	<ul style="list-style-type: none"> • Integrated Risk Management Department of the Bank identifies IT-related risks as a part of its continuous risk assessment procedures. • Existing risk management processes are further strengthened and where appropriate new processes are designed to understand risks and implement controls to effectively manage them to mitigate the risk exposure.
'Green' IT	<ul style="list-style-type: none"> • Protecting the environment by reducing the carbon footprint through migration to e-Statements, Document Workflow and Soft Copy. • Returning used IT equipment to re-cyclers certified by the Environment Protection Authority to dispose them as per international standards.

Integrated Risk Management at Commercial Bank

Integrity and the effectiveness of the Risk Management structure is well supported by the Bank's Risk Governance and policy framework. This constitutes the foundation of the entire risk management function of the Bank. The primary responsibility of the Bank's Integrated Risk Management Team headed by the Chief Risk Officer encompasses assuming calculated risks, accurately pricing them and prudently managing the risk portfolios, being the key components which continuously add value to the stakeholders in the business of banking.

Board of Directors strive to strike a balance in the risk and return to the stakeholders with the support of the Board Integrated Risk Management Committee formed in terms of the mandatory requirements of the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' which establishes,

co-ordinates and drives the risk management process throughout the Bank. The Integrated Risk Management System of the Bank steered by the aforesaid Board Sub-Committee with the assistance of the Integrated Risk Management Team ensures the timely identification and management of significant risks including exposure to Credit, Market and Operational Risks. Chief Risk Officer reports on the Risk Management Strategy regularly to the Board through the Board Integrated Risk Management Committee, the Report of which is found on pages 189 and 190.

A full report on the Bank's Risk Management Mechanism is found in the Section on 'Managing Risk at Commercial Bank' on pages 210 to 240 of this Stewardship Report.

Internal Controls Mechanism

The internal control framework of the Bank ensures management to

deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of Financial Statements and compliance with laws and regulations. Further, the management has a better ability to provide the Board of Directors an overview of the management's pursuit of achieving the operational and financial objectives whilst operating within the confines of the relevant legal requirements and reliable financial reporting.

The Internal Control process of the Bank, diagrammatically presented below depicts the process in place at the Bank which encompasses assessing the control environment on an on-going basis to ensure the existing control activities prevalent are evaluated regularly to mitigate probable risks and communicating same to the Board. Further, monitoring the effectiveness of the controls in place and assessing the probable risks of breach or lapses on an on-going basis is also an effective process in place at the Bank.



Corporate Governance

This process ensures effective communication within the Bank and contributes to ensuring that the right business decisions are made. The status of activities of the Bank's control system is followed up continuously through periodic reporting to the Management and to the Board Audit Committee.

The Bank's internal audit function is headed by the Deputy General Manager - Management Audit and is responsible for independent, objective assurance and oversight on internal control mechanism, in order to systematically evaluate and propose improvements for more effective internal control procedures, governance process, information system controls and risk management. Findings at internal audits are tabled at the meetings of the Board Audit Committee of the Bank in furtherance of the effectiveness of control mechanism.

As mandated by the Banking Act Direction No. 11 of 2007, the Board provides a report on the Bank's internal control mechanism which 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 is carried out in accordance with relevant accounting principles and regulatory requirements.

The Bank's External Auditors' Reports also provide the Board with the evidence that enables it to conclude whether the Bank's Internal Control Mechanism is appropriately designed and is operating effectively.

The Report of the Board Audit Committee which sets out its terms of reference, objectives and function is given on pages 192 to 194.

Our Code of Ethics

Your Bank pays close attention to the moral concerns in order to make the right ethical decisions on a day-to-day basis over and above observing the law. We at Commercial Bank believe that the upholding of an ethical culture in banking is of critical interest to the customers, employees, regulators, alike and to the Bank itself as a secured, reliable and efficient banking system is one of the pillars of economic stability of any country. Hence, nurturing an ethical culture is of utmost importance for banks.

Our core ethical values include honesty, integrity, fairness, responsible citizenship and accountability.

Enforcing a Corporate Code of Ethics requires understanding and active participation by everyone in the Bank since the Code spells out the expected standards of behaviour and

sets the operating principles to be followed. Every official at the Bank is required to ensure that at all times they maintain highest ethical standards and that adequate internal control measures are in place guarding against unethical practices and irregularities.

To make the Code effective, the Bank endeavours:

- To apply core values and principles embodied consistently
- For management to display the fullest support to the Code and serve as role models for compliance
- To ensure that all personnel strictly comply with the Code
- To fair rewarding and punishment be effected under a transparent system
- To communicate the contents to all employees and even make the Code available to those outside the Bank
- To review and revise regularly

In addition, our six steps 'ETHICS PLUS Decision-Making Model' encompasses:

- Establishing the relevant facts and identifying the ethical issues
- Taking stock of all stakeholders or parties involved
- Having an objective assessment of each stakeholder's position
- Identifying viable alternatives and their effects on stakeholders

- Comparing and evaluating the likely consequences of each alternative with reference to the standards expected
- Selecting the most appropriate course of action

In a nutshell, our 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". Also amongst the guiding principles of the Bank's Code of Ethics are strict compliance, confidentiality, avoidance of conflicts of interest, encouraging the reporting by the Officers of the Bank on illegal and unethical behaviour.

Please refer the web link for additional information on the Bank's Code of Ethics: <http://www.combank.net/newweb/info/104?oid=57>

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'

Annual Corporate Governance Report of Commercial Bank of Ceylon PLC ('the Bank') for the year ended December 31, 2013 is given below:

In terms of Section 46 (1) of the Banking Act No. 30 of 1988, subsequently amended, the Monetary Board has been empowered to issue Directions to Licensed Commercial Banks, regarding the manner in which the business of such banks is to be conducted,

in order to ensure the soundness of the banking system. In the exercise of the powers conferred by the above section, the Monetary Board has issued Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'.

The aforesaid Direction consists of two distinct parts viz., Direction 2 and Direction 3. Direction 2 consists of eight principles,

for explanatory purposes and/or clarification purposes only. Strict compliance is necessary for the rules that are set out in Direction 3. The Bank made every endeavour to comply with the Rules of Corporate Governance as indicated in Direction 3 of the Corporate Governance Direction. Details of such compliance for the year 2013 are fully disclosed below against each requirement of Direction 3.

Relevant Section	Rule	Degree of Compliance
3 (1) - Responsibilities of the Board		
3 (1) (i)	<p>The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:</p> <p>(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;</p>	<p>Complied with.</p> <p>Approving, overseeing, and monitoring the execution of the strategic objectives, corporate values, overall business strategy and policies are handled directly by the Board. Board's views relating to the above are communicated throughout the Bank.</p>
	<p>(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;</p>	<p>Complied with.</p> <p>Bank's Strategic Plan for the 5 year period of 2013-2017 was approved by the Board on January 16, 2013 after discussing related issues in detail with the Corporate Management. Risk Management Policies and Risk Management procedures and mechanisms with measurable goals are included in the said review. Bank's Strategic Plan for 2014-2018 was approved on February 17, 2014 by the Board.</p>
	<p>(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;</p>	<p>Complied with.</p> <p>Identifying principal risks, approving overall risk policy and Risk Management procedures are carried out mainly through the Board Integrated Risk Management Committee which is reviewed annually.</p>
	<p>(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;</p>	<p>Complied with.</p> <p>A Board approved Communication Policy is available and reviewed, as and when required. Annual General Meeting is also used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership.</p>

Relevant Section	Rule	Degree of Compliance
	(e) Review the adequacy and the integrity of the Bank's Internal Control Systems and Management Information Systems;	Complied with. Adequacy and the integrity of the Bank's Internal Control Systems over financial reporting and Management Information Systems are reviewed by the Board Audit Committee. Board Audit Committee reports are submitted to the Board periodically for review.
	(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;	Complied with. Board of Directors and Members of the Corporate Management who fall into the defined criteria are designated as Key Management Personnel. The definition of the KMP is reviewed as and when necessary.
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	Complied with. Bank has a Board approved Formal Schedule which is the Board Charter for matters specifically reserved for Board, defining the areas of authority and key responsibilities of the Board Directors. Areas of authority and key responsibilities for members of the Corporate Management are stated in the Job Descriptions of each member.
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	Complied with. Affairs of the Bank are regularly discussed and monitored by the Directors at the Board level and by the Members of Corporate Management at Management Level.
	(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;	Complied with. An Evaluation Form specifically designed to cover the related areas was completed by the Directors for the purpose of evaluating the effectiveness for 2013. Responses of Directors were discussed for necessary action at a Nomination Committee meeting and a subsequent Board Meeting. Directors make declarations on areas of interests at the time of applying to the Bank Board and subsequently as and when it is needed. Conflict of interest (if any) is managed based on this information. A quarterly report is sent to the Board on possible areas of conflict (if any).
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	Complied with. Succession Plan is reviewed at regular intervals to ensure that the Bank has named successors for the key management positions in the Bank and has development plans to ensure their readiness.

Corporate Governance

Relevant Section	Rule	Degree of Compliance
	(k) Meet regularly, on a need basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied with. The Members of the Corporate Management regularly make presentations and take part in discussions on their areas of responsibility and to monitor progress made towards achieving corporate objectives at Board meetings.
	(l) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied with.
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	Complied with. The Board has adopted a Policy of Rotation of Auditors, once in every 5 years, in keeping with the principles of Good Corporate Governance. At the end of the 5-year period, quotations are called from suitable Audit Firms, prior to the recommendation of new Auditors as per the Rotation Policy. In addition to this, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 in connection with external audit.
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.	Complied with. 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. See Direction 3 (5) on pages 157 and 159 of this Report for details.
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.	Complied with. Board Meetings are held monthly, mainly to review the performance of the Bank and its Subsidiaries and other relevant matters referred to the Board by the Heads of respective divisions, while special Board Meetings are convened whenever necessary. During 2013, the Board met 12 times. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders. See 'Number of Meetings Held and Attendance' on page 186.
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.	Complied with. All Board members are given an equal opportunity to include matters and proposals in the Agenda, where such proposals relate to the promotion of business and the management of risks of the Bank.

Corporate Governance

Relevant Section	Rule	Degree of Compliance
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.	Complied with. Monthly Board meetings are generally scheduled for the last Friday of the month and Notices are sent 1 week before the date of the meeting. For any other Special Board meeting, adequate Notice is given.
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.	Complied with. All Directors attended every meetings (12) held during 2013.
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.	Complied with. An Attorney-at-Law/Chartered Secretary with over 15 years 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. She has also ensured that proper Board procedures are followed and that applicable rules and regulations are adhered to.
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.	Complied with. All Board members have full access, to the assistance of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with.
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.	Complied with. The Company Secretary maintains the minutes of Board meetings with sufficient details and the minutes are open for inspection by any Director.
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.	Complied with. The Company Secretary records the minutes of Board meetings with sufficient details to satisfy all the requirements of this direction. Draft minutes prepared by the Company Secretary are approved by the Chief Executive Officer and Chairman and then circulated among other Directors for their observations. Necessary amendments are made thereto based on the issues raised by such other Directors.

Corporate Governance

Relevant Section	Rule	Degree of Compliance
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.	Complied with. The Directors are permitted to seek independent professional advice at the Bank's expense. A Board approved procedure is in place in this connection.
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.	Complied with. Directors do not participate in making decisions on matters, in which they have an interest and avoid conflicts of interest with the activities of the Bank. Such Directors' presence is disregarded in counting the quorum for agenda of meetings at which such issues are considered. Directors make declarations on areas of interests at the time of applying to the Bank Board and subsequently as and when it is needed. Conflict of interest (if any) is managed based on this information. A quarterly report is sent to the Board on possible areas of conflict (if any).
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.	Complied with. The Board has put in place systems and controls to facilitate the effective discharge of Board functions. Pre-set agenda of meetings ensures the direction and control of the Bank is firmly under Board's control and authority.
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.	No such situations have arisen. The Bank has a Board approved procedure to take action in the event of such a possibility.
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.	Complied with. The Bank has duly complied with Capital Adequacy requirements and requirements under other prudential grounds throughout the year.
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.	Complied with. This Report serves the said requirement.
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.	Complied with. The Bank has adopted a system of self-assessment, to be undertaken by each Director, annually.

Corporate Governance

Relevant Section	Rule	Degree of Compliance
3 (2) - The Board's Composition		
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with. Currently, there are 8 Directors on the Board.
3 (2) (ii)	<p>(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.</p> <p>(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.</p>	Complied with. The period of service of all the Non-Executive Directors are within 9 years.
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.	Complied with. There are two Executive Directors namely Managing Director and the Chief Operating Officer on the Board. Accordingly, the number of Executive Directors does not exceed one-third of the total number of Directors of the Board.
3 (2) (iv)	<p>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.</p> <p>A Non-Executive Director shall not be considered independent if he/ she:</p> <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 dependent 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>	<p>Complied with.</p> <p>Independent Non-Executive Directors during the year under review were:</p> <ul style="list-style-type: none"> - Mr. D.S. Weerakkody - Mr. K.G.D.D. Dheerasinghe - Mr. L. Hulugalle - Mr. S. Swarnajothi <p>Prof. U.P. Liyanage was independent from March 31, 2013 and Mr. M.P. Jayawardena was independent from October 31, 2013.</p>

Corporate Governance

Relevant Section	Rule	Degree of Compliance
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 apply to the Independent Director.	No such situation has 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.	Complied with. The profiles of all Directors including Non-Executive Directors are found on pages 132 and 133 detailing their skills and experience.
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.	Complied with. All Board meetings held during 2013 were duly constituted with the presence of all the Non-Executive Directors. See 'Number of Meetings Held and Attendance' on page 186.
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.	Complied with. See Note 1 that appears on page 185. Profiles of the Non-Executive Directors are given on pages 132 and 133.
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.	Complied with. New appointments to the Board and re-elections of Directors are based on the recommendations of the Board Nomination Committee. There is a procedure in place for the orderly succession of appointments to the Board. See page 191 for the 'Board Nomination Committee Report'.
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.	Complied with. All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment.
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.	No removal or resignation of Directors took place during the year. However, there is a procedure in place to deal with such situations.
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.	Complied with. None of the present Directors of the Bank acts as a Director of another Bank. See the Profiles of Directors on pages 132 and 133.

Relevant Section	Rule	Degree of Compliance
3 (3) - Criteria to Assess the Fitness and Propriety of Directors		
	In addition to provisions of Section 42 of the Banking Act No. 30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a Director or to continue as a Director.	Complied with. Declarations are submitted by each Director declaring their suitability (fit and proper test) annually. These affidavits and declarations are considered and discussed initially at a Nomination Committee meeting and thereafter at a Board meeting by the Board for necessary action.
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years. (A) In this connection, the following general exemption shall apply: 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.	Complied with. All Directors are below 70 years of age.
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.	Complied with. No Director holds directorships of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank.
3 (4) - Management Functions Delegated by the Board		
3 (4) (i)	The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with.
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.	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) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with. A delegation process is in place and the delegated powers are reviewed periodically to ensure that they remain relevant to the needs of the Bank.
3 (5) - The Chairman and Chief Executive Officer		
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with. There is a clear separation of duties between the roles of the Chairman and the CEO, thereby preventing unfettered powers for decision making being vested with 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.	Complied with. 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>Complied with.</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 the following:</p> <ul style="list-style-type: none"> - Prof. U.P. Liyanage and Mr. M.P. Jayawardena were Directors of another company until March 30, 2013. - Messrs M.P. Jayawardena and W.M.R.S. Dias were Directors of another company until October 30, 2013. <p>See Note 2 appearing on page 185 for further details.</p>
3 (5) (iv)	<p>The Chairman shall:</p> <ul style="list-style-type: none"> (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>Complied with.</p> <p>Board approved List of Functions and Responsibilities of Chairman include, 'Providing Leadership to the Board' as a responsibility of the Chairman. The Board's annual Assessment Form includes an area to measure the 'Effectiveness of the Chairman in facilitating the effective discharge of Board functions'. All key and appropriate issues are discussed by the Board on a timely basis.</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.	Complied with.
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.	Complied with.
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.	Complied with.
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.	Complied with.
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	<p>Complied with.</p> <p>The Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.</p>

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.	Complied with. At the Annual General Meeting the shareholders are given the opportunity to take up matters for which clarification is needed. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer.
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.	Complied with. 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.
3 (6) - Board Appointed Committees		
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.	Complied with. The following mandatory Board Sub-Committees have been appointed by the Board, which requires each such committee to report to the Board: <ol style="list-style-type: none"> 1. Board Human Resources and Remuneration Committee 2. Board Integrated Risk Management Committee 3. Board Nomination Committee 4. Board Audit Committee In addition, the Board has appointed the following Sub-Committees too: <ol style="list-style-type: none"> 1. Board Credit Committee 2. Board Technology Committee 3. Board Investment Committee See pages 187 to 197 for the Reports of the Board Sub-Committees.
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee: <p>(a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.</p> <p>(b) All members of the Committee shall be Non-Executive Directors.</p>	See Sections of Composition, Charter, Meetings and the Methodology of the Board Audit Committee Report on pages 192 to 194. Complied with. Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience. Complied with. All members of the Committee are Non-Executive Directors.

Corporate Governance

Relevant Section	Rule	Degree of Compliance
	<p>(c) The Committee shall make recommendations on matters in connection with:</p> <p>(i) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to Auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(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.</p>	<p>Complied with.</p> <p>Prior to the appointment of External Auditors for audit services, necessary action is taken to ensure compliance with applicable legal and statutory requirements.</p> <p>The evaluation is carried out by the Board Audit Committee in consultation with the Chief Financial Officer.</p>
	<p>(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.</p>	<p>Complied with.</p> <p>The Board has adopted a policy of rotation of Auditors, once in every 5 years, in keeping with the principles of good Corporate Governance.</p>
	<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> <p>(i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;</p> <p>(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</p> <p>(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.</p>	<p>Complied with.</p> <p>Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank:</p> <p>(a) If the management is of the view that the independence is likely to be impaired with the assignment of any non-audit service to External Auditors, no assignment will be made to obtain such services.</p> <p>(b) Further, relevant information is obtained from External Auditors to ensure that their independence is not impaired, as a result of providing any non-audit services.</p> <p>(c) Assigning such non-audit services to External Auditors is discussed at Board Audit Committee Meeting/s and required approval is obtained to that effect.</p>
	<p>(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:</p> <p>(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>	<p>Complied with.</p> <p>The Auditors make a presentation at the Board Audit Committee meeting with details of the proposed Audit Plan and the Scope. Members of the Board Audit Committee obtain clarifications in respect of the contents of the presentation, if deemed necessary.</p>

Corporate Governance

Relevant Section	Rule	Degree of Compliance
	<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>	<p>Complied with. Quarterly Financial Statements as well as year end Financial Statements are circulated to all members of the Board Audit Committee. A detailed discussion takes place at the Board Audit Committee meeting regarding such Financial Statements. Once the members of the Board Audit Committee have obtained required clarifications in respect of all aspects included in the Financial Statements, such Financial Statements are recommended for approval by the Board of Directors.</p>
	<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>	<p>Complied with. The Committee met the External Auditors without the presence of the Executive Directors and Corporate Management.</p>
	<p>(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.</p>	<p>Complied with. Upon receipt of the interim Management Letter and year end Management Letters, Auditors are invited to make a presentation at a Board Audit Committee meeting to discuss significant findings which have arisen during the audit. Thereafter, the Board Audit Committee decides on remedial action to be taken in respect of such findings, if any, and relevant Heads of Departments are instructed to take such action.</p>
	<p>(j) The Committee shall take the following steps with regard to the internal audit function of the Bank:</p> <p>(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;</p> <p>(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;</p>	<p>Complied with. The Annual Audit Plan prepared by the Internal Audit Department is submitted to the Board Audit Committee for approval. This plan covers the scope and resource requirement relating to the Audit Plan.</p>
	<p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</p>	<p>Complied with.</p>
	<p>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p>	<p>Complied with. The services of 5 audit firms have been obtained to assist the Inspection Department to carry out the audit function. Prior approval of the Board Audit Committee has been obtained in this regard.</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>Complied with</p>

Corporate Governance

Relevant Section	Rule	Degree of Compliance
	(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.	Complied with. Internal Audit Department reports direct to DGM Management Audit who will be reporting directly to the Board Audit Committee. Hence, it is independent. The audits are performed with impartiality, proficiency and due professional care.
	(k) The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied with. Significant findings of investigations carried out by the Inspection Department along with the responses of the Management are tabled and discussed at Board Audit Committee meetings.
	(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.	Complied with. The immediate requirement of two meetings between the Board Audit Committee and External Auditors has been met. In addition, the Non-Executive Directors have been provided with an opportunity of discussing matters relating to audit on a private basis.
	(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.	Complied with. Please refer 'Board Audit Committee Report' on pages 192 to 194.
	(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.	Complied with. Please refer 'Board Audit Committee Report' on pages 192 to 194.
	(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.	Complied with. Please refer 'Board Audit Committee Report' on pages 192 to 194.
	(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.	Complied with. The Secretary of the Committee records and maintains all minutes of the meetings.
	(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.	Complied with. The Bank has a Whistle-Blowing Policy which has been reviewed and approved by the Board Audit Committee and the Board of Directors.
3 (6) (iii)	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 187 and 188.

Relevant Section	Rule	Degree of Compliance
	<p>(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.</p> <p>(b) The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.</p> <p>(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.</p> <p>(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.</p>	<p>Complied with.</p> <p>The Bank has a formal process for annual performance evaluation for the CEO and Key Management Personnel. The performance evaluations for a particular year are formally approved before April in the subsequent year.</p> <p>Please refer 'Board Human Resources and Remuneration Committee Report' on pages 187 and 188.</p>
3 (6) (iv)	<p>The following rules shall apply in relation to the Board Nomination Committee:</p> <p>(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</p>	<p>Complied with.</p> <p>Please refer Sections of Composition, Charter, Meetings and the Methodology of the 'Board Nomination Committee Report' on page 191.</p> <p>Complied with.</p> <p>The Board Nomination Committee ensures that all Directors are fit and proper persons to hold office as specified in the Direction.</p> <p>The Board Human Resources and Remuneration Sub-Committee ensures that Key Management Personnel are fit and proper persons to hold office as specified in the Direction.</p> <p>For Directors - Complied with. For Key Management Personnel - This activity is handled by the Board Human Resources and Remuneration Committee.</p> <p>Committee was chaired by an Independent Director.</p> <p>CEO was present at meetings by invitation.</p>
3 (6) (v)	<p>The following rules shall apply in relation to the Integrated Risk Management Committee:</p>	<p>Please refer Sections of Composition, Charter, Meetings and the Methodology of the 'Board Integrated Risk Management Committee Report' on pages 189 and 190.</p>

Corporate Governance

Relevant Section	Rule	Degree of Compliance
	<p>(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.</p>	<p>Complied with. Members of the Board Integrated Risk Management Committee (BIRMC) are given below:</p> <ul style="list-style-type: none"> - Mr. K.G.D.D. Dheerasinghe - <i>Chairman</i> - Mr. W.M.R.S. Dias - Prof. U.P. Liyanage - Mr. L. Hulugalle - Mr. S. Swarnajothi - Mr. M.P. Jayawardena - Mr. J. Durairatnam - Mr. K.D.N. Buddhipala - Mr. S.C.U. Manatunga
	<p>(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.</p>	<p>Complied with.</p>
	<p>(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.</p>	<p>Complied with. The Committee minutes evidence that all risk indicators such as key operational risk indicators, non-financial operating risk indicators, analysis of NPA ratio and default ratios, high risk sector advances/NPA segmentation by industry and risk grading, cross border and counterparty risk exposures have been reviewed on a monthly basis.</p> <p>Further, adequacy and effectiveness of all management level risk-related committees such as Executive Integrated Risk Management Committee, ALCO, Credit Policy Committee and Executive Committee on Monitoring NPAs are reviewed by the BIRMC annually.</p>
	<p>(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.</p>	<p>Complied with. Actual exposure levels under each risk category are monitored against the tolerance levels when preparation of 'Risk Profile Dashboard' of the Bank which is circulated among members of the BIRMC on a monthly basis and discussed in detail at quarterly meetings.</p> <p>Recommendations/suggestions are also discussed if any risk indicator exceeds the tolerance limits and the progress of rectification of the position and implementation of the recommendations are being monitored closely.</p>

Relevant Section	Rule	Degree of Compliance
	(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.	Committee refers such matters, if any, to the HR Department for necessary action.
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific Directions.	Complied with.
	(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. Compliance function is in place to assess the Bank's compliance with external and internal regulations. The Compliance Officer submits a Positive Assurance Certificate on Compliance with Mandatory Banking and Other Statutory Requirements on quarterly basis to the Board Audit Committee and the Board Integrated Risk Management Committee. Any significant matters are discussed in detail at the committee meetings and instructions are issued to respective departments for remedial action.

3 (7) - Related Party Transactions

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"> (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest. 	<p>All members of the Board are required to make declaration of the positions held with related parties at the time of appointment and thereafter this is further reviewed annually. This information is provided to the Finance Division enabling them to capture relevant transactions.</p> <p>In the event of any change (during the year) the Directors are required to make a further declaration to the Company Secretary. The Bank is taking initiatives to further strengthen the monitoring mechanism.</p> <p>Directors refrain from participating at relevant sessions in which lending to related entities are discussed to avoid any kind of an influence.</p> <p>Transactions carried out with related parties in the normal course of business are disclosed in Note 53 to the Financial Statements on 'Related Party Disclosures' on pages 359 to 363.</p>
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Corporate Governance

Relevant Section	Rule	Degree of Compliance
3 (7) (ii)	<p>The type of transactions with related parties that shall be covered by this Direction shall include the following:</p> <p>(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation,</p> <p>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments,</p> <p>(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank,</p> <p>(d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>	<p>A Board approved process is in place to ensure compliance.</p> <p>The Bank is in the process of strengthening the monitoring mechanism in this regard during the year 2014.</p>
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 Direction 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>A Board approved process is in place to ensure compliance.</p> <p>The Bank is in the process of further strengthening the monitoring mechanism in this regard during the year 2014.</p>

Corporate Governance

Relevant Section	Rule	Degree of Compliance
3 (7) (iv)	A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director, unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	All accommodations to Directors and/or their close relatives are approved either at a Board meeting or through circulation of Board Papers.
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>	No such situation has arisen during the year.
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.	Accommodation specified in this Direction was granted to employees only under 'Staff Benefit Schemes' of the Bank.
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.	Not applicable due to the reasons mentioned above in 3 (7) (v) & 3 (7) (vi).

Relevant Section	Rule	Degree of Compliance
3 (8) - Disclosures		
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.	Complied with. 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.	Complied with. 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 'Statement of Directors' Responsibility', 'Managing Director's and Chief Financial Officer's Responsibility Statement'. Please refer page 261.
	(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.	Complied with. 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, is given on "Directors' Statement of Internal Control" on pages 258 and 259 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 256 on 'Statement of Directors' Responsibility'. In addition, all Directors have signed the 'Annual Report of Board of Directors' found on pages 198 to 207, wherein all Directors have collectively taken the responsibility for the above requirement.
	(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.	Complied with. The Bank obtained an assurance report from the External Auditors on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above. (Please refer page 260)

Relevant Section	Rule	Degree of Compliance														
	(d) Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank.	Complied with. Profiles of Directors are given on pages 132 and 133, transactions of the Directors with the Bank are given in the "Directors' Interest in Contracts with the Company" on pages 208 and 209 the total of fees/remuneration paid to the Directors by the Bank is given in Note 14 to the Financial Statements on page 302.														
	(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.	Complied with. Total net accommodations granted to each category of related parties are given in Note 53 to the Financial Statements on pages 359 to 363. 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>2013</th> <th>2012</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel</td> <td>0.17</td> <td>0.24</td> </tr> <tr> <td>Subsidiaries</td> <td>0.03</td> <td>0.17</td> </tr> <tr> <td>Associates</td> <td>0.00</td> <td>0.03</td> </tr> </tbody> </table>	Category of Related Party Transactions	% of the Regulatory Capital		2013	2012	Key Management Personnel	0.17	0.24	Subsidiaries	0.03	0.17	Associates	0.00	0.03
Category of Related Party Transactions	% of the Regulatory Capital															
	2013	2012														
Key Management Personnel	0.17	0.24														
Subsidiaries	0.03	0.17														
Associates	0.00	0.03														
	(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.	Complied with. The aggregate values of remuneration paid by the Bank to its Key Management Personnel are given in Note 53 to the Financial Statements on page 359 and 363 the aggregate values of the transactions of the Bank with its Key Management Personnel are set out in Note 53 to the Financial Statements on pages 359 and 363.														
	(g) The External Auditor's Certification of the compliance with these Directions in the Annual Corporate Governance Reports published after January 1, 2010.	Complied with. The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these Directions. The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above.														
	(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.	Complied with. See 'Statement of Directors' Responsibility' on page 256 for details of the compliance with prudential requirements, regulations, laws and internal controls.														

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.	Not Applicable. 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.
3 (9) - Transitional and Other General Provisions		
3 (9) (i)	Compliance with this Direction shall commence from January 1, 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, 2010, 2011 and 2012 Annual Reports. Position applicable to the year 2013 is 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.	Not Applicable.
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.	Not Applicable.
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.	Not Applicable.
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.	Not Applicable.

Corporate Governance

Bank's adherence with 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')

"The purpose of Corporate Governance is to facilitate effective, entrepreneurial and prudent management that can deliver long-term success of the company' (UK Combined Code 2010). 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 (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) focuses

adequately on fulfilling the aspirations of both parties mentioned above. The Bank has incorporated the requirements of amendments made to the said Code in September 2013.

We have categorised extent of adherence by the Bank to the requirements of the six fundamental principles laid down in the aforesaid Code, into two sections, purely for the convenience of our stakeholders. Hence, 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. (See pages 171 and 183).

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. (See pages 183 and 184).

Section 1: The Company (The Bank)

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
A. Directors			
A.1 The Board			
The Bank is headed by an effective Board of Directors with local and international experience (professionals/ business leaders) drawn from different backgrounds inter alia banking, accounting, management, marketing, human resources and law. 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. (Summary of the profiles of Directors are given on pages 132 and 133)			
Board Meetings	A.1.1	Complied with	Please refer response to requirement 3 1 (iii) and (iv) of the Banking Act Direction No. 11 of 2007 on page 152 for details. See 'Number of Meetings Held and Attendance' on page 186.
Role of the Board	A.1.2	Complied with	Please refer response to requirement 3 1 (i) of the Banking Act Direction No. 11 of 2007 on page 150 for details. See 'Directors' Statement on Internal Control' that appears on pages 258 and 259 for details on compliance on above aspects.
Compliance with Laws and seeking Independent Professional Advice	A.1.3	Complied with	The Board collectively and Directors individually complied with laws at the country as applicable to the Bank. Please refer response to requirement 3 1 (xi) of the Banking Act Direction No. 11 of 2007 on page 154 for further details. See pages 187 to 197 for Reports of all Board appointed Sub-Committees for further details.

Corporate Governance

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
Access to advice and services of the Company Secretary	A.1.4	Complied with	Please refer response to requirement 3 (1) (vii) to (ix) of the Banking Act Direction No. 11 of 2007 on page 153 for details on advice and services of Company Secretary. The removal of the Company Secretary is a matter to be considered by the Board as a whole.
Independent Judgment of Directors	A.1.5	Complied with	All Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.
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, Directors will function as members of one or more Sub-Committees of the Board (details of which are found on page 186) and ensure that they allocate adequate time for the fulfilment of their duties as members of such Board Sub-Committees. See 'Number of Meetings Held and Attendance' on page 186.
Training for New and Existing Directors	A.1.7	Complied with	Both new and existing Directors of the Bank are provided with guidelines on general aspects of directorships and industry specific matters. In this regard, the Directors have recognised the need for continuous training, expansion of knowledge and to take part in such professional development as and when they consider necessary which would assist them to carry out their duties as Directors. The training and development needs of Directors are reviewed periodically for this purpose.

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 and MD/CEO	A.2.1	Complied with	Please refer response to requirement 3 (5) (i) of the Banking Act Direction No. 11 of 2007 on page 157 for details.
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A.3 Chairman's Role

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	Please refer response to requirement 3 (5) (i) to 3 (5) (xi) of the Banking Act Direction No. 11 of 2007 on pages 157 and 158 for details.
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Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
A.4 Financial Acumen			
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 some of the Board members 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 Board comprises of members with academic and professional qualifications in Accounting, Business Finance, Management and Law. Please refer pages 132 and 133 for the Profiles of the Directors.

A.5 Board Balance

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 are able to dominate the Board's decision-making.

Presence of a Strong Team of NEDs	A.5.1	Complied with	Please refer response to requirement 3 (2) (iv) of the Banking Act Direction No. 11 of 2007 on page 155 for details.
Independence of NEDs	A.5.2 & A.5.3	Complied with	All six NEDs were Independent by the end of 2013 and this 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. Out of the six, four Directors were independent throughout the year and were independent of management and free of any business or other relationship that could impair their independence.
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 determination by the Board on the Independence of NEDs	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 during the year under review were: <ul style="list-style-type: none"> - Mr. D.S. Weerakkody - Mr. K.G.D.D. Dheerasinghe - Mr. L. Hulugalle - Mr. S. Swarnajothi Prof. U.P. Liyanage was independent from March 31, 2013 and Mr. M.P. Jayawardena was independent from October 31, 2013.

Corporate Governance

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
Appointment of an Alternate Director	A 5.6	Complied with	No such situation has arisen.
Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions	A.5.7 & 5.8	Not applicable	There is no requirement to appoint a 'Senior Non-Executive Director' as the positions of the Chairman and the CEO are separated and the Chairman is an Independent Director.
Conducting Meetings with NEDs only	A.5.9	Complied with	Chairman meets with the NEDs without the presence of Executive Directors, whenever necessary.
Recording of Concerns in Board Minutes which cannot be unanimously resolved	A.5.10	Not applicable for the year under review	Concerns of the Directors which cannot be unanimously resolved by the Directors if any, are recorded in the minutes of Board meetings with adequate details by the Company Secretary. This would be approved by the Chairman and the other members of the Board. However, there were no such issues during the year 2013. Further, all other important issues raised by the Directions at every Board meeting during the year too are recorded with adequate details in the minutes which are approved by the Board.

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 them to discharge their 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 Heads of the respective banking departments and other divisions 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, whenever necessary. In addition, members of the Corporate Management make presentations on issues of importance. The Chairman ensures that all Directors are briefed adequately on issues arising at Board meetings.
Adequate Notice for Board Meetings	A.6.2	Complied with	Please refer response to requirement 3 1 (v) of the Banking Act Direction No. 11 of 2007 on page 153 for details.

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
A.7 Appointments to the Board			
The Code requires having a formal and transparent procedure in place for the appointment of new Directors 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 to the Board and re-elections of Directors 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 demands faced by the Bank.</p> <p>See page 191 for the 'Board Nomination Committee Report' for the terms of reference and the composition of 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 resumé of each such Director, including the nature of his or her expertise, the names of other companies in which the Director holds directorships, etc., are informed to the Central Bank of Sri Lanka (CBSL) and the Colombo Stock Exchange (CSE), in addition to disclosing this information subsequently 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 CSE without delay.</p>

A.8 Re-election

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>Directors to retire at the Annual General Meeting (AGM):</p> <ol style="list-style-type: none"> 1. (i) Directors to Retire by Rotation: <ul style="list-style-type: none"> In terms of Article 85 of the Articles of Association, 2 Directors are required to retire by rotation at each AGM. Article 86 provides that the Directors to retire by rotation at an AGM shall be those who, (being subject to retirement by rotation), have been longest in office, since their last election or appointment. (ii) The Directors who have been longest in office (subject to retirement by rotation) are the following Directors, who were re-elected on the same date (i.e., at AGM held in March 2012): <ul style="list-style-type: none"> - Mr. D.S. Weerakkody - Mr. L. Hulugalle - Mr. M.P. Jayawardena (iii) Accordingly, two Directors, out of the above three Directors are required to retire by rotation at the next AGM.
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Corporate Governance

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
			<p>(iv) It is stated in Article 86 that as between persons who became or were last re-elected Directors on the same day, the Directors to retire shall (unless they otherwise agree among themselves) be determined by lot. Under the circumstances, Messrs D.S. Weerakkody and M.P. Jayawardena offered themselves for re-election by rotation at the next AGM.</p> <p>The Board recommended the re-election of Messrs D.S. Weerakkody and M.P. Jayawardena, after considering the contents of the Affidavits and Declarations submitted by them and all other related issues, including the contribution made by them.</p> <p>2. There were no Directors appointed to fill casual vacancies during the year under review.</p> <p>Please find a brief resume of the aforementioned Directors on pages 132 and 133.</p>

A.9 Appraisal of Board Performance

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 Nomination Committee and Board. A self-assessment was carried out by the Directors at the end of the year and the appraisal forms were first submitted to the Nomination Committee and then the Board, in order to ensure that the Board functions effectively and efficiently and also to facilitate continuous improvement.
Disclosure of Criteria used for the Performance Evaluation	A.9.3	Complied with	See 'Report of the Board Human Resource and Remuneration Committee' on pages 187 and 188 for details of the criteria considered for performance evaluation of the Board.

A.10 Disclosure of Information in respect of Directors

The Code requires that details of the Directors be disclosed in the Annual Report for information of the Shareholders.

Disclosure of information on Directors in the Annual Report	A.10.1	Complied with	<p>The following details pertaining to each Director are disclosed as follows:</p> <p>(a) Brief profile with expertise and experience - pages 132 and 133</p> <p>(b) Other business interests - pages 208 and 209</p> <p>(c) Remuneration - Note 14 on page 302</p> <p>(d) Status of independence - page 203</p> <p>Details of Board meetings and Board Committee meetings held during the year are indicated in the Annual Report. - page 186.</p>
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Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
A.11 Appraisal of Chief Executive Officer (CEO)			
The Code requires the Board to assess the performance of the CEO at least annually to ascertain degree to which the CEO meets 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	The Bank has a formal process for annual performance evaluation for the CEO. At the beginning of each financial year, the Board, supported by the Board Human Resources and Remuneration Committee discusses with the CEO and establish criteria to evaluate and assess the performance of the CEO. 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. The performance evaluation for particular year is formally approved before April in the subsequent year.
B Directors' Remuneration			
B.1 Remuneration Procedure			
The Code requires that the Bank should establish a 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	Please refer response to requirement 3 (6) (iii) (a) & (b) of the Banking Act Direction No. 11 of 2007 on page 159 for details. See 'Board Human Resources and Remuneration Committee Report' for the Terms of Reference on pages 187 and 188.
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. Chairman of the Committee is appointed by the Board. The CEO attends meetings by invitation.
Chairman and the Members of the Committee	B.1.3	Complied with	See pages 187 and 188 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	Please refer response to requirement 3 (6) (iii) (c) of the Banking Act Direction No. 11 of 2007 on page 163 for details.
Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee	B.1.5	Complied with	Each Committee has the authority to seek internal and external independent professional advice on remuneration of other Executive Directors and also on matters falling within its purview at the Bank's expense. Views of Chairmen of each Committee are obtained, in addition to the views of the CEO.

Corporate Governance

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
B.2 Level and make-up of Remuneration			
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 the Board ensures that two Executive Directors namely, the Managing Director and the Chief Operating Officer who are on the Board are provided with a suitable remuneration package.
Competitiveness of levels of Remuneration	B.2.2	Complied with	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 Bank looks at market rates for the key positions in the Bank every three years by carrying out a market survey. The information of which is used for the annual revisions.
Designing the Performance based Remuneration of Executive Directors	B.2.4	Complied with	Objectives for two Executive Directors are set at the beginning of the year to align their interest with those of the Bank and the remuneration including the performance bonus is decided based upon the degree of achievement of such pre-set targets.
Executive Share Options	B.2.5	Complied with	Share options were offered to Executive Directors, the details of which are given in Notes 43.2 of the Financial Statements on page 343.
Designing the Performance-Related Remuneration of Executive Directors	B.2.6	Complied with	For details see 'Board Human Resources and Remuneration Committee Report' on pages 187 and 188.
Early Termination of Executive Directors	B.2.7 & B.2.8	Not applicable	Terminations of Executive Directors, (MD/CEO and Chief Operating Officer) are governed by their contracts of service/employment.
Levels of Remuneration of Non-Executive Directors	B.2.9	Complied with	Non-Executive Directors of the Bank are paid a 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.3 Disclosure of Remuneration

The Code requires the Bank to disclose in its Annual Report the details of the remuneration of the Board and the Remuneration Policy.

Disclosure of Remuneration	B.3.1	Complied with	See 'Board Human Resources and Remuneration Committee Report' on pages 187 and 188 for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Bank. Also see Note 14 to the Financial Statements on page 302 for the aggregate remuneration paid to Executive and Non-Executive Directors.
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Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
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 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 such resolution.
Separate Resolutions for substantially separate issues and adoption of Annual Report and Accounts	C.1.2	Complied with	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. 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.
Availability of Chairmen of Board Committees	C.1.3	Complied with	The Chairman of the Bank ensures that Chairmen of all Board appointed Sub-Committees namely, Audit, Human Resources and Remuneration, Nomination, Integrated Risk Management, Credit, Investment and Technology are present at the AGM to answer the questions under their purview.
Adequate Notice of AGM to Shareholders together with the 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 each shareholder of the Bank together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice to shareholders together with a summary of the procedures governing voting at General Meetings. 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.

C.2 Communication with Shareholders**The Board should Implement Effective Communication with Shareholders**

A channel to disseminate timely communication to the shareholders	C 2.1	Complied with	Please refer pages 33 to 36 on "Our approach to Stakeholder Engagement" in the Sustainability Report for a complete list of the communication channels available at the Bank to disseminate timely communication to shareholders.
Disclosure of the Policy and Methodology of Communication and Implementation	C 2.2 & 2.3	Complied with	Bank's Communication Policy which is available in the Intranet discloses the Policy and Methodology of Communication and Implementation.

Corporate Governance

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
Disclosure of the contact person of communication	C 2.4	Complied with	Contact persons for the different stakeholders at the Bank are specified in the Communication Policy of the Bank.
Process to make Directors aware of the issues and concerns of Shareholders and disclosing same	C 2.5	Complied with	All major issues and concerns of shareholders are always referred to the Board of Directors with the views of the management.
Person of contact for shareholder matters	C 2.6	Complied with	Persons to contact in relation to shareholders is the Company Secretary and in the absence of her the Managing Director.
Disclosure process for responding to shareholder matters	C 2.7	Complied with	Disclosure process of responding to shareholders are specified in the Communication Policy of the Bank.

C.3 Major and Material Transactions

The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Bank and Group, if entered into.

Disclosures on proposed Major Transactions	C.3.1	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 are/will be disclosed in the Quarterly/ Annual Financial Statements, if any.
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D Accountability and Audit

D.1 Financial Reporting

The Code requires the Board of Directors 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 256 confirming this position.</p> <p>The Bank has 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 Interim and Annual Financial Statements, which are prepared and presented in conformity with Sri Lanka Accounting Standards. In addition, the Bank has also complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka (CBSL) and the Colombo Stock Exchange (CSE).</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'.</p> <p>See the 'Annual Report of the Board of Directors' appear on pages 198 to 207 for the required declarations.</p>

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
Statements by Directors and Auditors on Responsibility for Financial Reporting	D.1.3	Complied with	The 'Statement of Directors' Responsibility' is given on page 256. See 'Auditor's Report' on page 262 for the reporting responsibility of Auditors.
Management Discussion and Analysis	D.1.4	Complied with	See 'Management Discussion and Analysis' on pages 16 to 128.
Declaration by Board on the Going Concern of the Business	D.1.5	Complied with	See item 18 of the 'Annual Report of the Board of Directors' on pages 198 to 207 and the 'Statement of Directors' Responsibility' on page 256 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.
Disclosure of Related Party Transactions adequately and accurately	D.1.7	Complied with	Please refer response to requirement 3 (7) (i) of the Banking Act Direction No. 11 of 2007 on page 165 for details.

D.2 Internal Control

The Code requires the Bank's Board to ensure a process of effective risk management and a sound system of internal controls, which safeguards the shareholders' investments and Bank's assets. Broadly, risk management and internal control is a process, affected by a Company's Board of Directors and management, designed to provide reasonable assurance regarding the achievement of Company's objectives.

Directors to conduct an annual review of Internal Controls	D.2.1	Complied with	The Bank obtained the External Auditors' Certification on the effectiveness of the internal control mechanism over 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.
Audit Committee to carryout reviews of the process and effectiveness of risk management and Internal Controls and document to the Board	D.2.3	Complied with	The Board Audit Committee of the Bank reviews internal control issues and risk management measures identified by the Internal Audit Division and evaluate the adequacy and effectiveness of the risk management and internal control systems. The minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Please refer pages 258 and 259 for "Directors' Statement on Internal Controls" for further details.

Corporate Governance

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
D.3 Audit Committee			
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 Non-Executive Directors and two of the members are Independent Directors. Details of the members, invitees and the Secretary of the Committee are found on pages 187 to 197 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, Board Audit Committee 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 Auditors.
Terms of Reference of the Audit Committee	D.3.3	Complied with	Terms of Reference of the Board Audit Committee are clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised in 2013. 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 pages 192 to 194 under the heading on 'The Composition of the Committee' and disclosure on the independence of the Auditors is found on pages 192 and 194 under the Section on 'External Audit' in the 'Board Audit Committee Report'.

D.4 Code of Business Conduct and Ethics

The Code requires the Bank to adopt an Internal Code of Conduct and Ethics to be adhered to by all Directors and Key Management Personnel and must promptly disclose any waivers of the Code for Directors or others.

Disclosures on presence of Code of Business Conduct and Ethics	D.4.1	Complied with, for Executive Directors and Key Management Personnel	The Bank has an internally developed Code of Conduct for its employees including Key Management Personnel and the two Executive Directors. This Code addresses conflicts of interest, bribery and corruption, entertainment and gifts, accurate accounting and record-keeping and 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 Banks' Code of Ethics, including Governing Principles are found on page 101.
Affirmative Statement by the Chairman	D.4.2	Complied with	See the 'Letter from the Chairman' on page 8 for required details.

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
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D.5 Corporate Governance Disclosures

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 142 to 185 serves this requirement.
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Section 2: Shareholders

Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
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E Institutional Investors

E.1 Shareholder Voting

The Code requires the institutional shareholders to make considered use of their votes and encourage to ensure that 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 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, communicates the views and queries of the shareholders to the Board and the senior management, in order to ensure that the views are properly communicated to the Bank.
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E.2 Evaluation of Governance Disclosures

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.
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F Other Investors

F.1 Investing/Divesting Decisions

Seek Independent Advice	F.1.1	Complied with	Individual shareholders are at liberty to carry out adequate analysis or seek independent advice (not at the cost of the Bank) before making investing or divesting decisions.
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F.2 Shareholder Voting

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.
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Corporate Governance Principle	Reference to Code	Degree of Compliance	Details of Compliance
G. Sustainability Reporting			
G.1 Principles of Sustainability Reporting			
The Code requires the Bank to adopt the following principles in Sustainability Reporting to ensure the maintenance of policies and procedures to develop a sustainable business environment and to make disclosures on sustainability			
Principle 1 - Reporting of Economic Sustainability	G 1.1	Complied with	This Report from page 41 serves this requirement.
Principle 2 - Reporting on the Environment	G 1.2	Complied with	This Report from pages 41 to 43 serves this requirement.
Principle 3 - Reporting on Labour Practices	G 1.3	Complied with	This Report from pages 43 to 45 serves this requirement.
Principle 4 - Reporting on Society	G 1.4	Complied with	This Report from pages 45 to 46 serves this requirement.
Principle 5 - Reporting on Product Responsibility	G 1.5	Complied with	This Report from pages 46 to 47 serves this requirement.
Principle 6 - Reporting on Stakeholder identification, engagement and effective communication	G 1.6	Complied with	This Report from pages 33 to 36 serves this requirement.
Principle 7 - Sustainable reporting to be formalised as part of the reporting process and to take place regularly	G 1.7	Complied with	Pages 28 to 29 of this Report serves this requirement.

Note 1

The following table lists out the composition of the Board, by category of Directors for the year ended December 31, 2013.

Name of the Director	Independence/Non-Independence Status
Chairman Mr. D.S. Weerakkody (Non-Executive Director)	Independent
Executive Directors:	
Mr. W.M.R.S. Dias	} Executive and Non-Independent
Mr. J. Durairatnam	
Other Non-Executive Directors:	
Mr. K.G.D.D. Dheerasinghe (Deputy Chairman)	Independent
Prof. U.P. Liyanage	Non-Independent up to March 30, 2013 Independent from March 31, 2013
Mr. L. Hulugalle	Independent
Mr. M.P. Jayawardena	Non-Independent up to October 30, 2013 Independent from October 31, 2013
Mr. S. Swarnajothi	Independent

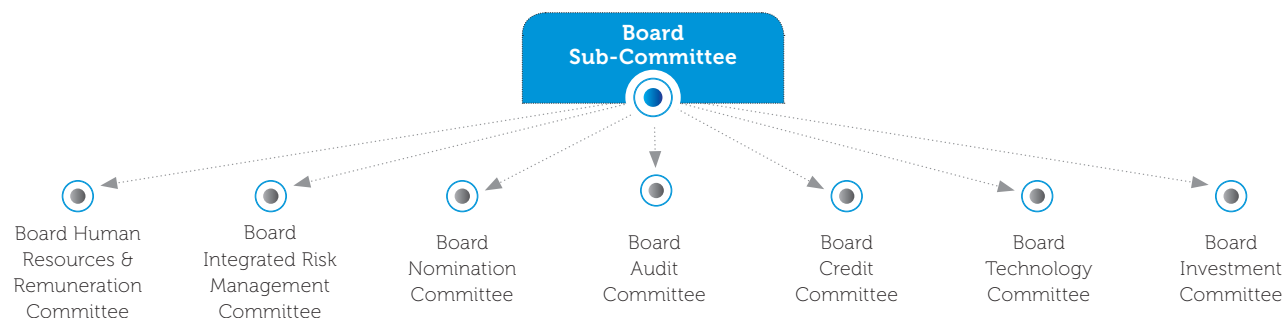
Note 2

Disclosure under Section 3 (5) (iii) of the Direction No. 11 of 2007 by the Board of Directors of Commercial Bank of Ceylon PLC

1. Name of Chairman	Mr. D.S. Weerakkody
2. Name of Chief Executive Officer	Mr. W.M.R.S. Dias
3. Any relationship including financial/business, family or other material/relevant relationship between the Chairman and the Chief Executive Officer	Nil
4. Any relationship including financial/business, family or other material/relevant relationship between members of the Board, including Chairman and Chief Executive Officer (Subject to following Note*)	Nil

Note*

Mr. M.P. Jayawardena was a consultant of Chemanex PLC and Prof. U.P. Liyanage, a Director of the Bank was also a Director of Chemanex PLC as at December 31, 2013.



Composition of the Board Sub-Committees as at December 31, 2013

Name of Director	Main Board		Board Human Resources and Remuneration Committee		Board Integrated Risk Management Committee		Board Nomination Committee		Board Audit Committee		Board Credit Committee		Board Technology Committee		Board Investment Committee	
	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA	Status	DOA
Mr. D.S. Weerakkody	C	29.7.2005	C	30.12.2011			C	30.12.2011								
Mr. K.G.D.D. Dheerasinghe	M	20.12.2011	M	30.12.2011	C	30.12.2011	M	30.12.2011			C	30.12.2011			C	13.03.2013
Prof. U.P. Liyanage	M	14.12.2010	M	30.12.2011	M	01.04.2011	M	25.11.2011	M	30.12.2011			C	30.12.2011		
Mr. W.M.R.S. Dias	M	14.12.2010	B	14.12.2010	M	27.02.2009	B	14.12.2010	B	14.12.2010	M	20.04.2011	M	11.01.2012	M	13.03.2013
Mr. L. Hulugalle	M	30.03.2011			M	01.04.2011			M	27.05.2011						
Mr. M.P. Jayawardena	M	28.12.2011			M	30.12.2011			M	30.12.2011	M	30.12.2011				
Mr. J. Durairatnam	M	28.04.2012			M	28.04.2012			B	28.04.2012			M	18.06.2012	M	13.03.2013
Mr. S. Swarnajothi	M	20.08.2012			M	24.08.2012			C	24.08.2012						

Status: C - Chairman M - Member B - Participated By Invitation

DOA - Date of Appointment

Reports of the Board Human Resources & Remuneration, Board Integrated Risk Management, Board Nomination, Board Audit, Board Credit, Board Technology and Board Investment Committees appear on pages 187 to 197.

Number of Meetings Held and Attendance

Name of Director	Main Board		Board Human Resources and Remuneration Committee		Board Integrated Risk Management Committee		Board Nomination Committee		Board Audit Committee		Board Credit Committee		Board Technology Committee		Board Investment 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	Eligible to Attend	Attended
Mr. D.S. Weerakkody	12	12	5	5			1	1								
Mr. K.G.D.D. Dheerasinghe	12	12	5	5	4	4	1	1			12	12			10	10
Prof. U.P. Liyanage	12	12	5	5	4	3	1	1	10	3			3	3		
Mr. W.M.R.S. Dias	12	12	5	5	4	4	1	1	10	10	12	11	3	1	10	10
Mr. L. Hulugalle	12	11			4	2			10	10						
Mr. M.P. Jayawardena	12	12			4	2			10	8	12	12				
Mr. J. Durairatnam	12	12			4	4			10	10			3	3	10	10
Mr. S. Swarnajothi	12	12			4	2			10	10						

Following members of the Corporate Management attended the Board Audit Committee (BAC) meetings by Invitation

1. Mr. K.D.N. Luxshman (DGM - Management Audit/Secretary of BAC)
2. Mr. K.D.N. Buddhipala (Chief Financial Officer)
3. Mr. R. Rodrigo (Compliance Officer)
4. Mr. S.C.U. Manatunga (Chief Risk Officer)

Mr. S.M.A. Jayasinghe (Consultant to BAC) attended 8 out of the 10 meetings held during the year

Board Human Resources and Remuneration Committee Report

Composition of the Committee

The Board appointed Human Resources and Remuneration Committee as at the end of the year comprised of the following members:

- Mr. D.S. Weerakkody - *Chairman*
- Mr. K.G.D.D. Dheerasinghe
- Prof. U.P. Liyanage
- Mr. W.M.R.S. Dias - *Managing Director/CEO - (By invitation)*

Except for the Managing Director/CEO who is an Executive Director, all other Directors are Non-Executive Directors.

The Managing Director who is responsible for the overall management of the Bank provides information to the Committee and participates in all deliberations. The Managing Director took part in all deliberations except in relation to those matters where the outcome had an impact on him.

Brief profiles of each member are given on pages 132 and 133.

Charter of the Committee

The Committee is vested with power to evaluate, assess, decide and recommend to the Board of Directors on any matter that may affect the Human Resources Management of the Bank and shall specifically include -

- Determining the compensation of the Chairman, Deputy Chairman, Managing

Director and other members of the Board of Directors of the Bank, while ensuring that no Director is involved in setting his or her own remuneration.

- Determining the compensation and benefits of the Key Management Personnel and establishing performance parameters in setting their individual goals and targets.
- Formulate 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 fulfilment 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 Directors and Executives.
- Approving annual salary increments, bonuses, changes in perquisites and incentives.
- Setting guidelines and policies to ensure that the Bank upholds and adhere to the provisions of the Laws of the Land particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/Director of Bank Supervision in accordance 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.
- To develop a robust pipeline of rising talent capable and available to fill key positions in the Bank.

Guiding Principles of the Committee

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.

Committee Meetings

The Committee held five meetings during the year under review. The attendance of Committee members at meetings is stated in the table on page 186. The Chairman of the Committee can convene

Board Human Resources and Remuneration Committee Report

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 members.

Members of the Corporate Management were invited to participate at the sittings of the Committee meetings as and when required by the Chairman, considering the topics for deliberation at such meetings. The proceedings of the Committee meetings were regularly reported to the Board of Directors.

Methodology used by the Committee

The Committee recognised rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the Bank's compensation philosophy is designed to pay for performance and promotional increases are based on performance and potential.

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

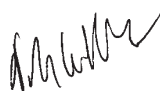
variable pay is set to ensure that individual rewards reflect the performance of the Bank overall, the particular business unit and individual performance.

Further, the Committee may seek external agencies to carry out salary surveys to determine the salaries paid to staff vis-à-vis the market position, enabling the Committee to make informed decisions regarding the salaries in the Bank. Moreover, the Committee also ascertains the engagement levels of staff through Staff Engagement Surveys. A staff engagement survey was carried out during the year.

During the year, the Committee further focused on strengthening the leadership quality and advised the Management to prepare a leadership competency framework with specific behavioural indicators for the Executive Officers in Grade IV and above (Chief Manager to Corporate Management), grades. This framework will be rolled out in 2014 as a further step in addressing matters relating to the development of the Leadership Talent and Succession Management. The Committee also focused on the need to develop strategic thinking at the leadership level in the Bank and directed the Corporate Management of the Bank to undergo a key strategy programme with an eminent resource person from a leading international business school. This was with a view to ensure that

the top team is provided with necessary tools to face the challenging times ahead in the financial services industry. The Committee also initiated Executive Coaching for identified senior leaders of the Bank. These efforts will continue to gear the team with sufficient exposure so that they are equipped to face the future business challenges. The Committee further initiated action to develop a set of customer service competencies and all training of the front line staff to be based on those competencies from 2014 onwards.

The Committee believes that the quality of leadership will drive performance both inside and outside the organisation. Therefore building leadership depth to respond to changing business conditions, execute strategy, increase investor confidence and anticipate customer requirements and set more relevant and impactful leadership standards will continue to be a top priority for the Committee in 2014.



D.S. Weerakkody
Chairman
Human Resources and
Remuneration Committee

Colombo
February 24, 2014

Board Integrated Risk Management Committee Report

Composition of the Committee

The Board appointed Integrated Risk Management Committee (BIRMC) as at the end of the year comprised of the following members:

- Mr. K.G.D.D. Dheerasinghe* - *Chairman*
- Mr. W.M.R.S. Dias - *Managing Director/CEO*
- Prof. U.P. Liyanage*
- Mr. M.P. Jayawardena*
- Mr. L. Hulugalle*
- Mr. S. Swarnajothi*
- Mr. J. Durairatnam - *Executive Director/Chief Operating Officer*
- Mr. K.D.N. Buddhipala *Chief Financial Officer/Secretary of the BIRMC*
- Mr. S.C.U. Manatunge *Chief Risk Officer*

*Independent Non-Executive Director

Please refer pages 132 and 133 for the profiles of the Board members.

Charter of the Committee

The BIRMC was established by the Board of Directors, in compliance with the Section 3 (6) of the Direction No. 11 of 2007, on '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 September 2013 and it clearly sets out the membership, source of authority, duties and responsibilities of the BIRMC. Functions of the BIRMC in the Bank's overall risk management framework have been discussed in detail under 'Managing Risk at Commercial Bank' on pages 210 to 240.

Committee Meetings and the Methodology

The Committee held four meetings on a quarterly basis, during the year under review. The Committee submits a risk assessment report within a week of each meeting to the Board of Directors. The attendance of Committee Members at meetings of the Committee is stated in the table on page 186. The BIRMC assists Board of Directors in performing its oversight function in relation to different types of risks faced by the Bank in its business operations and ensures adequacy and effectiveness of the risk management framework of the Bank. BIRMC also ensures that the actual overall risk profile of the Bank conforms to the desirable risk profile and the risk appetite of the Bank, as defined by the Board of Directors.

The Committee assesses all key risks such as Credit, Operational, Market, Liquidity etc., on a monthly basis through a set of risk indicators established through the risk related policies of the Bank.

The Committee continued to work very closely with the Key Management Personnel and the Board of Directors in fulfilling its statutory, fiduciary and regulatory responsibilities for risk management.

Activities of the Committee

In order to discharge the above duties and responsibilities, the Committee undertakes to carry out the following:

- Reviewing the terms of reference of all Management Committees that are dealing with specific risks or some aspect of risk, such as the Executive Integrated Risk Management Committee, the Executive Committee on Monitoring NPAs, the Credit Policy Committee and the Assets and Liabilities Committee.
- Monitoring the actions initiated by Senior Management to test the effectiveness of the measures taken by the respective Committees referred to above.
- Reviewing the annual work plan, related strategies, policies and framework of the above Committees, to ensure that such Committees have a good understanding of their mandate and are adequate mechanism is in place to identify, measure, avoid, mitigate, transfer or manage the risks within the qualitative and quantitative parameters set by the BIRMC.
- Maintaining a continuous dialogue with the Management Committees directly or indirectly dealing with specific risks, so that the BIRMC is immediately informed of any hindrance, obstacle or constraint in the performance of their functions and/or the implementation of their decisions.
- Periodically reviewing and approving the Internal Capital Adequacy Assessment Process (ICAAP) framework and ensure that ICAAP is subject to comprehensive internal audit oversight.
- Reviewing and improving the effectiveness of the risk related policy framework of the Bank.
- Reviewing risk profiles of subsidiaries of the Bank
- Taking appropriate actions to implement software solutions to support the risk management function of the Bank in order to migrate into advance approaches in Basel II in the future.
- Reviewing the risk indicators designed to monitor the level of specific risks at any given time, with a view of determining the adequacy of such indicators to serve the intended risk management objectives.
- Reviewing the actual results computed monthly against each risk indicator and taking prompt corrective action(s) to mitigate the effects of specific risks, in case

Board Integrated Risk Management Committee Report

such risks are exceeding the prudent thresholds defined by the Board of Directors.

- Reviewing and approving the parameters and limits set by the Management against various categories of risk and ascertaining whether they are in accordance with the relevant laws and regulations as well as the desired policy levels stipulated by the Board of Directors.
- Taking appropriate action against the failures of the officers responsible for risk management functionality to improve the overall effectiveness of risk management at the Bank.
- Monitoring the effectiveness and the independence of the risk management function within the Bank and ensure that adequate resources are deployed for this purpose.
- Reviewing the effectiveness of the Compliance function, to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operations.

- Reviewing the updated Business Continuity and Disaster Recovery Plan annually.

During the year 2013, the BIRMC supported execution of the overall business strategy within a set of prudent risk parameters that are reinforced by an effective risk management framework.



K.G.D.D. Dheerasinghe
Chairman -
Board Integrated Risk
Management Committee

Colombo
February 24, 2014.

Board Nomination Committee Report

Composition of the Committee

The Board Nomination Committee as at the end of the year comprised of the following Independent Non-Executive Directors of the Bank:

- Mr. D.S. Weerakkody - *Chairman*
- Mr. K.G.D.D. Dheerasinghe
- Prof. U.P. Liyanage - (Independent from March 31, 2013)
- Mr. W.M.R.S. Dias - *Managing Director/CEO* (By invitation)

Mrs. R.R. Dunuwille, the Company Secretary of the Bank, functioned as the Secretary of the Committee.

Brief profiles of the members of the Committee are given on pages 132 and 133.

Terms of Reference of the Committee

(a) Purpose of Establishing the Committee

Nomination Committee was established by the Board in compliance with Sub Direction 3 (6) of the Direction No. 11 of 2007 (subsequently amended) on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Monetary Board of the Central Bank under Section 46 (1) of the Banking Act No. 30 of 1988, as amended, to ensure Board's oversight and control over 'Selection of Directors, Chief Executive Officer and Key Management Personnel'.

Matters relating to Key Management Personnel may be dealt with by the Board Human Resources and Remuneration Committee.

(b) Composition of Committee

- The Committee shall be chaired by an Independent Director who has adequate experience in the relevant subject and be constituted with a majority of Independent Directors of the Board to ensure that the responsibilities of the Committee are discharged effectively.
- Chief Executive Officer may be present at meetings by invitation.

(c) Authority of the Committee

- The Committee has the authority to discuss issues under its purview and report back to the Board with recommendations, enabling the Board to take a final decision on the matter.
- If a need arises, professionals from outside may be invited for advice on specific issues.
- Bank staff may be present at Committee meetings for advice or special assignments, on invitation.

(d) Meetings of the Committee

- There shall be a quorum of two-thirds of the members of the Committee to hold a meeting.

- The Committee shall meet as and when a need arises.

Charter of the 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 Key Management positions.
- To ensure that Directors, Chief Executive Officer and Key Management Personnel are fit and proper persons to hold office as per the criteria set out in the Direction issued by the Central Bank of Sri Lanka and relevant statutes.
- 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 any other matter/s referred to it by the Board of Directors.

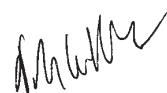
Matters relating to Key Management Personnel may also be dealt with by the Board Human Resources and Remuneration Committee.

Committee Meetings

A Committee meeting was held during the year under review. Attendance of the Committee members at the meeting is given on page 186 Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Methodology Adopted by the Committee

The Committee continued to work closely with the Board of Directors on matters assigned to the Committee and reported back to the Board of Directors with its recommendations.



D.S. Weerakkody
Chairman - Board Nomination Committee

Colombo
February 24, 2014

Board Audit Committee Report

The Composition of the Committee

The Committee is appointed by the Board and as at the end of the year comprised of the following Non-Executive Directors of the Bank:

- Mr. S. Swarnajothi - *Chairman*
- Mr. L. Hulugalle
- Mr. M.P. Jayawardena
- Prof. U.P. Liyanage

The Chairman of the Committee, Mr. S. Swarnajothi, an Independent Non-Executive Director, is a former Auditor General of Sri Lanka and possesses considerable experience in the field of Auditing and Finance. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka (FCA) and a Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA).

Other members of the Committee, namely, Messrs L. Hulugalle, M.P. Jayawardena and Prof. U.P. Liyanage are also Independent Non-Executive Directors.

The profiles of the members are given on pages 132 and 133.

Mr. Manil Jayesinghe serves the Committee in the capacity of a Consultant and is invited to attend its meetings. He is a senior practising Chartered Accountant with long years of experience in Audit, Accounting Standards and Financial Reporting. Bank's Deputy General

Manager in charge of Management Audit, functions as the Secretary of the Committee.

Charter of the Committee

The Audit Committee Charter is periodically reviewed and revised with the concurrence of the Board of Directors. The last review of the Charter was completed in October, 2013. The Terms of Reference of the Committee are clearly defined in the Charter of the Audit Committee. This process ensures that new developments and concerns are adequately addressed. The Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal audit, internal controls and external audit.

The Banking Act Direction No. 11 of 2007 (hereinafter referred as the Direction) on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and its subsequent amendments, 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka further regulate the composition, roles and functions of the Board Audit Committee.

Conduct of Meetings

The Committee held ten meetings during the financial year ended December 31, 2013. The proceedings of these meetings, with adequate details of matters discussed, are regularly reported to the Board of Directors. Managing Director, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Compliance Officer and Deputy General Manager - Management Audit attended the Committee meetings. Representatives of the Bank's External Auditors Messrs KPMG also participated in five meetings during the year by invitation. The Committee also invited members of the Senior Management of the Bank to participate in the meetings from time to time based on necessity.

The attendance of Committee members is stated in the table appearing on page 186.

The Objective and Role

The Audit Committee assists the Board of Directors to effectively carry out its supervisory oversight responsibilities on accounting and financial reporting processes and the audit of the financial statements of the Bank. The Committee is empowered to:

- Examine any matter relating to the financial and other connected affairs of the Bank.

- Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and other Stakeholders.
- Review the quality and the appropriateness of Accounting Policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Ensure that the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good Corporate Governance practices so that its operations conform to the highest ethical standards, good industry practices and in the best interest of all stakeholders.
- Identify, analyse and monitor the risks faced by the Bank and examine the adequacy, efficiency and effectiveness of internal controls and procedures in place to avoid, mitigate or transfer such risks.
- Monitor all internal and external audit and inspection programmes, review internal and external audit/inspection reports and follow up on their findings and recommendations.
- Review the Interim Financial Statements and the Bank's Annual Financial Statements in order to monitor the integrity of such

Board Audit Committee Report

Statements prepared for disclosure, prior to submission to the Board of Directors.

The Bank has complied with the requirements specified in the Section 3 (6) (ii) of the aforesaid Direction. The Committee's functions in discharging the above responsibilities have more fully been described below:

Reporting of Financial Position and Performance

The Board Audit Committee supports the Board of Directors in its oversight on the preparation of Financial Statements that evidence a true and fair view on financial position and performance, based on the Bank's accounting records and in accordance with the stipulated requirements of the new Sri Lanka Accounting Standards. In accordance with the mandate mentioned above, the Committee reviews the following:

- Adequacy and effectiveness of the Internal Controls, Systems and Procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of accounts.
- Effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- Selection of most appropriate accounting policies after considering the alternatives available.

- Processes by which compliance with new Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- Financial Statements in Annual Report and Interim Financial Statements prepared for publication, prior to submission to the Board.

The prevailing Internal Controls, Systems and Procedures were assessed by the Committee, and it expressed the view that adequate controls and procedures are in place to provide reasonable assurance that the Bank's assets are safeguarded and that the financial position of the Bank is well monitored and accurately reported.

Oversight on Regulatory Compliance

The Committee closely scrutinises compliance with mandatory banking and other statutory requirements and the systems and procedures in place to ensure compliance with such requirements. The quarterly reports submitted by the Corporate Management are being used by the Committee to monitor compliance with all such legal and statutory requirements. The Bank's inspection function has been mandated to conduct independent test checks covering all regulatory compliance requirements, as a further monitoring measure.

Identification of Risks and Control Measures

In view of the fact that the Bank has adopted a risk-based audit approach, the effectiveness of the internal control procedures in place to identify and manage all significant risks are being reviewed by the Committee. A Risk Grading Matrix has been adopted for assessing and measuring the operational risks identified during inspections. The Committee seeks and obtains the required assurances from the Business Units on the remedial action in respect of the identified risks in order to maintain the effectiveness of internal control procedures in place.

Internal Audit and Inspection

The Bank's Inspection Department carries out inspection of Branches, certain Business Units and Departments. With the concurrence of the Board of Directors, the Bank continues to engage the services of five firms of Chartered Accountants approved by the Central Bank of Sri Lanka in order to supplement Bank's Inspection Department in carrying out such inspections.

The Committee regularly reviews the programme of inspection formulated for the purpose and its implementation and closely monitors the internal audit and the inspection functions. Over

490 inspection reports on Branches, other Business Units and Departments received the attention of the Committee and the operational deficiencies, lapses highlighted and the recommendations were given due attention. Members of the Committee visited some of the branches to get a better understanding of the branch operations. Major findings of internal investigations with recommendations of the Management were considered and appropriate instructions issued. The Committee also invited representatives from the Audit Firms assisting in branch inspections to make presentations on their observations and findings.

External Audit

In regard to the External Audit function of the Bank, the role played by the Committee is as follows:

- Assisting the Board of Directors to implement the processes of engaging External Auditors for audit services in compliance with the provisions of the Direction and agree on their remuneration with the approval of the shareholders.
- Making all possible endeavours to ensure that the Auditors comply with the guidelines issued to them by the Central Bank of Sri Lanka and the application of the relevant Accounting Standards.
- Reviewing non-audit services provided by the Auditors with a view to ensuring that

Board Audit Committee Report

such functions do not fall within the restricted services and provision of such services will not impair the External Auditors' independence and objectivity.

- Meeting the External Auditors at the conclusion of the Interim Audit conducted as at June 30, 2013 to discuss their findings.
- Discussing with the Auditors their audit plan, scope and the methodology proposed to be adopted in conducting the audit prior to commencement of the Annual Audit.

The Auditors were also provided with the opportunities of meeting the Non-Executive Directors separately, without any Executive being present, to ensure that the Auditors had the independence to discuss and express their opinions on any matter and also for the Committee to have the assurance that the management has fully provided all information and explanations requested by the Auditors.

At the conclusion of the audit, the Committee also met the Auditors to review the Auditor's Management Letter before it is submitted to the Board of Directors and to the Central Bank of Sri Lanka.

Mechanism of Internal Controls

Sections 3(8)(ii) (b) and (c) of the Direction stipulates the requirements to be

complied with, by the Bank to ensure reliability of the financial reporting system in place at the Bank. The Committee is assisted by the External Auditors to closely monitor the procedures designed to maintain an effective internal control mechanism to provide reasonable assurance that this requirement is being complied with.

In addition, the Committee regularly monitors all exceptional items charged to the Income Statement, long outstanding items in the Bank's Chart of Accounts, Credit Quality, Risk Management procedures and adherence to classification of non-performing loans and provisioning requirements specified by the Central Bank of Sri Lanka. The Committee also reviewed the credit monitoring and follow up procedures and the Internal Control Procedures in place to ensure that necessary control and mitigating measures are available in respect of newly identified risks.

Ethics and Good Governance

The Committee continuously emphasised on upholding ethical values of the staff members. In this regard, a Code of Ethics and Whistle-Blowers Charter was put in place and followed for educating and encouraging all members of staff to resort to whistle-blowing if they suspect wrong doings or

other improprieties. Highest standards of Corporate Governance and adherence to the Bank's Code of Ethics are ensured. All appropriate procedures are in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means. The Whistle-Blowers Charter guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers.

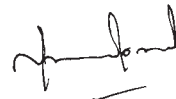
Changeover to New Sri Lanka Accounting Standards

With the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs) and the mandatory implementation with effect from January 01, 2012, the Bank has complied with the requirements of new Sri Lanka Accounting Standards (SLFRS/LKAS). The Committee has sought the support of Messrs Ernst & Young during 2013 to assess and review the existing SLFRS policies and procedures adopted by the Bank.

The Board Audit Committee would continue to monitor the progress, the review process and keep the Board of Directors informed at regular intervals.

Evaluation of the Committee

An independent evaluation of the effectiveness of the Committee was carried out by the other Members of the Board during the year. Considering the overall conduct of the Committee and its contribution on the overall performance of the Bank, the Committee has been rated as highly effective.



S. Swarnajothi
Chairman -
Audit Committee

Colombo.
February 24, 2014

Board Credit Committee Report

Composition of the Committee

The Board Credit Committee (BCC) consists of the following members:

- Mr. K.G.D.D. Dheerasinghe - *Chairman*
- Mr. M.P. Jayawardena
- Mr. W.M.R.S. Dias - *Managing Director/CEO*

Mrs. R.R. Dunuwille, the Company Secretary of the Bank, functions as the Secretary of the Committee.

Brief profiles of each member of the Committee are given on pages 132 and 133.

Mandate and Role of the Committee

The BCC assists the Board of Directors in effectively fulfilling its responsibilities relating to the Credit Direction, Credit Policy and Lending Guidelines of the Bank in order to inculcate healthy lending standards and practices and ensure relevant regulations are complied with.

The Committee is empowered to:

- Review and consider changes proposed from time to time to the credit policy document and the Lending Guidelines of the Bank.
- Analyse and review the credit risk control measures in the lending area, the pricing of lending proposals and also ensure that credit proposals are within the regulatory framework of the Central Bank of Sri Lanka.

- Evaluate, assess and make recommendations on credit propositions submitted to the Board of Directors.
- Evaluate and recommend sector exposures and cross boarder exposures.
- Monitor Non-Performing Loans & Advances and recommend provision cover as required.
- Monitor and evaluate special reports called for by the Board of Directors.
- Set Lending Directions based on the current economic climate.

Committee Meetings

Twelve BCC meetings were held during the year under review. Attendance of the Committee members at meetings of BCC is given on page 186. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Methodology used by the Committee

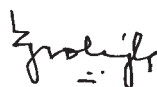
The Committee will meet on a monthly basis and approve credit proposals above a pre-determined limit.

Credit proposals and other papers intended for approval by the Board of Directors are scrutinised to verify the overall credit worthiness and recommended accordingly with or without redress, as required.

Credit proposals are evaluated in the perspective of the Bank's lending policies and appetite.

Closer monitoring is exercised on priority sectors and areas of higher interest.

The BCC operates in consultation with the scope of the Bank's Credit Risk Management to ensure overall coherence between the Bank's credit policies and management.



K.G.D.D. Dheerasinghe
Chairman - Board Credit Committee

Colombo
February 24, 2014

Board Technology Committee Report

Composition of the Committee

The Committee as at the end of the year comprised of the following members:

- Prof. U.P. Liyanage -
Chairman
- Mr. W.M.R.S. Dias -
Managing Director/CEO
- Mr. J. Durairatnam -
*Executive Director/
Chief Operating Officer*
- Mr. A. R.M. Muttiah -
Chief Information Officer
- Mr. L.H. Munasinghe -
*Deputy General Manager -
Marketing*
- Mr. M.E.P. Perera -
*Assistant General
Manager - Operations*

Please refer pages 132 and 133 for profiles of the Board Members.

Charter of the Committee

The Committee was established by the Board of Directors in recognition of the degree of reliance of the Bank on technology, and the growing appreciation of the role of IT Governance.

The Committee has been empowered to:

- Set the overall technology strategy and track progress of the objectives to meet this strategy.
- Review significant technology procurements prior to them being sent to the Board of Directors for approval.
- Analyse emerging technology and its potential use.

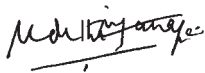
Committee Meetings

There were three Committee meetings during the year with attendance of members listed on page 186.

Periodic updates are given to the Board of Directors on the progress of Board Technology Committee objectives.

Methodology Adopted by the Committee

The Committee endeavours to meet every quarter, and review progress of strategic objectives. The Committee also reviews significant items for procurement and recommends them for approval by the Board of Directors.



Prof. U.P. Liyanage
*Chairman - Board
Technology Committee*

Colombo
February 24, 2014

Board Investment Committee Report

Composition of the Committee

The Committee as at the end of the year comprised of the following members:

- Mr. K.G.D.D. Dheerasinghe - *Chairman*
- Mr. W.M.R.S. Dias - *Managing Director/CEO*
- Mr. J. Durairatnam - *Executive Director/Chief Operating Officer*
- Mr. K.D.N. Buddhipala - *Chief Financial Officer*
- Mr. S.C.U. Manatunge - *Chief Risk Officer*
- Mr. Prins Perera - *Head of Global Markets*
- Mr. A.N.P. Sooriarachchi - *Assistant General Manager - Corporate and Investment Banking*
- Mr. B.A.S.P.S. Balasuriya - *Head of Global Treasury/Secretary of the Committee.*

Please refer pages 132 and 133 for profiles of the Board Members.

Charter of the Committee

The Committee was established by the Board of Directors to assist, guide, and monitor the management of investments of the Bank in compliance with the investment policies and guidelines to meet overall performance objectives of the Bank.

The Committee has been empowered to:

- Have a broad discussion on economic and market environment before arriving at any investment decisions.
- Evaluate important investment proposals of the Bank, in detail before being submitted to the Board for approval.
- Discuss the Balance Sheet impact of investment decisions of the Bank.
- Review overall performances of the Bank particularly that of Treasury operations.

Committee Meetings

This Committee was newly established in March 2013 and there were ten meetings during the year with attendance of members listed on page 186.

Methodology Adopted by the Committee

The Committee endeavours to meet monthly and review progress of strategic investments, liquidity situation of the Bank

and country's economic outlook. The Committee would also explore new opportunities having regard to returns, competition and significant risks associated with the industry.



K.G.D.D. Dheerasinghe
Chairman - Board Investment Committee

Colombo
February 24, 2014

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 as required by Section 168 of the Companies Act No. 07 of 2007

1. General

The Directors of Commercial Bank of Ceylon PLC have pleasure in presenting to the shareholders this Report together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the

year ended December 31, 2013 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 1988 and amendments thereto and the Directions issued thereunder.

The Commercial Bank of Ceylon PLC (the Bank) 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 requirements of the Companies Act No. 07 of 2007 on January 23, 2008, under the Company Registration No. PQ 116.

The ordinary shares (both voting and non-voting) 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. Fitch Ratings Lanka has affirmed Bank's National long-term rating at 'AA(lka)' with a stable outlook and subordinated debentures at 'AA-(lka)'. RAM Ratings Lanka Ltd. has reaffirmed Bank's long and short term financial institution ratings at AA+ and P1, respectively; the long term rating has a stable outlook.

The registered office of the Bank is at No. 21, 'Commercial House', Sir Razik Fareed Mawatha,

Colombo 01, 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' and subsequent amendments thereto, 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 24, 2014.

Section 168 of the Companies Act No. 07 of 2007, 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, 2013):

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Extent of Compliance by the Bank
(i) The nature of the business of the Group and the Bank together with any change thereof during the accounting period	Section 168 (1) (a)	Refer Item 2.2.1 on page 199
(ii) Signed Financial Statements of the Group and the Bank for the accounting period completed	Section 168 (1) (b)	Refer Item 2.3 on page 199
(iii) Auditors' Report on Financial Statements of the Group and the Bank	Section 168 (1) (c)	Refer Item 2.5 on page 199
(iv) Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer Item 2.6 on page 199
(v) Particulars of the entries made in the Interests Register during the accounting period	Section 168 (1) (e)	Refer Item 2.7 on page 200
(vi) Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period	Section 168 (1) (f)	Refer Item 2.8 on page 200
(vii) Amount of donations made by the Bank and its Subsidiaries during the accounting period	Section 168 (1) (g)	Refer Item 2.9 on page 200
(viii) Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	Refer Item 11.1 on page 203

Annual Report of the Board of Directors

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Extent of Compliance by the Bank
(ix) Separate disclosure on amounts payable to the Auditor as Audit Fees and Fees for other services rendered during the accounting period by the Bank and its Subsidiaries	Section 168 (1) (i)	Refer Item 19 on page 206
(x) Auditor's relationship or any interest with the Bank and its Subsidiaries - Audit Fee/Non-Audit Fee	Section 168 (1) (j)	Refer Item 19 on page 206
(xi) Acknowledgement of the Contents of this Report/Signatures on behalf of the Board	Section 168 (1) (k)	Refer Item 27 on page 207

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given on page 2. The business activities of the Group and the Bank are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission, which reflects our commitment to high standards of business conduct and ethics. The Bank issues a copy of its Code of Ethics to each and every staff member and employees are required to abide by the Bank's Code of Conduct.

2.2 Review on Operations of the Group and the Bank

The 'Letter from the Chairman' on page 8 the 'Managing Director's Review' on pages 10 to 14, and the 'Management Discussion & Analysis' on pages 16 to 128, provide an overall assessment on the financial performance and financial position of the Group and the Bank 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 Sections form an integral part of the Annual Report.

2.2.1 Principal Business Activities of the Group and the Bank

The nature of the principal business activities of the Group and the Bank as required by the Section 168 (1) (a) of the Companies Act No. 07 of 2007 is given in Note 1.3 to the Financial Statements and are found on page 273. There were no significant changes in the nature of the principal business activities of the Group and the Bank during the financial year under review.

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 including the Chairman

and the Deputy Chairman, 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 appearing on pages 265 to 376.

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, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow, Significant Accounting Policies and Notes thereto appearing on pages 265 to 376 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act

No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The "Statement of Directors' Responsibility for Financial Reporting" appearing on page 256 forms an integral part of this Report.

2.5 Auditors' Report

The Bank's Auditors, Messrs KPMG performed the audit on the Consolidated Financial Statements for the year ended December 31, 2013, and the Auditors' Report issued thereon is given on page 262 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 Group and the Bank prepared the Financial Statements in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS). The Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank are given

on pages 273 to 298 As required by the Section 168 (1) (d) of the Companies Act No. 07 of 2007, the Board of Directors wish to confirm that there were no changes to the Accounting Policies used by the Group and the Bank during the year.

2.7 Entries in the Interests Register of the Bank

An Interests Register is maintained by the Bank, as required by the Companies Act No. 07 of 2007. All Directors have made declarations as provided for in the Sections 192 (1) & (2) of the Companies Act aforesaid. All related entries were made in the Interests Register during the year under review. The share ownership of Directors is disclosed on page 205. The Interests Register is available for inspection by shareholders or their authorised representatives 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, 2013, are given in Note 14 to the Financial Statements on page 302 as required by the Section 168 (1) (f) of the Companies Act No. 07 of 2007.

2.9 Corporate Donations by the Bank

During the year, the Bank made donations amounting to Rs. 51,319,012/- (Rs. 51,066,000/- in 2012) in terms of the Resolution passed at the last Annual General Meeting. The donations made to Government approved charities out of the above amount was Rs. 150,000/- (Rs. 435,728/- in 2012). 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.

3. ATMs, Delivery Points etc. and Future Developments

During the year, 8 new delivery points were opened (14 in 2012), bringing the total number of delivery points in Sri Lanka to 235 at the end of 2013 (227 at the end of 2012). In addition, the Bank installed 30 new ATMs (55 in 2012) bringing the total number of ATMs in Sri Lanka to 585 by the end of 2013 (555 at the end of 2012). This is the single largest ATM network in the country. In addition to above, the Bank has 18 delivery points (17 in 2012) and 19 ATMs (17 in 2012) at the end of 2013, in Bangladesh.

The Bank actively promoted to use Internet banking, Mobile banking and Online Bill payment features to enable customers' easy access to most banking services 24/7.

The Bank intends to expand its network of delivery channels 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 its customers. Please refer sections on 'Letter from the Chairman' on page 8, 'Managing Director's Review' on pages 10 to 14, and the 'Management Discussion & Analysis' on pages 16 to 128 for further information on future developments.

4. Gross Income

The gross income of the Group for 2013 was Rs. 73.101 Bn. (Rs. 63.374 Bn. in 2012) while the Bank's gross income was Rs. 73.160 Bn. (Rs. 63.395 Bn. in 2012).

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 52 to the Financial Statements on page 355.

5. Dividends and Reserves

5.1 Profit and Appropriations

The net profit before tax of the Group and the Bank increased by 2.65% and 1.51%, respectively in 2013. Further, net profit after tax of the Group and the Bank increased by 4.88% and 3.44%, respectively in 2013.

Annual Report of the Board of Directors

Details of appropriation of Profit relating to the Bank are given below:

	2013 Rs.	2012 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, impairment on loans and advances, Financial VAT and contingencies	14,510,519,718	14,295,337,395
Less: Provision for taxation	(4,065,008,430)	(4,197,004,538)
Net profit after taxation	10,445,511,288	10,098,332,857
Balance brought forward from previous year (net of adjustments arising from conversion to SLFRS)	6,821,651	(314,877,082)
Profit available for appropriation	10,452,332,939	9,783,455,775
Less: Appropriations		
Transfer to the Statutory Reserve Fund	(522,275,564)	(504,916,643)
Transfer to Special Risk Reserve of Primary Dealer Unit	(78,943,244)	(38,172,578)
Transfer to the Special Reserve of Primary Dealer Unit	(236,829,732)	(114,517,734)
Transfer to the Investment Fund Account	(1,991,758,027)	(1,652,606,995)
Transfer to General Reserve	(2,095,000,000)	(2,045,000,000)
Dividends on Ordinary Shares		
1st Interim Dividend paid - Rs. 1.50 per share in cash (Rs. 1.50 in 2012)	(1,273,491,054)	(1,250,160,393)
2nd Interim Dividend paid - Rs. 1.00 per share in cash	-	(833,608,537)
Proposed 2nd Interim Dividend - Rs. 1.00 per share in cash	(849,148,678)	-
Final Dividend - Rs. 2.00 per share in cash (Rs. 2.00 in 2012)	(1,698,297,356)	(1,668,825,622)
- Rs. 2.00 per share in shares (Rs. 2.00 in 2012)	(1,698,297,356)	(1,668,825,622)
Balance carried forward	8,291,928	6,821,651

On this basis, the cash dividend payout ratio amounts to 36.58% of the profit after tax of 2013, compared to 37.16% for 2012, while total dividend payout ratio amounts to 52.84% for 2013 compared to 53.69% for 2012. This is well above the minimum dividend payout ratio of 10%, (10% in 2012) stipulated in the Deemed Dividend Tax Rule.

5.2 Provision for Taxation

The Income Tax rate applicable on the profits earned in Sri Lanka (i.e., the profits of both Domestic Banking operation as well as the profits of the Off-Shore

Banking Centre) is 28% (28% in 2012). The profit of the Bank's Bangladesh Operation is taxed at 42.5% (42.5% in 2012). The profit of the Sri Lankan Operation of the Bank is also liable for Value Added Tax on Financial Services at the rate of 12% (12% in 2012) and Crop Insurance Levy of 1%.

The Group has also provided deferred tax on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes'.

Information on Income Tax Expense and Deferred Taxes of the Group and the Bank

is given in Notes 15 and 33 to the Financial Statements on pages 303 and 336 respectively.

5.3 Dividends on Ordinary Shares

The Directors recommend a dividend of Rs. 4.00 per share as the final dividend for the year 2013 which consists of a cash dividend of Rs. 2.00 per share and the balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares. (The Bank paid a final dividend of Rs. 4.00 per share in 2012 and this was satisfied by way of Rs. 2.00 per share in the form of cash and the balance

entitlement of Rs. 2.00 per share in the form of issue and allotment of new shares). The Bank paid two interim dividends i.e. Rs. 1.50 per share and Rs. 1.00 per share each in cash in November 2013 and in January 2014, respectively (two interim dividends of Rs. 1.50 and Rs. 1.00 per share each in cash were paid in November 2012 and February 2013). Details of information on dividends are given in Note 17 to the Financial Statements on page 305.

The interim dividends were paid out of the profits of the Bank, hence, subjected to a 10% withholding tax.

The Directors recommend to pay a final dividend of Rs. 4.00 per share of which Rs. 2.00 is to be paid in cash which will be paid partly out of dividends received and partly out of exempt/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 satisfied by issue and allotment of new shares, subject to a 10% withholding tax.

The Board of Directors fulfilled 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 Test after the payment of

aforesaid final dividend proposed to be paid in April 2014.

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 provisions.

5.4 Reserves

A summary of the Group's reserves is given below:

	2013 Rs. '000	2012 Rs. '000
Statutory Reserve Fund	3,768,094	3,245,818
Special Risk Reserve of Primary Dealer Unit	266,520	187,577
Special Reserve of Primary Dealer Unit	1,082,513	845,683
Revaluation Reserve	4,615,947	4,737,125
General Reserve	21,298,306	19,203,306
Foreign Currency Translation Reserve	(393,758)	(755,101)
Available-for-Sale Reserve	2,023,468	475,467
Investment Fund Reserve	4,838,693	2,846,935
Retained Earnings	4,359,632	4,172,814
Total	41,859,415	34,959,624

Information on the movement of reserves is given in the 'Statement of Changes in Equity' on pages 268 to 271 and in Notes 44 to 46 respectively to the Financial Statements on pages 344 to 347.

6. Property, Plant & Equipment, Leasehold Property and Intangible Assets

Capital expenditure incurred on Property, Plant & Equipment (including Capital Work-in-Progress), Intangible Assets and Leasehold Property of the

Bank amounted to Rs. 958,204 Mn., Rs. 119,449 Mn., and Rs. Nil., respectively (Rs. 1,197,639 Mn., Rs. 203,032 Mn., and Rs. Nil. in 2012), details of which are given in Notes 30.3, 31 and 32 on pages 329, 334 and 335 to the Financial Statements respectively. Capital expenditure approved and contracted for are given in Note 48.2.2 to the Financial Statements on page 348.

7. Market Value of Freehold Properties

All freehold land and buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 2011, 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 30.5 to the Financial Statements on pages 331 to 333.

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:

Reason for the Issue	Details of the Share Issue	2013		2012	
		Voting Ordinary Shares	Non-Voting Ordinary Shares	Voting Ordinary Shares	Non-Voting Ordinary Shares
Exercise of options by employees under the Employee Share Option Plans	Number of Shares issued	1,445,398	N/A	1,341,768	N/A
	Consideration Received (Rs. '000)	76,074	N/A	62,942	N/A

The Bank did not issue any debentures during the year 2013 or in 2012.

8.2 Issue of Shares and Debentures by the Subsidiaries and Associates

The Subsidiaries and Associates of the Bank did not make any share or debenture issues during the year.

8.3 Stated Capital and Debentures

The Stated Capital as at December 31, 2013 was Rs. 19,586,813 Mn., comprising of 794,535,819 Ordinary Voting Shares and 54,543,222 Ordinary Non-Voting Shares (Rs. 18,008,796 Mn. as at December 31, 2012 comprising of 780,014,232 Ordinary Voting Shares and 53,473,748 Ordinary Non-Voting Shares). The

Annual Report of the Board of Directors

details of the Stated Capital are given in Note 43 to the Financial Statements on pages 342 to 344.

The Bank had in issue 972,660 unsecured, subordinated, redeemable debentures of Rs. 1,000/- each to the value of Rs. 972.660 Mn., as at December 31, 2013 (973,210 debentures to the value of Rs. 973.210 Mn., as at December 31, 2012). The details of debentures redeemed during the year 2013 and those outstanding as at December 31, 2013 are given in Note 42 to the Financial Statements on page 341.

The debenture issues addressed the 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 6 Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Bank is given in the section on 'Investor Relations Supplement' on pages 241 to 254.

10. Substantial Shareholdings

10.1 Information on the Top Twenty Shareholders

Details of the top twenty shareholders for both voting and non-voting ordinary shares, percentages of their respective holdings and percentage holding of the public are given in the section on 'Investor Relations Supplement' on pages 241 to 254.

10.2 Distribution Schedule of Shareholdings

Information on the distribution of shareholding and the respective percentages are given in the section on 'Investor Relations Supplement' on pages 241 to 254.

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, 2013 consisted of eight Directors (eight Directors as at December 31, 2012) 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 132 and 133.

Names of the Directors of the Bank as at the end of 2013, 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	Independence/ Non-Independence Status
Mr. D.S. Weerakkody - <i>Chairman</i>	Non-Executive	Independent
Mr. K.G.D.D. Dheerasinghe - <i>Deputy Chairman</i>	Non-Executive	Independent
Mr. W.M.R.S. Dias - <i>Managing Director/CEO</i>	Executive	Non-Independent
Prof. U.P. Liyanage	Non-Executive	Non-Independent up to March 30, 2013 and Independent from March 31, 2013
Mr. L. Hulugalle	Non-Executive	Independent
Mr. M.P. Jayawardena	Non-Executive	Non-Independent up to October 30, 2013 and Independent from October 31, 2013
Mr. J. Durairatnam	Executive	Non-Independent
Mr. S. Swarnajothi	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 'Annual Report of the Board of Directors' in terms of the Section 168 (1) (h) of the Companies Act No. 07 of 2007.

New Appointments during 2013 - None

Resignations/ Relinquishments/Cessations during 2013 - None

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 390.

11.1.4 Recommendations for Re-election

1. Directors who were appointed to fill casual vacancies

None

2. Directors to retire by rotation

(i) In terms of Article 85 of the Articles of Association, two Directors are required to retire by rotation at each

Annual Report of The Board of Directors

AGM. Article 86 provides that the Directors to retire by rotation at an AGM shall be those who, (being subject to retirement by rotation), have been longest in office, since their last election or appointment.

(ii) The Board recommended the re-election of the following Directors, after considering the contents of the Affidavits and Declarations submitted by them and all other related issues:

- Mr. D.S. Weerakkody
- Mr. M.P. Jayawardena

In terms of the Banking Act Direction No. 11 of 2007 (Corporate Governance for licensed Commercial Banks in Sri Lanka), the total period of service of a Director (other than a Director who holds the position of Chief Executive Officer) shall not exceed 9 years.

Mr. D.S. Weerakkody would complete 9 years on the Board on July 28, 2014.

Accordingly, Mr. Weerakkody is proposed to be re-elected from the conclusion of the Annual General Meeting up to July 28, 2014.

11.1.5 Directors' Meetings

Details of Directors' meetings which comprised Board meetings and all Board Sub-Committee meetings are presented on page 186.

11.1.6 Board Sub-Committees

The Board of Directors of the Bank formed four mandatory Board

Sub-Committees as required by the Banking Act Direction No. 11 of 2007 issued by the Monetary Board on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka'. These Committees play a critical role in order to ensure that the activities of the Bank at all times are 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 of Sri Lanka, the Central Bank of Sri Lanka and the Colombo Stock Exchange.

The composition of these mandatory Sub-Committees as at December 31, 2013 was as follows:

Board Human Resources and Remuneration Committee Members:

- Mr. D.S. Weerakkody - *Chairman*
- Mr. K.G.D.D. Dheerasinghe
- Prof. U.P. Liyanage
- Mr. W.M.R.S. Dias - *Managing Director/CEO (By Invitation)*

The Report of the Board Human Resources and Remuneration Committee is given on pages 187 and 188.

Board Integrated Risk Management Committee Members:

- Mr. K.G.D.D. Dheerasinghe - *Chairman*
- Mr. W.M.R.S. Dias - *Managing Director/CEO*

- Prof. U.P. Liyanage
- Mr. M. P. Jayawardena
- Mr. L. Hulugalle
- Mr. S. Swarnajothi
- Mr. J. Durairatnam - *Executive Director/Chief Operating Officer*
- Mr. K.D.N. Buddhipala - *Chief Financial Officer/Secretary*
- Mr. S.C.U. Manatunga - *Chief Risk Officer*

The Report of the Board Integrated Risk Management Committee is given on pages 189 and 190.

Board Nomination Committee Members:

- Mr. D.S. Weerakkody - *Chairman*
- Mr. K.G.D.D. Dheerasinghe
- Prof. U.P. Liyanage,
- Mr. W.M.R.S. Dias - *Managing Director/CEO (By Invitation)*

The Report of the Board Nomination Committee is given on page 191.

Board Audit Committee Members:

- Mr. S. Swarnajothi - *Chairman*
- Mr. L. Hulugalle
- Mr. M.P. Jayawardena
- Prof. U.P. Liyanage
- Mr. W.M.R.S. Dias - *Managing Director/CEO (By invitation)*
- Mr. H.M.A. Jayasinghe - *Consultant*

The Report of the Board Audit Committee is given on pages 192 to 194.

In addition to above mandatory Board Sub-Committees,

the Bank has set up the following Board Sub-Committees too.

Board Credit Committee:

- Mr. K.G.D.D. Dheerasinghe - *Chairman*
- Mr. M.P. Jayawardena
- Mr. W.M.R.S. Dias - *Managing Director/CEO*

Board Technology Committee:

- Prof. U.P. Liyanage - *Chairman*
- Mr. W. M. R. S. Dias - *Managing Director/CEO*
- Mr. J. Durairatnam - *Executive Director/Chief Operating Officer*
- Mr. R. Muttiah - *Chief Information Officer*
- Mr. L.H. Munasinghe - *Deputy General Manager-Marketing*
- Mr. M.E.P. Perera - *Assistant General Manager - Operations*

Board Investment Committee:

- Mr. K.G.D.D. Dheerasinghe - *Chairman*
- Mr. W.M.R.S. Dias - *Managing Director/CEO*
- Mr. J. Durairatnam - *Executive Director/Chief Operating Officer*
- Mr. K.D.N. Buddhipala - *Chief Financial Officer*
- Mr. S.C.U. Manatunga - *Chief Risk Officer*
- Mr. Prins Perera - *Head of Global Markets*
- Mr. A.N.P. Sooriyaarachchi - *Assistant General Manager - Corporate and Investment Banking*
- Mr. S. Balasuriya - *Head of Global Treasury/Secretary*

Annual Report of the Board of Directors

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,	2013	2012
Mr. D.S. Weerakkody (<i>Chairman</i>)	26,452	26,017
Mr. K.G.D.D. Dheerasinghe (<i>Deputy Chairman</i>)	20,334	20,000
Mr. W.M.R.S. Dias (<i>Managing Director/CEO</i>)	696,594	685,123
Prof. U.P. Liyanage	Nil	Nil
Mr. L. Hulugalle	Nil	Nil
Mr. M.P. Jayawardena	Nil	Nil
Mr. J. Durairatnam	344,336	309,782
Mr. S. Swarnajothi	Nil	Nil
Percentage Shareholding of the Directors		
Ordinary Voting Shares (%)	0.14	0.13

Directors' shareholdings in Ordinary Voting Shares have not changed subsequently to the date of the Statement of Financial Position up to February 6, 2014, the 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,	2013	2012
Mr. D.S. Weerakkody (<i>Chairman</i>)	12,220	11,981
Mr. K.G.D.D. Dheerasinghe (<i>Deputy Chairman</i>)	Nil	Nil
Mr. W.M.R.S. Dias (<i>Managing Director/CEO</i>)	Nil	Nil
Prof. U.P. Liyanage	Nil	Nil
Mr. L. Hulugalle	Nil	Nil
Mr. M.P. Jayawardena	Nil	Nil
Mr. J. Durairatnam	Nil	Nil
Mr. S. Swarnajothi	8,332	8,169
Percentage Shareholding of the Directors		
Ordinary Non-Voting Shares (%)	0.04	0.04

Directors' shareholdings in Ordinary Non-Voting shares have not changed subsequent to the date of the Statement of Financial Position and up to February 6, 2014, the 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

The Bank implemented two Employee Share Option Plans for the Corporate Management and the Executive Officers in Grade III and above in 2008, based on the Bank achieving certain pre-determined performance criteria. The approval of the shareholders was obtained

for this scheme to offer share options up to 3% of the ordinary voting shares of the Bank.

The details of the existing Employee Share Option Plans are given in Notes 43.2 to the Financial Statements on pages 343 to 344.

The Group and the Bank do not have any employee profit sharing plan, except the Variable Bonus Scheme.

14. Directors' Interests In Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 208 and 209. These interests have been declared quarterly 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, 2013 are

given in Note 14 to the Financial Statements on page 302.

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 Group and the Bank have not, to the best of their knowledge, engaged in any activity, which was detrimental to the environment. Specific measures taken to protect the environment are given on pages 42 and 43.

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 on time.

17. Events after the Date of the Statement of Financial Position

No event of material significance that require adjustments to the Financial Statements, has occurred subsequent to the date of the Statement of Financial Position, other than those disclosed in Note 54 to the Financial Statements on page 363.

18. Appointment of Auditors

The Board of Directors of the Bank decided to adopt a Policy of rotation of Auditors, once in every five years, in keeping with the principles of good Corporate Governance.

The present Auditors Messrs KPMG were appointed as Auditors of the Bank, at the Annual General Meeting held in March 2013 to carry out the audit of the Bank for the year ended December 31, 2013.

The retiring Auditors, Messrs KPMG have signified their willingness to continue to function as the Auditor to the Bank.

A resolution to re-appoint KPMG as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

19. Auditors' Remuneration and Interest in Contracts with the Company

The Auditors, Messrs KPMG were paid Rs. 8.596 Mn. for the year ended December 31, 2013 as audit fees by the Bank. In addition, they were paid Rs. 11.294 Mn., by the Bank, for permitted non-audit-related services including tax consultancy services as disclosed in Note 14 to the Financial Statements on page 302. This information is disclosed as required by the Section 168 (1) (i) of the Companies Act No. 07 of 2007.

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 other than being the Auditors for Bank's Subsidiaries and Associates.

This information is disclosed as required by the Section 168 (1) (j) of the Companies Act No. 07 of 2007.

20. Risk Management and System of Internal Controls

20.1 Risk Management

The Bank has an ongoing process 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 'Managing Risk at Commercial Bank' on pages 210 to 240 and in the 'Board Integrated Risk Management Committee Report' that appears on pages 189 and 190.

21. Corporate Governance

Directors' Declarations

The Directors declare that:

- the Company complied with all applicable laws and regulations in conducting its business and have 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 Integrated Risk Management Committee.

- the Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested.
- all endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue.
- the business is a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/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, and
- they have conducted a review of internal controls covering financial, operational & compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.

Annual Report of the Board of Directors

The measures taken and the extent to which the Bank has complied with the Codes of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 142 to 186.

22. Human Resources

The Bank continues to invest in Human Capital Development and implement effective Human Resource Practices and Policies to improve work force efficiency, effectiveness and productivity and also to foster collaborative partnerships that enrich the work and learning environment for our staff.

Specific measures taken in this regard are detailed in the 'Human Resources and Remuneration Committee Report' appearing on pages 187 to 188.

23. Technology

Our Bank's business processes are underpinned by technology. All of our processes involve information technology and we use technology to deliver superior products and services to our customers. Correspondingly, the nature of the business is more heavily intertwined with technology than ever before. Key achievement for the year are detailed

in the 'Technology Committee Report' appearing on page 196.

24. Operational Excellence

To increase efficiency and reduce operating cost the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.

25. Outstanding Litigation

In the opinion of the Directors and in consultation with the Bank's 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 Litigations Pending against the Bank are given in Note 49 to the Financial Statements on page 349.

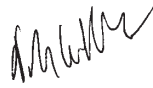
26. Notice of Meeting

Notice relating to the Forty-Fifth Annual General Meeting of the Bank is enclosed herewith.

27. Acknowledgement of the Contents of the Report

As required by the 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.

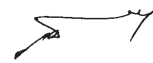
Signed in accordance with a resolution adopted by the Directors.



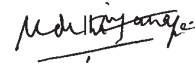
D.S. Weerakkody
Chairman



K.G.D.D. Dheerasinghe
Deputy Chairman



W.M.R.S. Dias
Managing Director/CEO



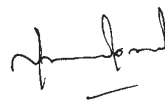
Prof. U.P. Liyanage
Director



L. Hulugalle
Director



M.P. Jayawardena
Director



S. Swarnajothi
Director



J. Durairatnam
Director



Mrs. R.R. Dunuwille
Company Secretary

Colombo
February 24, 2014

Directors' Interest in Contracts with the Company

Related Party Disclosures as per Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures' is detailed in Note 53 to the Financial Statements on pages 359 to 363 of this Annual Report. In addition, the Bank carries out transactions in the ordinary course of business on 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:

Director/Company As at December 31,	Relationship	Accommodation Granted/Deposits	Current Limit	Balance/Outstanding	
			2013 Rs. '000	2013 Rs. '000	2012 Rs. '000
(a) D.S. Weerakkody					
Galle Face Hotel Company Ltd.*		Loans & Advances	150,000	150,000	-
Cornucopia Lanka Ltd.	Chairman	Deposits		150	150
Hemas Holdings PLC	Director	Loans & Advances	649,770	458,629	56,052
Acme Printing & Packaging PLC	Director	Loans & Advances	13,750	2,844	6,001
		Deposits		304	389
International Chamber of Commerce - Sri Lanka	Vice-President	Deposits		5,866	2,910
(b) K.G.D.D. Dheerasinghe					
Bartleat Finance PLC	Chairman	Loans & Advances	120,000	45,418	76,044
		Indirect Facilities	95,500	91,065	2,500
		Deposits		400,720	388,448
(c) Prof. U.P. Liyanage					
Diesel & Motor Engineering Company PLC	Director	Loans & Advances	} 3,491,900	1,674,652	1,272,997
		Indirect Facilities		1,547,380	711,011
		Deposits		72,668	5,214
Chemanex PLC	Director	Loans & Advances	310,000	298,587	94,734
		Indirect Facilities	105,000	10,298	20,918
		Deposits		17	205
Ceylon Cold Stores PLC	Director	Loans & Advances	10,000	-	-
		Indirect Facilities	100,435	-	-
		Deposits		115	651
Talawakelle Tea Estates PLC	Director	Loans & Advances	165,000	8,180	7,602
		Indirect Facilities	10,000	-	-
		Deposits		3,476	116,169
RPC Polymers (Pvt) Ltd.	Director	Deposits		4,499	-
Arpitech (Pvt) Ltd.	Director	Deposits		5,766	-

Directors' Interest in Contracts with the Company

Director/Company As at December 31,	Relationship	Accommodation Granted/Deposits	Current Limit	Balance/Outstanding	
			2013 Rs. '000	2013 Rs. '000	2012 Rs. '000
(d) M.P. Jayawardena					
Cal Exports Lanka (Pvt) Ltd.	Chairman	Loans & Advances	8,515	–	1,952
		Indirect Facilities	78,600	12,688	43,456
		Deposits		7,346	2,618
Yasui Lanka (Pvt) Ltd.	Chairman	Loans & Advances	} 55,020	4,428	30,484
		Indirect Facilities		6,321	7,782
		Deposits		5,161	56,987
Chemanex Exports (Pvt) Ltd.	Chairman	Loans & Advances	10,000	–	–
		Indirect Facilities	29,000	10,000	10,000
		Deposits		2,361	2,018
The Finance Company PLC	Chairman	Loans & Advances	169,500	169,312	64,424
		Deposits		85,698	–
CIC Holdings PLC	Group Director	Loans & Advances	1,235,000	1,069,574	700,935
		Indirect Facilities	250,000	53,760	88,061
		Deposits		3,908	3,538
CIC Vetcare (Pvt) Ltd.	Director	Loans & Advances	100,000	80,220	121,049
		Indirect Facilities	150,000	33,612	53,613
		Deposits		93	1,037
CIC Poultry Farms Ltd.	Director	Loans & Advances	} 729,727	341,380	274,518
		Indirect Facilities		221,295	–
		Deposits		24	24
(e) L. Hulugalle					
Waters Edge Hotel PLC	Director	Loans & Advances	300,000	193,750	85
		Deposits		68,501	110,378

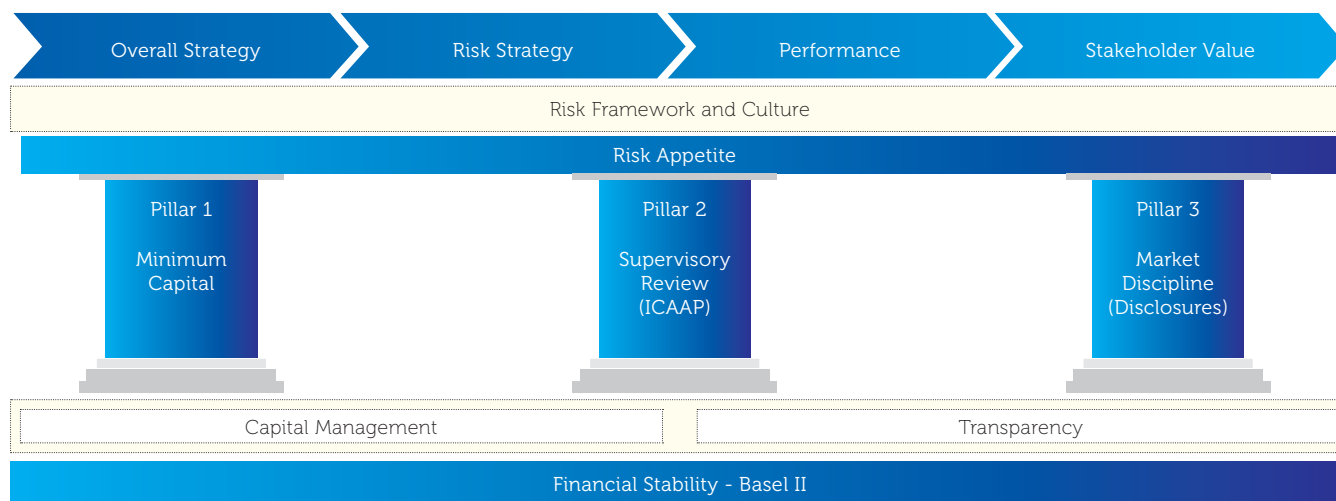
*Managed by Galle Face Hotel Management Co. Ltd. in which Mr. D.S. Weerakkody is a Director.

Comparative figures for 2012 are disclosed only if outstandings are available as at December 31, 2013.

Managing Risk at Commercial Bank

Risk Management Strategy and Framework

Financial Stability Through Risk Management



A clear understanding of risks surrounding the business activities is essential for any organisation to create sustainable stakeholder value through executing its strategies. It is therefore, essential to reinforce the overall strategy of an organisation with a prudent risk management strategy so that the opportunities could be optimised while minimising the effects of down-side risks. Banks which are responsible for the vital role of financial intermediation in the economy should be more committed to managing their risks in a prudent and transparent manner compared to a normal business organisation. Accordingly, Basel Committee on Banking Supervision has formulated broad supervisory standards and guidelines to inculcate industry best practices

across the banking institutions through 'Basel Accords' (Basel II, the second of the Basel Accords which has been extended by Basel III). While Basel Accord encourages convergence towards common approaches and standards, the ultimate purpose of these rules is to create financial stability and resilience in financial sector institutions.

Basel II Framework

The Basel II framework is built on three Pillars and the progress made by the Bank in achieving these standards are discussed below:

	Pillar 1	Pillar 2	Pillar 3
Concept	Maintenance of minimum regulatory capital for credit risk, market risk and operational risk.	Supervisory review process to evaluate the activities and risk profile of the Bank to determine whether the Bank should hold higher level of capital than the minimum requirement in Pillar 1. This mechanism is commonly known as ICAAP (Internal Capital Adequacy Assessment Process).	Complements the minimum capital requirement and the supervisory review process (i.e., the first and the second pillars) by developing a set of disclosure requirements to facilitate market participants to assess the risk exposures of banks and way in which the risks are managed.
Progress Made by the Bank	Computation of capital adequacy as per regulatory requirements (Please refer page 213).	The Bank has developed a comprehensive ICAAP framework with the assistance of an overseas risk consultancy firm.	The Bank started providing a comprehensive set of risk management disclosures from 2012 in line with the regulatory requirements.

Managing Risk at Commercial Bank

The local Regulator, Central Bank of Sri Lanka issued Banking Act Direction No. 07 of 2011, 'Integrated Risk Management Framework to Licensed Banks' on October 5, 2011 based on international best practices. During the last 2 years, the Bank has progressed well in implementing the Risk Management Framework prescribed by the Regulator within the Organisation.

Bank's Risk Appetite Framework

The risk appetite of the Bank is established through its risk-related policy framework which communicates the processes, controls, systems and responsibilities of risk management function. Risk appetite defines the aggregate quantum of risk the Bank is willing to assume in different areas of business while maintaining the desired risk profile in achieving its strategic objectives.

The Bank's risk appetite consists of tolerance limits for various types of risks such as Credit Risk, Market Risk and Operational Risk. Generally, the risk appetite and tolerance levels are periodically reviewed to capture factors such as:

- Evolving business and strategic objectives of the Bank.
- Changing local and global political and economic conditions.
- Changes in regulatory requirements.
- Dynamic competitive business environment.

Clearly defined risk appetite indicators in different categories of risk support consistency in risk-based decisions taken by various officers/committees across the organisation.

Well formulated risk appetite of the Bank ensures that the business plans are executed within the identified risk parameters to optimise the risk - return trade off.

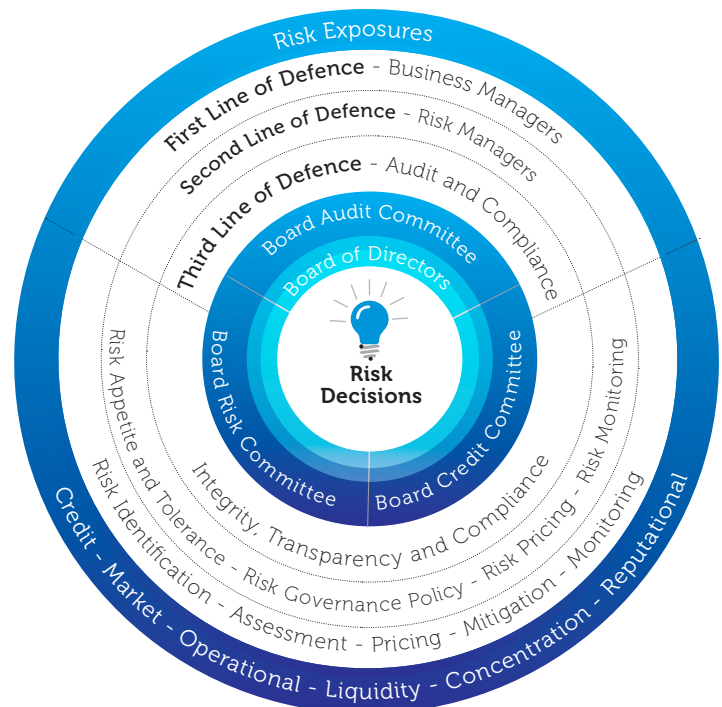
Our Risk Culture and the Risk Management Framework

As a reputed financial institution which is rich with over 90 years of history, Commercial Bank of Ceylon PLC is privileged to have an established risk culture which has supported the Bank to become the largest private sector bank in Sri Lanka. During the last 5 years, this traditional prudent risk culture was reinforced and complemented with the introduction of a formal integrated risk management function independent to the business units.

The Bank's risk culture focuses on enabling the risk assuming functions (i.e., business units) to make objective decisions, in a consistent manner across the Organisation. 'Risk Decisions' are considered to be a shared responsibility of the Business Managers and the Risk Managers; who formulate the 'first and second lines of defence' respectively. 'Third line of defence' in the risk culture is created by the audit and compliance functions

which independently assure integrity and transparency of the risk-related decisions as well as the Risk Management Framework as a whole.

Responsibility of managing the risks across the Bank resides with all levels in the hierarchy from the Board of Directors, Executive Committees to Business and Risk Managers. This structure enables the Bank to take informed decisions after evaluating and challenging them from a risk perspective at various levels.

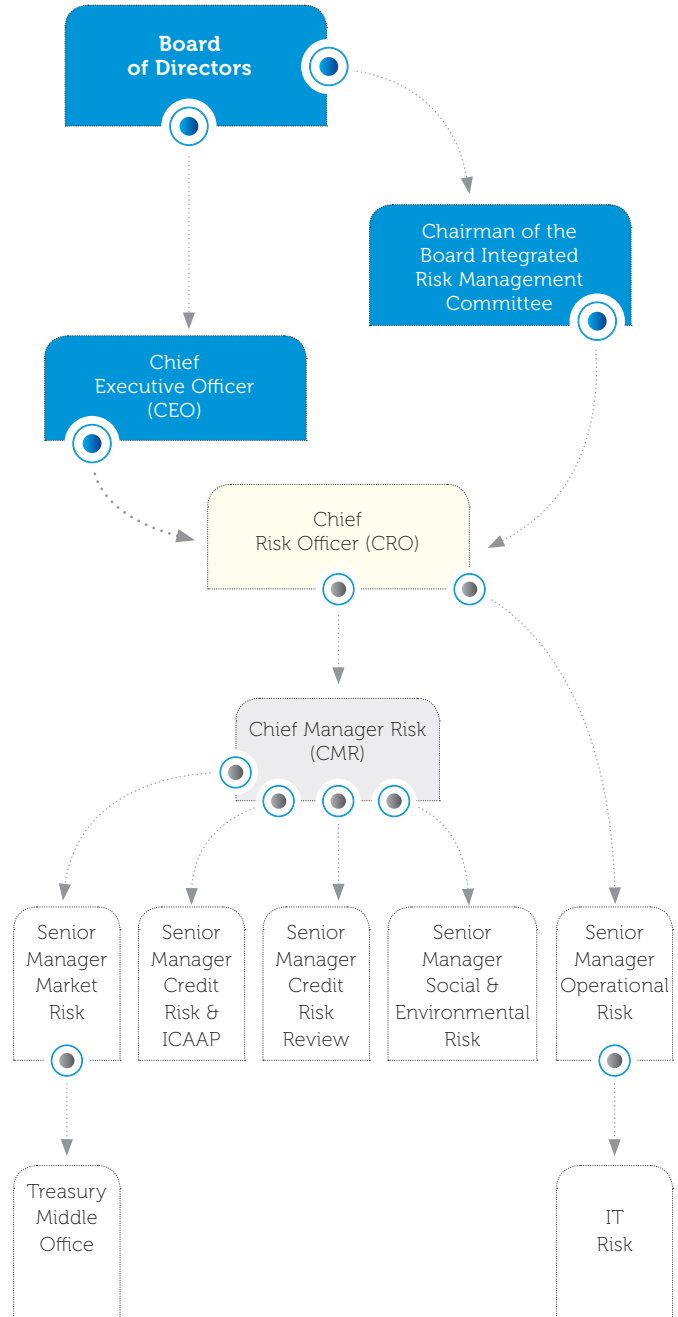


Risk Management Framework is strengthened by risk-related committees listed below:

Committees	Key Objectives	Represented by
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.	Please refer page 189.
Board Credit Committee (BCC)	To assist the Board to analyse and review the credit risk control measures in the lending area and compliance with the CBSL regulations and evaluation and recommendation of high value credit proposals.	Please refer page 195.
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 BIRMC.	Risk Management, Personal Banking, Corporate Banking, Treasury, Inspection, Compliance and Finance.
Assets and Liabilities Committee (ALCO)	To optimise the Bank's financial goals, while maintaining market and liquidity risks within the Bank's risk appetite.	Treasury, Corporate Banking, Personal Banking, Risk Management and Finance.
Credit Policy Committee	To review and approve credit policies/procedures to ensure that all credit portfolios are properly managed within the lending strategies of the Bank.	Corporate Banking, Personal Banking, Risk Management, Inspection, Recoveries and Branch Credit Monitoring.
Executive Committee on Monitoring NPAs	To review and monitor the Bank's Non-Performing Advances (NPAs) above Rs. 5.0 Mn. classified within the preceding one-year period to initiate timely corrective actions to prevent/reduce credit losses.	Corporate Banking, Personal Banking, Recoveries and Risk Management.

Managing Director and Chief Operating Officer are members of all the above Committees.

Risk Management Organisation Chart



Managing Risk at Commercial Bank

Basel II - Pillar 1**Adoption of Basel II - Pillar 1 Approaches**

Risk Type	Approaches Prescribed by Basel II	Approaches adopted by CBC	Future Plan
Credit Risk	Basel Accord prescribes three approaches of increasing sophistication: <ol style="list-style-type: none"> 1. The Standardised Approach 2. Internal Rating Based (Foundation) Approach (F-IRB) 3. Internal Rating Based (Advanced) Approach (A-IRB) 	Presently, the Bank follows The Standardised Approach in calculating the capital requirement for credit risk.	The Bank procured a credit risk management software solution which complies with the Basel II requirements. This would facilitate migrating to Basel II advance approaches in measuring credit risk for capital calculations subject to regulatory approval.
Market Risk	Basel II allows two approaches for determining capital requirement for market risk: <ol style="list-style-type: none"> 1. The Standardised Measurement Method 2. Internal Models Approach - Value at Risk (VaR) Models 	The Bank currently follows The Standardised Measurement Method in estimating the minimum capital requirement for its market risk exposures.	During the year under review, the Bank invested in a market risk software solution which includes VaR models to calculate VaR at portfolio level. This will enable the Bank in progressing towards Internal Models Approach in calculating the capital requirement for market risk as a precursor to our future plans.
Operational Risk	The operational risk related capital could be calculated under three approaches: <ol style="list-style-type: none"> 1. Basic Indicator Approach (BIA) 2. The Standardised Approach (TSA) 3. The Advanced Measurement Approach (AMA) 	The Bank adopts the Basic Indicator Approach in estimating the operational risk-related capital requirements. It also calculates the capital requirements under The Standardised Approach (Please refer page 236) in line with the regulatory guidelines.	The Bank is in the process of developing an automated Risk Control Self-Assessment (RCSA) framework to support advancement towards more robust operational risk measurement techniques.

Capital Adequacy Computation - Group**Computation of Risk-Weighted Assets**

Assets	2013		2012		Risk-Weighted-Balance	
	Total Rs. '000	Total Rs. '000	Total Rs. '000	Risk Weight Factor %	2013 Rs. '000	2012 Rs. '000
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	186,224,330	104,847,253		0	–	–
Claims on foreign sovereigns and their Central Banks	13,013,457	8,387,655		0-150	13,013,457	8,387,655
Claims on Public Sector Entities (PSEs)	1,106,695	261,252		20-150	1,106,695	261,252
Claims on official entities and Multilateral Development Banks (MDBs)	–	–		20-150	–	–
Claims on banks	9,514,102	27,791,198		0-150	4,676,730	11,470,183
Claims on financial institutions	3,483,253	1,863,200		20-150	1,421,616	578,800
Claims on corporates	227,844,770	169,966,572		20-150	216,354,562	159,284,648
Retail claims	64,748,102	102,670,696		75-100	48,566,904	81,944,288
Claims secured by residential property	31,696,981	27,783,126		50-100	26,829,841	27,783,126
Claims secured by commercial real estate	–	–		100	–	–
Non-Performing Assets (NPAs)	7,731,921	6,171,866		50-150	10,914,776	8,179,084
Cash items	11,514,318	11,105,902		0	854	1,633
Property, plant & equipment	9,285,554	9,058,660		100	9,285,554	9,058,660
Other assets	9,928,510	12,352,879		100	9,928,510	12,352,879
Total	576,091,994	482,260,259			342,099,500	319,302,208

Managing Risk at Commercial Bank

Instruments	2013		Credit Conversion Factor %	Credit Equivalent	
	Rs. '000	2012 Rs. '000		2013 Rs. '000	2012 Rs. '000
Direct credit substitutes	19,134,294	18,638,673	100	19,134,294	18,638,673
Transaction-related contingencies	10,835,892	8,505,494	50	5,417,946	4,252,747
Short-term self-liquidating trade-related contingencies	40,559,775	37,441,224	20	8,111,955	7,488,245
Sale and repurchase agreements and assets sale with recourse where the credit risk remains with the Bank	–	–	100	–	–
Obligations under an ongoing underwriting agreement	–	–	50	–	–
Other commitments with an original maturity of up to one year or which can be unconditionally cancelled at any time	68,984,511	73,550,373	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	135,004,752	136,786,449	0-5	2,700,095	2,735,729
Interest rate contracts	–	–	0-3	–	–
Total	274,519,224	274,922,213		35,364,290	33,115,394

Capital Charge for Market Risk

	2013 Rs. '000	2012 Rs. '000
Capital charge for interest rate risk	290,331	214,062
Capital charge for equity	63,000	64,575
Capital charge for foreign exchange and gold	177,955	29,641
Total capital charge for market risk	531,286	308,278
Total Risk-Weighted Assets for market risk	5,312,861	3,082,784

Capital Charge for Operational Risk

Gross Income		
Year 1	23,166,112	20,121,710
Year 2	25,763,771	23,166,112
Year 3	33,013,888	25,837,421
Average Gross Income	27,314,590	23,041,748
Total capital charge for operational risk - (15%)	4,097,189	3,456,262
Total risk-weighted assets for operational risk	40,971,886	34,562,622

Managing Risk at Commercial Bank

Computation of Capital

	2013 Rs. '000	2012 Rs. '000
TIER I : Core Capital		
Paid-up ordinary shares/common stock/assigned capital ++	19,586,813	18,008,797
Statutory Reserve Fund	3,768,094	3,245,819
Published retained profits/(accumulated losses) (+/-)	113,892	1,557
General and other reserves	28,620,738	24,307,575
Minority interests (consistent with the above capital constituents)	38,778	32,141
Less:		
Other intangible assets	(477,728)	(506,160)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	(1,122)	(1,548)
50% Investments in the Capital of Other Banks and Financial Institutions	(402)	(402)
Total Eligible Core Capital (TIER I Capital)	51,649,064	45,087,778
TIER II : Supplementary capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	2,034,231	2,034,231
General provisions	1,656,465	1,500,098
Approved subordinated term debt	10,408,596	778,238
Less:		
50% investments in the capital of other banks and financial institutions	(402)	(402)
Total Eligible Supplementary Capital (TIER II Capital)	14,098,890	4,312,165
Total Capital Base	65,747,955	49,399,944

Computation of Ratios

	2013 Rs. '000	2012 Rs. '000
Total Risk-Weighted Assets (RWA)		
Total risk-weighted assets for credit risk	342,099,500	319,302,207
Total risk-weighted assets for market risk	5,312,861	3,082,784
Total risk-weighted assets for operational risk	40,971,886	34,562,622
Sub Total	388,384,246	356,947,613
Minimum Capital Charge		
Minimum capital charge for credit Risk	34,209,950	31,930,221
Minimum capital charge for market risk	531,286	308,278
Minimum capital charge for operational risk	4,097,189	3,456,262
Sub Total	38,838,425	35,694,761
Total Capital Available to Meet the Capital Charge for Credit Risk		
Total eligible core capital (TIER I Capital)	51,649,064	45,087,778
Total eligible supplementary capital (TIER II Capital)	14,098,890	4,312,165
Total Capital Base	65,747,955	49,399,944
Core Capital Ratio (Minimum Requirement 5%)		
Total eligible core capital (TIER I Capital)	51,649,064	45,087,778
Total risk-weighted assets	388,384,246	356,947,613
	13.30%	12.63%
Total Capital Ratio (Minimum Requirement 10%)		
Total capital base	65,747,955	49,399,944
Total Risk-Weighted Assets	388,384,246	356,947,613
	16.93%	13.84%

(Audited by KPMG)

Credit Risk

Introduction and Objectives

Risk arising as a failure of borrowers/counterparties to meet their debt/contractual obligations is referred to as credit risk. Both On-Balance Sheet and Off-Balance Sheet activities could expose the Bank to credit risk. The lending portfolio of the Bank represents the notional value or principal amount of On-Balance Sheet financial products such as Loans, Overdrafts etc., while products such as Letters of Credit, Letters of Guarantees, Shipping Guarantees, Documents against Acceptance represent the Bank's contingent commitments on behalf of its customers. A deterioration of counterparty credit quality and/or market volatility can lead to potential credit risk-related losses for the Bank. Credit Risk Management activities of the Bank therefore, focus on adopting proactive risk management practices to minimise potential losses from its lending portfolios whilst optimising the related returns.

Credit Risk Appetite

The Board of Directors set the credit risk appetite of the Bank which contains limits on maximum exposures to industry sectors, products and geographies to manage the credit risk within the pre-determined policy parameters. Risk appetite is well defined and documented in the credit policy and the lending

guidelines of the Bank after a thorough qualitative and quantitative assessment. The Bank has classified the sectors which are of limited appeal or of no credit appetite into two main categories; i.e., 'High Risk' and 'Prohibited Appetite'. The sectors which will not be entertained under any circumstances, either due to the very high levels of risks involved or because of negative social/ethical considerations are listed under the 'Prohibited Appetite' whereas the sectors which are perceived to be exceptionally risky have been listed under the 'High Risk' category. Proposals from such 'High Risk' sectors are entertained only under exceptional circumstances with a strong business rationale against suitable risk mitigants.

Credit Risk Management Process

Through assessing, quantifying, pricing, monitoring, mitigating and managing credit risk exposures according to established policies in a consistent manner, the Bank strives to optimise its credit portfolios. The Bank's Credit Risk Management Process is supported by experienced Lending Officers/Committees at various levels in the approval hierarchy who maintain high ethical standards. The credit structuring is also independently monitored by the Risk Management and Audit Functions to ensure integrity and transparency in credit decisions.

The Bank's well-established credit culture is complemented by its policy framework, credit related committees and the Credit Risk Management Function as discussed below:

Assessment and Approval

The Bank's approach to making its lending decisions is systematic and consistent. All the potential credit risk exposures of the Bank are first evaluated by the Lending Officers who are the 'risk owners' of the credit mechanism. The Lending Officers and Credit Committees approve credit facilities in accordance with their respective Delegated Authority; strictly within the credit policy parameters established by the Board of Directors.

The Bank has introduced a comprehensive and robust risk rating system which is compliant with Basel II guidelines. The credit risk rating system encompasses both the capability of representing diverse risk factors through a single point of indicator and predicting the 'Probability of Default' (PD) based on borrower and transaction specific criteria. The sanctioning of credit decision of the Lending Officers will be complemented by these Credit Risk Ratings/Risk Scorings which quantify the overall risk in a credit proposal as per given risk parameters. The risk scoring method is being deployed to assess the personal loans products and microfinancing products

while the risk grading is being used to complement the decision-making process in other lending proposals relevant to corporates and SMEs.

These indicators help the Lending Officers to measure the risk profile of the credit portfolios in an objective manner, while complementing the Bank's endeavours in the direction of progressing from the present Basel II 'The Standardised Approach' towards advanced credit risk related capital computation methodologies.

Credit proposals from different lending areas exceeding certain thresholds are referred to the Integrated Risk Management Department (IRMD) for independent evaluation and final risk approval.

Components of Credit Risk Management

The Credit Risk Management comprises three main functional components namely, Credit Risk Management Function, Credit Risk Review Function and the Environmental Risk Review Function. While the Credit Risk Management Function evaluates proposals at the pre-sanction stage, the Credit Risk Review Function assesses the proposals at post sanction stage. Environmental Risk Review Function plays a role at both pre- and post-sanction stages to ensure that the Bank's lending activities are in conformity with the Bank's Social and Environmental Management System (SEMS) Policy.

Managing Risk at Commercial Bank

Credit Risk Management Function	Independent evaluation and providing final risk approval for all high value credit proposals to ensure that they are in conformity with the established lending policies and the risk appetite of the Bank and to make recommendations for improvements if required.
	Independent evaluation of all new lending products from a risk perspective.
	Maintenance of the risk rating modules.
	Monitoring of Credit Portfolios.
	Monitoring of monthly Key Credit Risk Indicators and reporting them to the EIRMC and BIRMC.
Credit Risk Review Function	Providing an assurance on the quality of lending portfolios and practices through a 'continuous assessment process'.
	Independent evaluation of emerging credit risks.
	Dissemination of the Credit Risk Review findings to the Lending Officers through relevant committees.
	Affirmation of internal risk ratings assigned to individual borrowers and recommending changes wherever required.
Environmental Risk Review Function	Providing assurance that all major lending decisions undertaken by the Bank are consistent with the Bank's policy on Social and Environmental Management System (SEMS).

Policy Framework

The robustness of the Bank's core Credit Risk Management Framework is reinforced by its established policies, procedures and processes including a well-defined approval hierarchy. The Bank's conduct of its credit risk management activities is delineated in the Credit Policy and Lending Guidelines of the Bank to ensure consistency in credit sanctioning across the Bank. These policies ensure quality, consistency and transparency in the credit approvals at all times.

The Bank believes that the credit risk management should be a value enhancing activity that goes beyond regulatory compliance, encompassing:

- i. a credit risk environment which seeks risk optimisation;

- ii. a sound credit approval and granting process based on highest ethical standards;
- iii. an appropriate credit administration, measurement and monitoring process; and
- iv. adequate controls over credit risk on a continuous basis.

The credit risk related policies are designed to capture above standards to preserve the overall quality of the Bank's lending activities.

Credit Risk Mitigation and Monitoring**Collateral Management and Valuation**

The primary source of repayment of credit exposures being cash flows,

collaterals obtained by the Bank wherever possible act as a secondary source of recovery. Collaterals generally include: cash, marketable securities, properties, stocks in trade, trade debtors, machinery, equipment and other physical/financial assets as well as guarantees. The charges created on the collateral could either be fixed or floating and the Bank has put in place clear guidelines to determine the acceptability of collateral as a means of credit risk mitigation based on characteristics of different collaterals [i.e., the realisability in stressed conditions, Loan To Value (LTV) etc.].

Procedures are in place to carry out periodic estimation of collateral values to ensure that they will continue to provide

the anticipated secondary source of repayment in an eventuality. Where collateral values are vulnerable to high volatility of market variables, stringent haircuts and more frequent valuations are carried out by the Bank to take proactive decisions on risk mitigation.

The Non-Performing Advances portfolio is subjected to the 'hair cut rule' which is applicable on collateral valuations based on conservative and pre-determined loan: collateral ratios in compliance with the Banking Act Direction No. 3 of 2008 'Classification of Loans and Advances, Income Recognition and Provisioning'. Bank also adopts more stringent internal policies disregarding collateral cover for NPAs as a prudent measure at times.

The accounting policy relating to the collateral valuation is given in the Notes to the Financial Assets carried at Amortised Cost (page 286).

Credit Risk Monitoring and Reporting

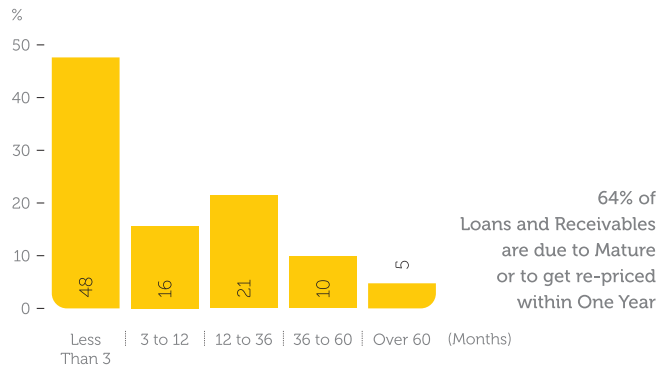
Lending Officers follow up the timely recovery of the advances granted, as per the agreed terms and conditions with the borrower, using various monitoring mechanisms in place. Advances which have potential vulnerabilities requiring close monitoring, supervision or improvement of risk mitigants available for the Bank are identified by the Lending Officers with the assistance of the Branch Credit Monitoring Unit. Key Credit Risk Indicators (KCRIs) are compiled on a monthly basis to analyse the risks of the overall credit portfolio of the Bank, to ascertain potential risks in a proactive manner.

The overall credit risk exposure on certain risk categories (i.e., single borrower, industry sectors, products etc.) are monitored and controlled through a set of prudential exposure limits established by the Credit Policy Committee.

At portfolio level, mechanisms are in place to monitor and report the advances at the highest possible granularity to effectively capture portfolio

characteristics including possible correlations between portfolios/ environmental factors. Further, the Bank tracks the quality of the loan book on a regular basis by analysing the trends in different lending portfolios. This process also enables the Bank to identify any emerging risks in the individual credit portfolios and to take suitable corrective actions in a timely manner preserving the quality of loans and advances. Another main focus of this portfolio management process is to derive the maximum benefit associated with the diversification of the Bank's advances portfolio into myriad of thriving economic segments in order to reduce the overall credit concentration risk while optimising returns.

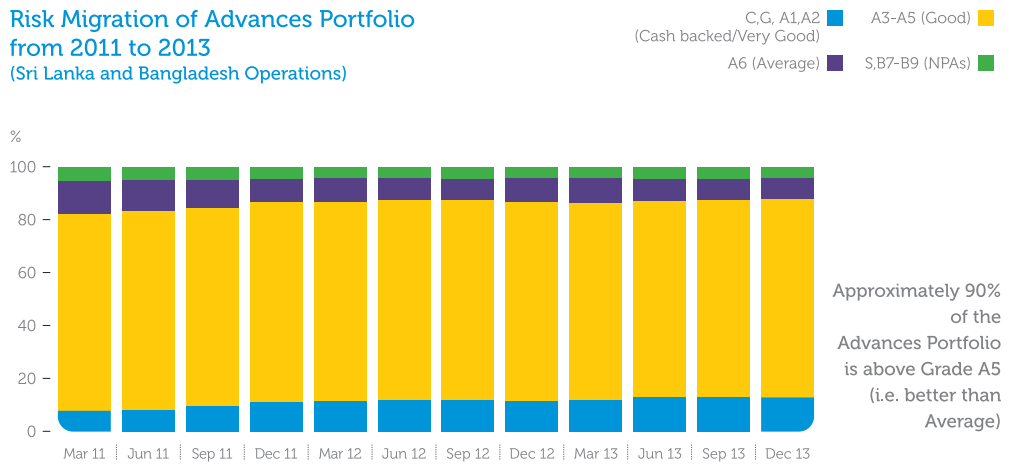
Tenor-wise Breakdown of Loans and Receivables Portfolio (Net of Individual Impairment) as at December 31, 2013



The ability of the Bank to re-price the loans and advances within a relatively short span reflects the Bank's adaptability in a changing interest rate scenario in the market.

(Audited by KPMG)

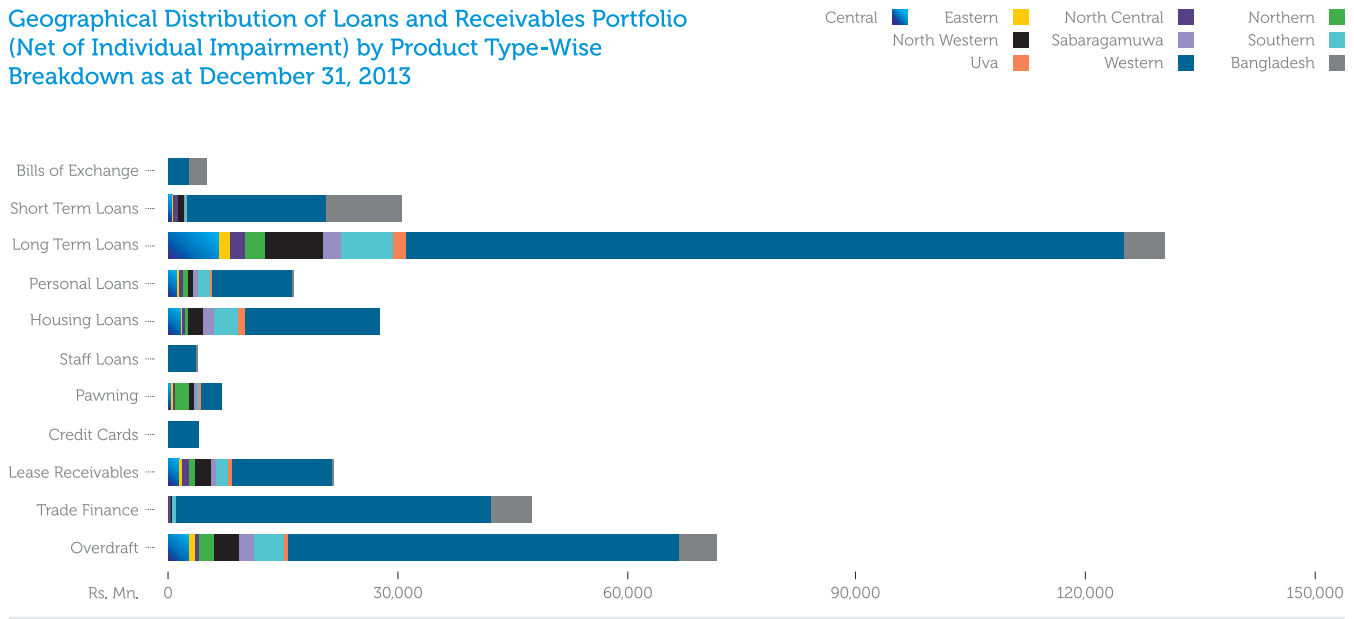
Risk Migration of Advances Portfolio from 2011 to 2013 (Sri Lanka and Bangladesh Operations)



Advances portfolio indicates stable composition on risk gradings right throughout the 3 year period.

Managing Risk at Commercial Bank

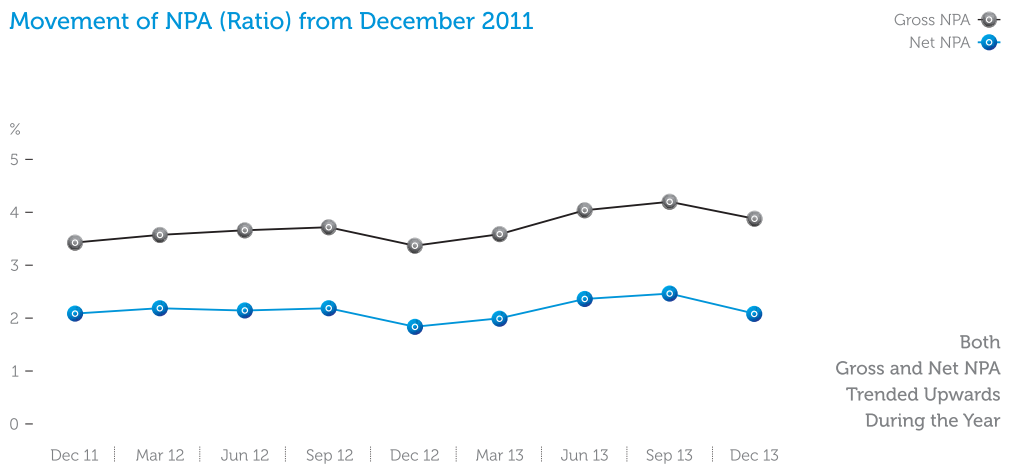
Geographical Distribution of Loans and Receivables Portfolio (Net of Individual Impairment) by Product Type-Wise Breakdown as at December 31, 2013



(Audited by KPMG)

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 74% (approximately) of total advances portfolio of the Bank as at December 31, 2013. Although, Western Province is vested with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the Branches and Corporate Banking Division situated in the Western Province thus reflecting a fairly diversified geographical concentration on such borrowers.

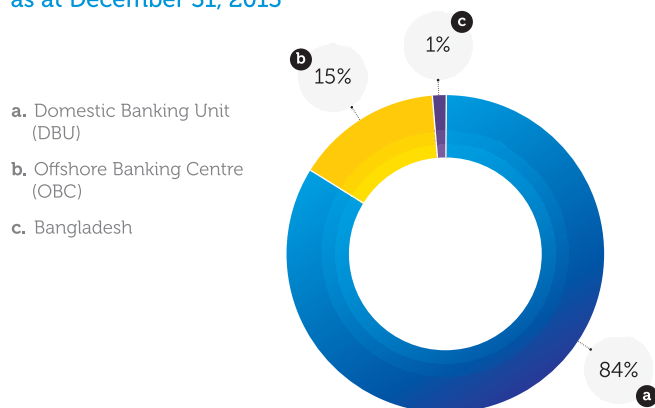
Movement of NPA (Ratio) from December 2011



The trend in gross and net NPA ratio which reflected a slight deterioration towards mid 2013 has settled at an improved position by end of 2013.

(Audited by KPMG)

Distribution of Specific Provisions as at December 31, 2013



Corresponding to the relative sizes of the portfolios, the bulk of the specific provisions have been made on account of borrowers of the Sri Lankan Operation, especially in the DBU.

Segmentation of NPA Portfolio as at December 31, 2013 by Industry Sector (Sri Lanka Operations) (Rs. Mn.)

Industry Sector	Outstanding	Specific Provision	Amount Written Off
Exports	1,109.21	443.59	142.06
Imports	2,282.60	783.63	6.75
Wholesale & retail trading	842.75	332.21	3.76
Construction industry	881.22	210.82	0.06
Industrial	1,929.83	700.46	4.09
Agriculture	868.81	426.05	2.11
Housing	556.06	248.94	3.96
Tourism & allied	1,103.54	831.55	0.84
Personal	3,783.35	1,576.46	28.20
Services	1,322.05	431.26	6.61
Holding companies	4.27	2.51	-
Non-banking financial institutions	28.92	27.92	0.02
State institutions	14.51	14.51	-
Any other commercial activity	441.02	185.96	1.94
Miscellaneous	268.87	67.26	4.92
Total	15,437.01	6,283.14	205.32

(Audited by KPMG)

Note: The above figures have been prepared as per SLAS and may differ from figures based on SLFRS.

Segmentation of NPA Portfolio as at December 31, 2013 by Geographic Area (Rs. Mn.)

	Total NPA	Specific Provisions for bad debts	General Provision
Central Province	688.18	236.18	60.61
Eastern Province	323.50	95.95	12.83
North-Central Province	293.19	133.38	22.60
Northern Province	1,304.56	377.43	19.82
North-Western Province	1,159.48	342.45	68.78
Sabaragamuwa Province	485.26	192.21	29.30
Southern Province	1,412.73	714.04	67.85
Uva Province	186.91	53.92	17.55
Western Province	9,583.18	4,137.58	1,215.48
Bangladesh	429.61	92.03	74.08
Maldives	-	-	-
Other foreign Geographies	-	-	-
Total	15,866.62	6,375.17	1,588.89

Note: The above figures have been prepared based on SLAS and may differ from SLFRS.

Concentration Risk in Credit Portfolios

The total gross loans and receivables from other customers of the Bank stood at Rs. 370,306 Bn. as at December 31, 2013. The breakdown of this exposure by major product types is given in the graph on page 368. By setting various concentration limits under different criteria within the established risk appetite framework (i.e. single borrower, industry sectors, product etc.) the Bank ensures that an acceptable level of risk diversification is maintained across the Bank on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Credit Policy Committee (CPC), the Executive Integrated Risk Management Committee (EIRMC) and the Board Integrated Risk Management

Committee (BIRMC) to strengthen the dynamic portfolio management practices and to provide an early warning on possible credit concentrations.

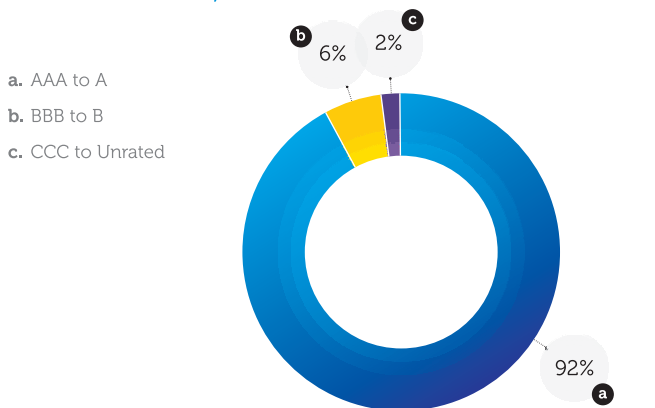
Counterparty Exposures

In addition to the exposure of the Bank to individual customers and local banks, it also has exposures to Banks operating overseas which are referred to as Counterparty Exposures.

The Bank monitors risk relating to counterparty banks at regular intervals by tracking such credit exposures against the established prudent limits. Exposure limits are reduced/cancelled in the event of adverse market information that might hamper performance of a counterparty bank.

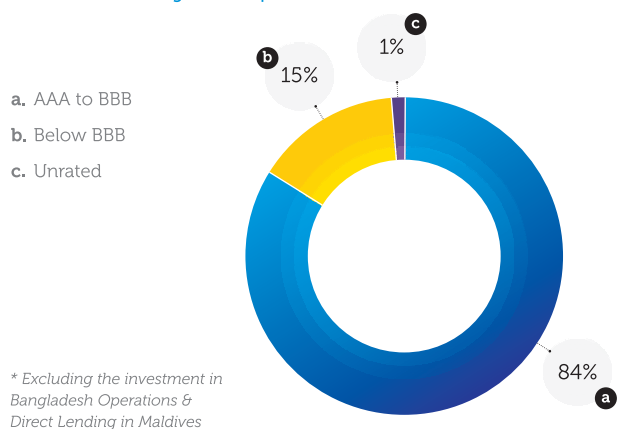
Managing Risk at Commercial Bank

The Concentration of Counterparty Exposure in Sri Lanka based on Nomenclature adopted by Fitch Ratings as at December 31, 2013



The Bank in the course of its normal business strives to deal with other local and foreign banks (counterparties) with high international credit ratings in order to minimise risks on its exposures.

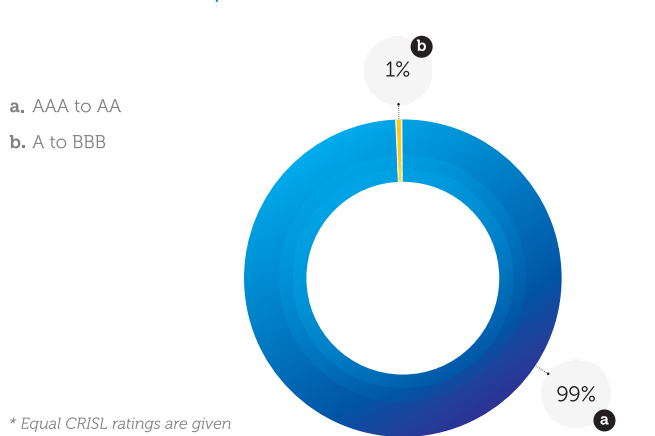
Concentration of Cross-Border Exposure* S & P Rating-wise break down as at December 31, 2013 (Sri Lanka and Bangladesh Operations)



* Excluding the investment in Bangladesh Operations & Direct Lending in Maldives

Bank which is exposed to country risk with a spread of counterparties across the globe is vigilant on developments that are likely to affect settlement of its exposures in the normal course of business. Bank relies on independent risk ratings as a criterion for evaluating cross-border risk.

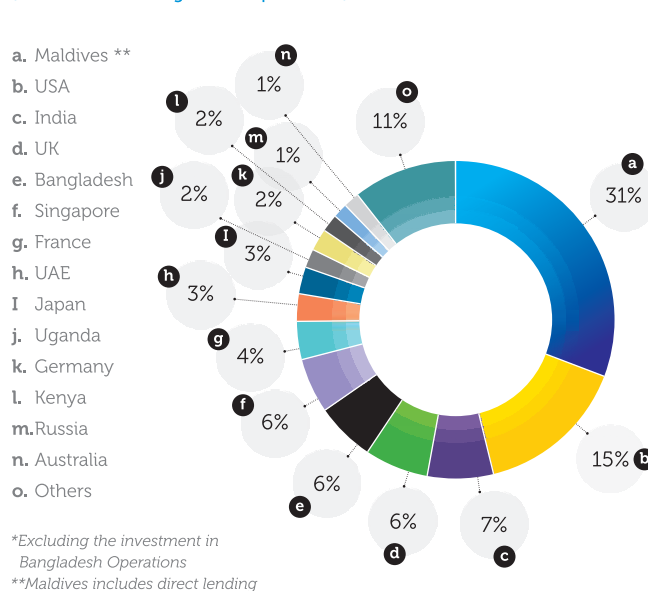
The Concentration of Counterparty Exposure in Bangladesh based on CRAB* Nomenclature as at December 31, 2013



* Equal CRISL ratings are given where CRAB ratings are unavailable

Bangladesh operations of the Bank too adopts a similar approach in order to mitigate risks on its exposures.

Concentration of Cross-Border Exposure* Country-wise break down as at December 31, 2013 (Sri Lanka and Bangladesh Operations)



*Excluding the investment in Bangladesh Operations
**Maldives includes direct lending

(Audited by KPMG)

High level of cross-border exposures to USA, Hong Kong, India and Singapore reflects the intensity in our transactions with counterparties in these countries while Maldives exposure comprises direct lending which accounts for almost 98%.

Cross-Border Exposures

In addition to exposures pertaining to sanctioning and administration of individual credit facilities described under counterparty exposures, the Bank is also exposed to cross-border credit risks. Country/cross-border risk

is the risk of the Bank's inability to obtain payment from our customers, counterparty banks or third parties on their contractual obligations as a result of certain actions taken by foreign governments, mainly relating to convertibility and transferability of foreign currency.

Social and Environment Management System (SEMS)

Even though the operation of banks does not cause significant direct negative impact to the social and environmental well-being, there could be an indirect impact on the environment owing to the consequences of commercial and other activities of its customers and suppliers. In this backdrop, the Bank has put in place a number of procedures aimed at mitigating its indirect negative impact on the environment created by the business and industrial activities it finances via its Social and Environmental Management System (SEMS). Through the SEMS, the Bank takes every effort to ensure that the financing extended to its customers is used to set up and fund operations which are both sustainable and eco-friendly. Since this concern is at the heart of the Bank's sustainability strategy, the SEMS is applied not only for finances extended to its customers but also by the Bank itself in implementation and monitoring of all major activities undertaken. SEMS Officer validates compliance with SEMS for all credit proposals that have an impact to the Social and Environmental aspects as per the independent evaluations of Lending Officers when such proposals are referred for risk evaluation. The SEMS co-ordinator of the Bank is required to submit

periodic confirmations on compliance with International Finance Corporation's (IFC's) terms and conditions and is subject to audit by the Bank's Inspection Department. It is the Bank's intention to extend application of SEMS to all credit proposals in future across all its branches in Sri Lanka in keeping with the Bank's policy on environment sustainability.

Our Bangladesh operation too is in compliance with the Environmental Risk Management Guidelines (ERM) - issued by the Bangladesh Bank (i.e. Central Bank of Bangladesh) which supports and embraces good governance practices prescribed in the Credit Risk Management Function encompassing policy framework for credit approval process. Independent Environmental Risk Rating Mechanism is being adopted as per the Guidelines and any exposures with high vulnerability to be perused by specialised officer on this domain.

Market Risk

Introduction and Objectives

Basel Committee on Banking Supervision has defined market risk in its report on International Convergence of Capital Measurements and Capital Standards as 'the risk of losses in On and Off-Balance Sheet positions arising from movements in market prices'. Accordingly, major sources of market

risks are foreign exchange exposures, interest rate related instruments in trading book, equity/debt instruments in the trading book and commodity exposures.

The Bank, engages in market making, investing activities etc. during the normal course of its business. Trading/ investment portfolios created in such activities may get adversely affected due to changes in the risk factors described below:

- **Foreign Exchange Risks** resulting from exposures to changes in spot and forward rates and volatilities of the exchange rates due to undertaking transactions in a foreign currency or from holding an asset or liability in a foreign currency.
- **Interest Rate Risks** arising out of exposures to instruments where values vary with the level and shape of the yield curve, volatility of interest rates and credit spreads that affect the Net Interest Income (NII) and profitability of the Bank. Such instruments include, but are not limited to, loans, debt securities, certain trading-related assets and liabilities, deposits, borrowings and derivatives. Sources of interest rate risk include re-pricing risk, basis risk, yield curve risk and option risk.
- **Equity/Debt Price Risks** resulting from exposures to changes in prices and volatilities of individual equities/debt instruments.

- **Commodity Price Risks** arising out of exposures to changes in prices and volatilities of individual commodities.

The Bank, with an objective of managing market risk exposure in order to optimise return on risk whilst maintaining an appropriate market profile adopts appropriate market risk management strategies and practices as discussed in the following sections.

Market Risk Appetite

Risk Management Framework of the Bank ensures that market risks emanating from money market activities, capital market activities and financial intermediation are well-managed within the overall risk appetite of the Bank, so that any adverse change in exchange rates, interest rates and debt/equity/commodity prices do not materially affect the profitability, capital and/or the desired risk profile of the Bank.

Bank defines its market risk appetite based on:

- economic and market conditions and their impact on market risk,
- availability of expertise to profit in specific markets together with the ability to identify, monitor and control market risk in such markets,
- desired portfolio mix and how it would be affected if more market risk is assumed.

Managing Risk at Commercial Bank

The risk appetite so defined is expressed by way of quantitative exposure levels in the form of market risk limits and certain quantitative factors as well.

During the year 2013, the Bank did not have any exposures on commodity-related price risk and only a negligible exposure on equity and debt-related price risks which has been less than 1.2% of the total risk weighted exposure for Market Risk. Exposure of the Bank was therefore mainly confined to Interest Rate Risk (IRR) and Foreign Exchange (FX) Risk arising from traditional banking related activities.

Market Risk Management Process

Market risk identification is the first step towards systematic Market Risk Management in the Bank. It involves the recognition of various sources of risks, their characteristics, and possible outcomes as a result of transactions undertaken by the Bank. The three primary sources where the Bank may get exposed to market risk are granting credit facilities, treasury operations (trading and investment activities) and On/Off-Balance Sheet transactions. In all these instances, the existence of the market risk factors such as interest rates, exchange rates, equity prices or commodity prices and changes which could have an impact on the Bank's profitability are identified through systematic evaluation.

Market Risk Management process is carried out in compliance with the Board approved Market Risk Management Policy of the Bank. Documents such as Asset and Liability Management (ALM) Policy, Foreign Exchange (FX) Policy, Derivative Policy, Treasury Policy, Stress Testing Policy and Treasury Operations Manual are used in the Market Risk Management process to ensure that all transactions undertaken by the Bank are within the market risk-related exposure limits and procedures set out therein.

Organisational Structure

Bank's Market Risk Management governance structure is based on the principle that each business head is responsible for the identification and verification of market risks sources, events, causes, consequences and mitigation relevant to their business line.

Market Risk Management Unit (MRMU) of the IRMD is entrusted with the responsibility of co-ordinating and performing daily Market Risk Management activities including measuring, monitoring and reporting of market risk exposures. In addition, MRMU is entrusted with the task of reviewing Bank's market risk-related policy framework which includes Market Risk Management Policy, Asset and Liability Management Policy, Foreign Exchange

Risk Management Policy, Stress Testing Policy etc. The relevant exposure limits are reviewed at least annually, in order to facilitate efficient decision making whilst optimising risk-return trade off, within the Board approved policy limits and guidelines. MRMU also provides independent review on new investment proposals/products originated from different business units in order to evaluate the market risks associated with such proposals/products.

Treasury Middle Office is part of MRMU and functions independently from the risk-taking and operational units [i.e. Treasury Front Office (TFO) - Trading Unit and Treasury Back Office (TBO) - Settlement Unit]. Treasury Middle Office has direct access to information from risk-taking and operational units in order for it to carry out the Market Risk Management and control function effectively.

Policy Framework

Market Risk Management Policy provides a well-defined framework to ensure that market risks assumed by the Bank are well within the overall risk appetite of the Bank.

The Market Risk Management Policy details out factors such as definition of Market Risk, Board and Senior Management oversight in Market Risk Management, identification/measurement/management strategy/monitoring and reporting

Market Risk, Market Risk Management Information Systems and Model Risk Management.

Market risk related limits are set out in the Board approved Market Risk Management Policy, FX Risk Management Policy, ALM Policy, Stress Testing Policy and Derivative Policy which are regularly reviewed by ALCO. In addition to these limits, the Bank has set up Management Action Triggers (MATs) to notify the Management of impending limit breaches or recurring loss events so that proactive and timely preventive measures can be initiated to mitigate potential losses. MATs are set up either at portfolio level or risk factor level to ensure that the market risk exposures and/or potential losses are maintained within the overall risk appetite of the Bank.

Assessment and Approval

Primary responsibility of identifying and assessing market risk lies with the business unit that initiates a particular transaction which creates an exposure, whether it be granting credit facilities or engaging in Treasury transactions. The Bank has clearly laid down procedures and policies in assessing new products to identify potential exposures to market risk related factors. Market Risk Management function of the Bank is enriched with experienced officers/committees at various levels

Managing Risk at Commercial Bank

who ensure high ethical standards in the approval process at all times.

Once the exposures are assumed in the Bank's portfolios, a range of techniques such as sensitivity analysis, stress testing, Marking to Market, are used to assess market risk exposures across its portfolios.

IRR, is a major component of the market risk exposure of the Bank which arises either from engaging in trading/banking activities such as granting credit facilities, accepting deposits, issuing debt or trading in fixed income securities. Bank uses the following mechanisms to assess IRR exposure:

1. Modified Duration

Gap approach analyses change in Economic Value of Equity (EVE) focusing on the value of the Bank's net cash flows. This method maps assets and liabilities into different time buckets, and compares weighted average durations of assets and weighted average durations of liabilities to arrive at the duration gap of equity. In addition, the Bank monitors the magnitude of negative/positive modified duration gaps to identify the impact of interest rate changes on EVE.

2. **Earnings At Risk (EAR)** approach analyses the impact on Net Interest Income (NII) resulting from interest rate changes

on its near term earnings. In this approach, Rate Sensitive Liabilities (RSL) are deducted from Rate Sensitive Assets (RSA) to arrive at the 'Gap' on each time bucket which is measured against the Board approved tolerance limits.

The Bank assesses the impact of changes in interest rates on Net Interest Income (NII) using a methodology which requires forecasting the Balance Sheet for a 12 month period, giving due cognisance to expected future business growth based on the budget, Asset and Liability positioning and the interest rate projections. These factors are then used to evaluate the potential impact on Bank's profitability due to changes in LKR and/or foreign currency interest rates.

In order to assess the impact on exposure to FX risk, the Bank regularly conducts sensitivity analysis on Net Open Position (NOP) due to possible changes in the US \$/LKR exchange rates. An appropriate shock based on average of previous three months US \$/LKR exchange rate is given to the NOP which is measured against the policy threshold.

Market Risk Mitigation and Monitoring

ALCO is entrusted with the responsibility of pricing products and maintaining an appropriate Balance Sheet mix to suit the current

market rates, competition, and the Bank's strategies whilst managing market risk efficiently.

ALCO regularly monitors the movement of indices such as Prime Lending Rate (PLR), Sri Lanka Inter Bank Offered Rate (SLIBOR), London Inter Bank Offered Rate (LIBOR) and rates of Government Securities in order to take appropriate decisions to re-price or re-balance portfolios as necessary to mitigate the Bank's vulnerability to 'Basis Risk'.

Yield curve risk (resulting in sudden shifts in shape and gradient of the yield curve from previous prediction may affect the Bank's earnings or economic value), is also managed by the ALCO through rebalancing of portfolios as appropriate.

In addition, ALCO monitors asset and liability gaps, and rate shock results on NII to initiate appropriate measures such as changing interest rate structure of the Balance Sheet, launching suitable long term/short term products and portfolio rebalancing in order to minimise the impact of re-pricing risk on the Bank's profitability.

IRR of the Bank is centrally measured by IRMD and managed by Treasury in a consolidated manner, through the Funds Transfer Pricing (FTP) mechanism under the guidance of ALCO which facilitates business units

to concentrate on managing non-market risk related factors in their respective portfolios.

Foreign Exchange (FX) Risk of the Bank is defined as the likely impact on earnings or capital resulting from adverse fluctuations in exchange rates due to maturity mismatches of various foreign currency positions other than LKR held by the Bank. Stipulated stringent tolerance limits for individual currency exposures as well as aggregate exposures in accordance with the regulatory parameters, to ensure potential losses resulting from FX rate fluctuations are maintained within the risk appetite of the Bank.

Managing Risk at Commercial Bank

	Up to 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	1-3 Years	3-5 Years	Over 5 Years	Non-Sensitive	Total
Capital	-	-	-	-	-	-	-	-	19,587	19,587
Reserves	-	-	-	-	-	-	-	-	35,069	35,069
Retained earnings	-	-	-	-	-	-	-	-	4,754	4,754
Subordinated debt	9,825	-	-	-	-	973	-	-	-	10,798
Other liabilities	-	-	-	-	-	-	-	-	5,536	5,536
Repos	27,735	4,937	6,163	4,043	2,640	-	-	-	-	45,519
FRAs	-	-	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
Total	274,668	81,862	56,529	54,564	26,274	10,660	7,311	8,746	82,061	602,675
Period gap	(49,624)	2,032	15,100	(17,249)	19,520	43,572	21,670	(1,716)		
Cumulative gap	(49,624)	(47,592)	(31,491)	(49,740)	(30,220)	13,352	35,022	33,306		
RSA/RSL	0.82	1.02	1.27	0.68	1.74	5.09	3.96	0.80		

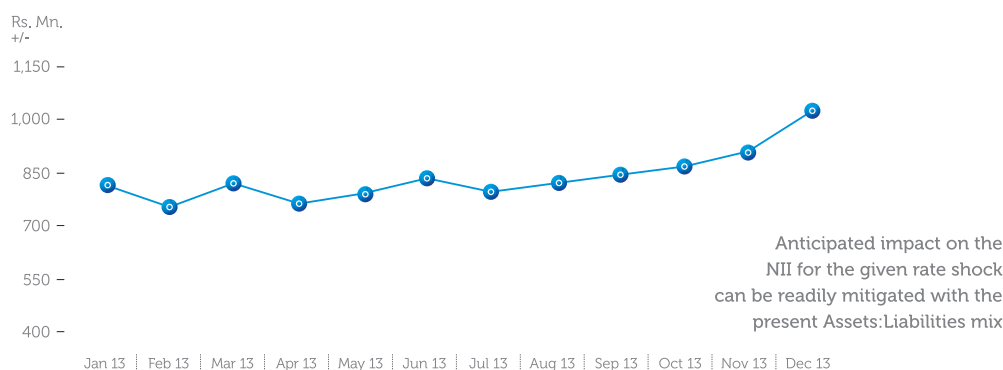
Note 1: The above figures have been prepared as per SLAS and may differ from LKAS/SLFRS figures given in the Statement of Financial Position.

Note 2: Prepared as per disclosure requirements given in the Banking Act Direction No. 7 of 2011 on 'Integrated Risk Management Framework'.

Note 3: RSA = Rate Sensitive Assets

RSL = Rate Sensitive Liabilities

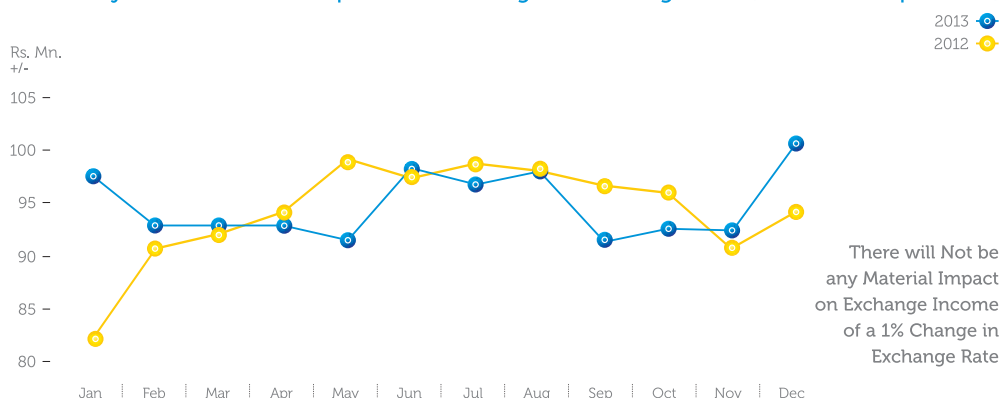
Impact on NII - Rate Shock of 100 bp (on Rupee denominated) and 25 bp (on FCY denominated) Assets and Liabilities (Sri Lankan Operation)



The Bank regularly monitors the sensitivity of NII resulting from changes in interest rates by providing 1% and 0.25% shocks to LKR and foreign currency portfolios asset and liability portfolios respectively and ensures that the variations are prudently managed within the internal tolerance limits. Above graph depicts the sensitivity of NII to rate shocks during the year 2013. The impact on NII in December 2013 compared to that of November 2013 depicts an increase due to a temporary increase in the securities purchased under re-sale agreement.

Managing Risk at Commercial Bank

Sensitivity of FX Position - Impact of 1% Change in Exchange Rate (Sri Lankan Operation)



(Audited by KPMG)

USD/LKR exchange rate fluctuated between a low of Rs. 125.35 and a high of Rs. 133.20 (source: Bloomberg) during the period under review and the annual Rupee depreciation was recorded at approximately 2.40%. Although, the movement in the exchange rate was marginal in 2013, the Bank continued to monitor the sensitivity of the NOP to changes in USD/LKR exchange rates by applying appropriate rate shocks.

Liquidity Risk

Introduction and Objectives

Liquidity risk is the risk to the Bank's financial condition or soundness arising from its inability to meet contractual and contingent financial obligations On or Off Balance Sheet, as they fall due without incurring unacceptable losses. Banks in the business of financial intermediation are by nature vulnerable

to liquidity and solvency risks resulting from asset and liability mismatches. Thus, the Bank's principal objective in liquidity risk management is to assess the need for funds to meet obligations and to ensure the availability of adequate funding to fulfil those needs at the appropriate time by co-ordinating diverse funding sources available to the Bank both under normal and stressed conditions. To achieve this objective, the Bank continuously

analyses and monitors liquidity risk, and maintains an adequate margin of safety in high quality liquid assets at all times. Arrangements are made to access diverse funding sources such as inter-bank market, wholesale and retail repurchase agreements, and have contingency funding agreements with peer banks to meet liquidity requirements. As such, the Bank ensures adequate liquidity to fund its existing asset base as well as grow its business whilst maintaining sufficient liquidity buffers in order to operate smoothly in various market conditions including market disruptions for short term or long term periods.

Liquidity Risk Management Process

Organisational Structure

The Bank's liquidity risk governance structure is modelled in such a

FX Position as at December 31, 2013

('000)

Currency	Spot			Forward			Net Open Position	Net Position in Other Exchange Contracts	Overall Exposure in Respective Foreign Currency	Overall Exposure in LKR
	Assets	Liabilities	Net	Assets	Liabilities	Net				
1	2	3	4=2-3	5	6	7=5-6	8	9	10	11
US Dollars	10,423	6,807	3,616	3,595	4,403	(808)	1,474		4,282	561,004
Pound Sterling	812	54	759	100	906	(806)	(34)		(82)	(17,707)
Euro	920	186	734	100	832	(732)	(4)		(1)	(238)
Japanese Yen	13,172	12,356	816	10,537	16,922	(6,385)	(155)		(5,724)	(7,149)
Indian Rupee										
Australian Dollar	640	177	463		475	(475)	(38)		(50)	(5,900)
Canadian Dollar	27	25	2				0		2	247
Other Currencies in USD	273		273	36	295	(259)	125		138	18,131
Total exposure							USD 1,502		USD 4,186	548,389

Total capital funds as per the latest Audited Financial Statements (capital base of the Bank as at December 31, 2013)

65,579,876

Total exposure as a % of total capital funds as per the latest Audited Financial Statements

0.84%

Managing Risk at Commercial Bank

way so as to ensure that its liquidity position is optimised to support business requirements while maintaining healthy earnings.

As the main stake holder, ALCO plays a pivotal role in Bank's Liquidity Risk Management Framework. ALCO meets at least fortnightly and is entrusted with responsibilities such as managing and controlling overall liquidity of the Bank, reviewing the impact of business decisions on Bank's liquidity, establishing and monitoring liquidity targets as well as strategies and tactics to meet those targets, ensuring availability of sufficient liquidity for unanticipated contingencies while focusing on a strategy that provides effective diversification in sources and tenors of funding, monitoring Off-Balance Sheet activity related liquidity impact and diversifying deposit maturity base to avoid possible concentrations.

In addition, ALCO ensures that adequate liquidity levels are maintained at all times by the Bank to meet daily liquidity obligations with an appropriate asset mix, together with the availability of readily marketable assets, in order to enable the Bank to withstand a period of Bank specific liquidity stress. Further, ALCO analyses the liquidity and profitability requirements of the Bank in each and every investment proposal in compliance with the Bank's overall risk appetite.

Bank's day-to-day liquidity management process is initiated by the Treasury Division which is entrusted to monitor and manage the daily liquidity requirement based on forecasts of cash flow analysis for short and medium tenors. Treasury is also responsible for maintaining contingency funding arrangements with peer banks to meet possible unexpected outflows. Treasury Division also compiles a monthly liquidity gap report to the ALCO in Sri Lanka Rupees and US \$ (covering all foreign currencies) together with proposals to meet any funding requirements.

MRMU monitors the liquidity profile of the Bank through Liquidity Gap Analysis (page 352) and Liquidity Ratios and reports same through the Key Market Risk Indicators to ALCO.

Policy Framework

MRMU reviews the Bank's ALM Policy, Liquidity Policy, Contingency Funding Plan and Liquidity Risk Tolerance limits at least annually and obtains Board approval through ALCO for the adoption of suitable policy parameters and procedures to strengthen the liquidity risk management framework of the Bank.

Liquidity risk management framework of the Bank established through these policies has been designed meticulously so as to optimise the business requirements whilst complying with

the regulatory guidelines. In this regard, the Bank has developed certain funding and liquidity risk management procedures such as maintaining excess liquidity at appropriate levels, and analysing debt maturities together with other potential cash outflows including those that may occur during stressed market conditions, to ascertain liquidity requirements with sufficient buffers. The liquidity policy has established parameters to ensure diversified funding sources including liquidity contingency planning so that the Bank could meet its cash flow requirements without over constraining either resources or earnings.

The Bank conducts liquidity related stress testing exercises as per the guidelines in the Stress Testing Policy of the Bank and reports to the Board regularly. (Refer page 229 for discussion on Liquidity Stress Testing).

Assessment and Approval

The Bank uses a variety of measures in monitoring its liquidity. In this regard, both stock (based on key ratios) and flow (based on cash inflows/outflows in time bands) approaches in assessing its liquidity resources are used.

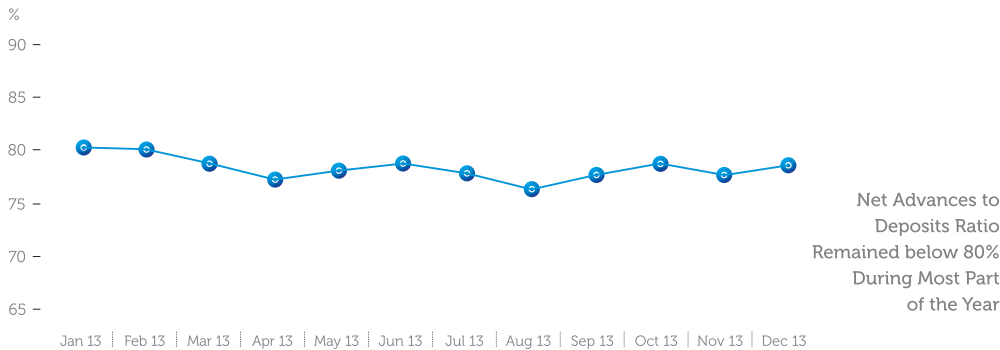
The range of key liquidity risk indicators used by the Bank to assess adequacy of its liquidity position includes, Statutory Liquid Asset Ratio (SLAR), Net

Advances to Deposit Ratio, Dynamic and Static (Structural) Liquidity Gap Summary, Core Funding Ratio, Funding Concentration and Commitments Vs Funding Sources. In addition, the Bank has in place a more stringent internal limit for maintaining SLAR as compared to the minimum statutory requirement of 20% of total liabilities (excluding contingent liabilities) so that it has additional liquidity buffers to mitigate potential risks arising from unexpected liquidity requirements.

The ratio of Net Advances to Deposits is regularly monitored by ALCO to ensure that the assets and liability portfolios of the Bank are geared to maintain a healthy liquidity position. The following graph depicts the movement in Net Advances to Deposits Ratio during the year 2013.

Managing Risk at Commercial Bank

Movement in Net Advances to Deposits Ratio in 2013



(Audited by KPMG)

Liquidity Risk Mitigation and Monitoring

Stress Testing

The Bank regularly carries out liquidity stress tests and scenario analysis as part of its liquidity monitoring activities to evaluate the potential impact of sudden and severe stress events on the Bank's liquidity position. This exercise enables to proactively identify appropriate funding arrangements that can be utilised to manage such stress situations with a minimum financial and/or reputational impact to the Bank.

Contingency Funding Plan

Contingency Funding Plan (CFP) details out the procedure to address unlikely events of both short and long term funding crisis and forecasts funding needs as well as funding sources under different

market scenarios including aggressive asset growth or loan rollover, rapid liability erosion or sharp decline in deposits across a 3-month horizon, which the Bank considers the most critical time span in case of a liquidity crisis. The net funding gaps resulting from contractual and contingent cash and collateral outflows are analysed in order to model the steps to meet the short fall as per the guidelines in the CFP.

Liquidity Stress Testing provides the basis for CFP of the Bank. This is an important part of the wider Asset and Liability Management (ALM) Policy Framework of the Bank and outlines various ways in which the Assets and Liabilities of the Bank are monitored and managed while emphasising ways to avoid any major crisis in liquidity. The CFP covers various scenarios under three levels considering different stress situations, viz. normal conditions, for

both Bank specific (short-term liquidity squeeze) and market specific crisis (Serious Liquidity Crisis). Based on the above scenarios, the Bank's liquidity position shall be gauged for low, medium, and high stress situations for increase in premature withdrawal or sharp decline of wholesale and retail deposits and roll-over of loans. The potential impact of a sharp decline in deposits and loan roll-over on the Bank's Asset and Liability gap would invoke the appropriate Contingency Plan in case a negative cumulative gap is observed in the 3 months maturity bucket. Further, the CFP covers the following areas in detail:

- Management and reporting framework with early warning signals and means to avoid/mitigate possible crisis.
- Documented Management Action Plan with alternative sources of inflows and trigger levels for action.

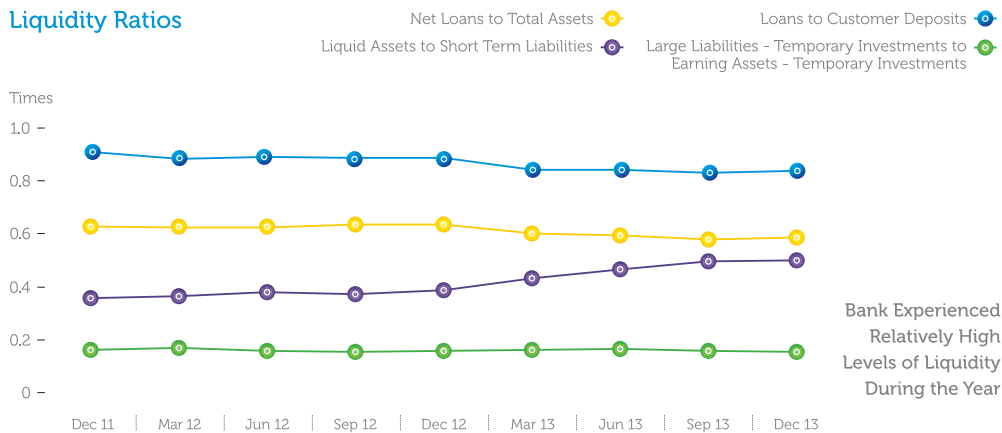
- Communication plan covering both internal and external communications to prevent further escalation or contagion situation.
- Regular sources of liquidity supplemented with contingent sources.

The Bank monitors the stability of funding sources compared to loans and advances granted, using Core Funding Ratio which indicates the quantum of Bank's asset base funded by sufficiently long term liabilities. Throughout 2013, Bank has maintained the Core Funding Ratio well above the policy threshold of 90% which is considered healthy to support the Bank's business model and expected growth. Funding concentration for both LKR and Foreign Currencies is regularly monitored by ALCO, where distribution of main deposit account types is measured against the appropriate deposit base to ascertain potential risks and to initiate corrective action such as rebalancing the portfolios if necessary.

The Bank monitors its potential liquidity commitments by way of future loan disbursements and undrawn overdrafts compared to the available funding sources on a regular basis, to properly plan its cash flows. Potential liquidity risk from undrawn commitments is considered to be very remote as the Bank generally does not have any credit limits having irrevocable commitments.

Managing Risk at Commercial Bank

Liquidity Ratios



The graph above depicts the trends in various liquidity related ratios of the Bank during the period from December 2011 to December 2013.

Operational Risk

Introduction and Objective

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Further, Operational Risk can be broadly defined as risks which cannot be classified as credit risk, market risk or any other specified risk. According to the definition under Basel II Guidelines, strategic risk and reputational risk have been excluded while legal risk has been included under Operational Risk.

There is no mathematical link between individual risk factors vs the likelihood vs size of operational loss. However, Operational Risks losses may exceed those stemming from credit

and market risk related losses due to control failures, natural disasters etc. as experienced in several instances in the international banking arena. Hence, it is vital to focus on management of Operational Risk by establishing proper control mechanisms to eliminate/ minimise the risks inherent in the business processes and monitor/ review such mechanisms on a regular basis.

Operational Risk Management can be viewed as an optimisation between the Bank's desire to cause the least inconvenience to its clients while reducing transaction cost and time on one hand and the desire to implement controls/ safeguards against possible losses on the other hand. Hence, the management of Operational Risk in the Bank is based on the concept of optimising 'Risk vs Service vs Cost'.

Key Objectives of the Operational Risk Management Function of the Bank are to:

- Ensure that the Bank-wide Operational Risks are properly identified, assessed, monitored, reported and mitigated on a continuous basis.
- Minimise the impact of losses suffered in the normal course of business (Expected Losses) and to avoid or reduce the likelihood of suffering large extreme losses (Unexpected Losses).

Operational Risk Appetite and Tolerance

Though risk appetite relating to credit and market risks could be associated with returns, risk appetite for Operational Risk is not aligned with any direct returns. Hence, ideal risk appetite level for Operational Risk is zero. However, if processes, systems, products etc are to be designed to achieve zero risk tolerance level, such mechanisms are bound to

be lengthy, time consuming, costly and causing great inconvenience to the customers as well. Thus in designing a process, system or product, the Bank has to strike a balance between the need to minimise Operational Risk and causing the least inconvenience to clients to keep in line with the concept of 'Risk vs Cost Vs Service'. Hence, zero level tolerance for Operational Risk cannot be practically achieved since all banking products and processes are associated with varying levels of Operational Risks where some of those cannot be fully mitigated unless the product or process is completely withdrawn.

The Bank has a low appetite for material risks it is exposed to. Accordingly, Bank has established tolerance levels for all material Operational Risk Loss types by considering several factors which include historical loss data, budgets and forecasts, performance of the Bank, existing systems and controls governing Bank operations.

Considering the above factors, following thresholds have been established by the Bank for monitoring purpose based on audited financials:

- Alert Level - 03% of the average gross income for the last three years.
- Maximum Level - 05% of the average gross income for the last three years.

Managing Risk at Commercial Bank

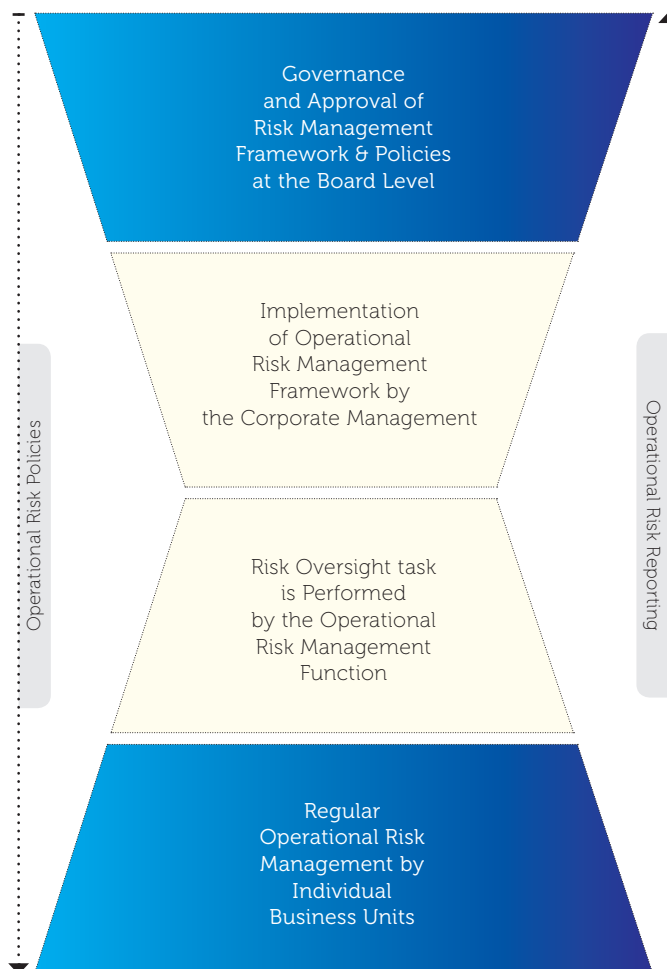
In addition to the above, the Bank has established thresholds for selected non-financial Operational Risk Indicators as well. Operational Risk Unit (ORU) of the Bank closely monitors and reports the actual operational losses against the above tolerance levels on a monthly basis under each loss type to the EIRMC.

ORU initiates necessary actions to review the existing controls relating to any operational loss event type which reaches Alert Level and proposes additional controls if the existing controls are deemed to be inadequate.

Actual Operational Risk related losses for the current year is mere 0.18 % (of average audited gross income for last three years) which is well within the internal alert level of 03% as illustrated in the graph below. Further, consistency of the Bank in maintaining losses at minimal levels over the last five years is evident when comparing position over the period which is depicted in the graph below:

Operational Risk Management Process

Bank's Operational Risk Management structure consists of the following vertically arranged elements.



Policy Framework

A well articulated Operational Risk Management Policy has been implemented in the Bank with a view to minimise the operational losses and to improve the systems and controls in relation to the business processes of the Bank.

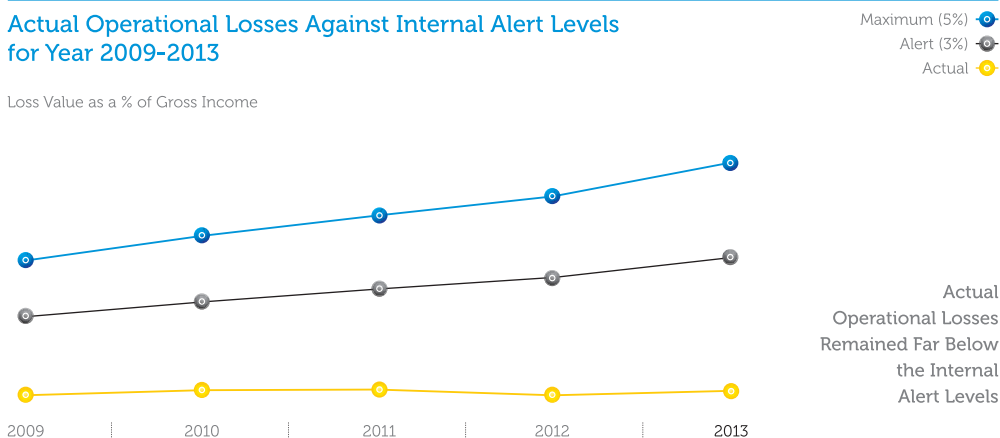
The Operational Risk Management Policy mainly focuses on the factors such as definition and types of Operational Risk, organisational structure relating to management of Operational Risk, authorisation and responsibilities of the Board of Directors/Corporate Management/all other risk owners, role of Operational Risk Unit, general approach towards addressing and minimising Operational Risk through risk identification/assessment/monitoring/mitigation/reporting, risk appetite/tolerance levels, developments in Business Continuity Management and Disaster Recovery Plans.

Identification and Assessment of Operational Risk

Risk Control Self-Assessment (RCSA) forms an integral part of the overall Operational Risk Framework, as it helps the Bank in risk identification and improving the understanding, control and oversight of its Operational Risks. As a part of RCSA exercise, the Bank identifies and assesses the risks and controls in various products and processes of its critical units.

Actual Operational Losses Against Internal Alert Levels for Year 2009-2013

Loss Value as a % of Gross Income



Actual Operational Losses Remained Far Below the Internal Alert Levels

Half-yearly review of risk management measures adopted by the Bank is in place to facilitate an effective Operational Risk Management process. The Bank applies a consistent approach to the identification of key risks, evaluates the impact of such risks and adopts appropriate risk management measures to mitigate the risks across all business lines. All the identified risks are assigned to the relevant risk owners and reviewed/updated at regular intervals with the assistance of the ORU.

With the assistance of the recently acquired Operational Risk software solution, the Bank is planning to automate the RCSA processes which in turn will enhance the capabilities to manage the Operational Risks. The findings from the RCSA exercise is used to formulate appropriate action plans to address identified control gaps which are monitored as part of the overall operational risk management exercise. Thus, RCSA promotes analysis and monitoring of factors that affect the level of Operational Risk profile of the Bank.

This exercise helps to;

- assist the business entities to identify and assess major Operational Risks

relating to their respective areas on a regular basis,

- identify high level of inherent and residual risks,
- facilitate in drawing action plan for the improvement of Operational Risk management and control gaps, and
- generate reports on the overall control environment of the Bank.

Risk assessment assists the Bank in understanding the way in which a potential event might affect the achievement of objectives and estimating the impact of such events on the overall Operational Risk profile of the Bank. The Bank assesses the identified Operational Risks from two perspectives: 'Impact and Likelihood'. Likelihood represents the possibility that a given event will occur, while the Impact represents the effect of such an event materialising.

Each risk is assessed in terms of the likelihood and impact to quantify and map the seniority by using a '5X5 Impact: Likelihood' matrix. All identified risks are then prioritised based on the individual scores derived for each risk. This helps the Bank to adopt suitable risk responses/mitigatory measures for identified risks depending on the potential threat.

Operational Risk Mitigation and Monitoring

Monitoring and Reporting

Monitoring and reporting under the Operational Risk Management Framework mainly rallies around the functions relating to monitoring of Key Operational Risk Indicators (KORIs) and their tolerance levels and reporting the same to designated committees. Further, monitoring/reporting of compliance with mandatory banking and other statutory requirements, abnormal transactions including Anti-Money Laundering and Terrorist Financing activities, internal/external reporting of losses/other Operational Risk events could also be counted as key functions supporting the monitoring and reporting of Operational Risk.

Mitigation Strategies

Operational Risk mitigation strategies of the Bank consists of comprehensive policies approved by the Board of Directors and close supervision exercised by the relevant officers supported by clear lines of management responsibility, accountability and reporting. Further, the Bank maintains a strong internal

control environment encompassing detective, preventive, oversight, resolution/response, planning/guidance, governance etc. controls to mitigate various risks associated with banking operations. Continuous emphasis through training and creating risk awareness across the Bank together with high standards of ethics and integrity also boost Bank's risk mitigatory measures.

Insurance Policies (For Transferring Operational Risk)

The Bank adopts a 'risk transfer strategy' for low probability - high impact events and uncontrollable Operational Risk events such as damage to physical assets by natural disasters, fire etc. Accordingly, the Bank has transferred insurable risks by obtaining insurance policies from reputed insurance providers covering assets of the Bank against possible harm

Managing Risk at Commercial Bank

from natural causes and other hazards, external and internal frauds. etc.

Controllable Operational Risks such as errors/ omissions, information security incidents and losses incurred in facilitating electronic payment mechanisms have been insured where the possible loss value exceeds a certain threshold. All insurance policies obtained by the Bank have been reviewed by the Operational Risk Unit regularly to ascertain the adequacy of insurance cover against various risks associated with the banking operations.

Outsourcing

Certain functions have been outsourced by the Bank after carefully evaluating the risk factors and carrying out cost-benefit analysis of such decisions in accordance with the outsourcing policy. All outsourced functions are covered by agreements executed by the Bank with the relevant vendors.

The Bank carries out regular reviews of the outsourced vendors including due diligence tests and Business Continuity Plans adopted by the service providers. Details of all outsourced functions are reported to the Central Bank of Sri Lanka annually.

Employment of Technology

Upgrading of existing Information Technology systems including the core-banking system and implementation of new software solutions is being done as and when required. These software solutions are implemented/upgraded in a timely manner to avoid any technological obsolescence which could result in potential operational losses to the Bank. All modifications to the existing systems and the implementation of new systems are routed through proper approving channels with recommendations of the Information Systems Audit and IT Risk to ensure that all the required security measures and controls are in place before they are put into use.

During the year, the Bank acquired an Operational Risk Management software solution to enhance effectiveness of the Operational Risk Management Framework. This particular software covers loss data collection and reporting, Risk Control

Self Assessment (RCSA), Key Risk Indicators (KRIs), Operational Risk capital calculation etc., which will ultimately increase Operational Risk Management capabilities.

Business Continuity Plan (BCP)

A comprehensive disaster recovery process covering all business units of the Bank has been laid down under the Business Continuity Plan (BCP) which is regularly reviewed/ updated by the BCP Committee of the Bank. Present BCP of the Bank consists of following key areas:

- Emergency guidelines for banking services
- Risk assessment worksheets
- Emergency response procedure
- Call Trees
- Site and road plans

Further, independent risk assessments of the BCP have been carried out by the Operational Risk Unit as well as the Internal Audit in order to ensure the effectiveness of the Bank's BCP and to verify its conformity to regulatory guidelines.

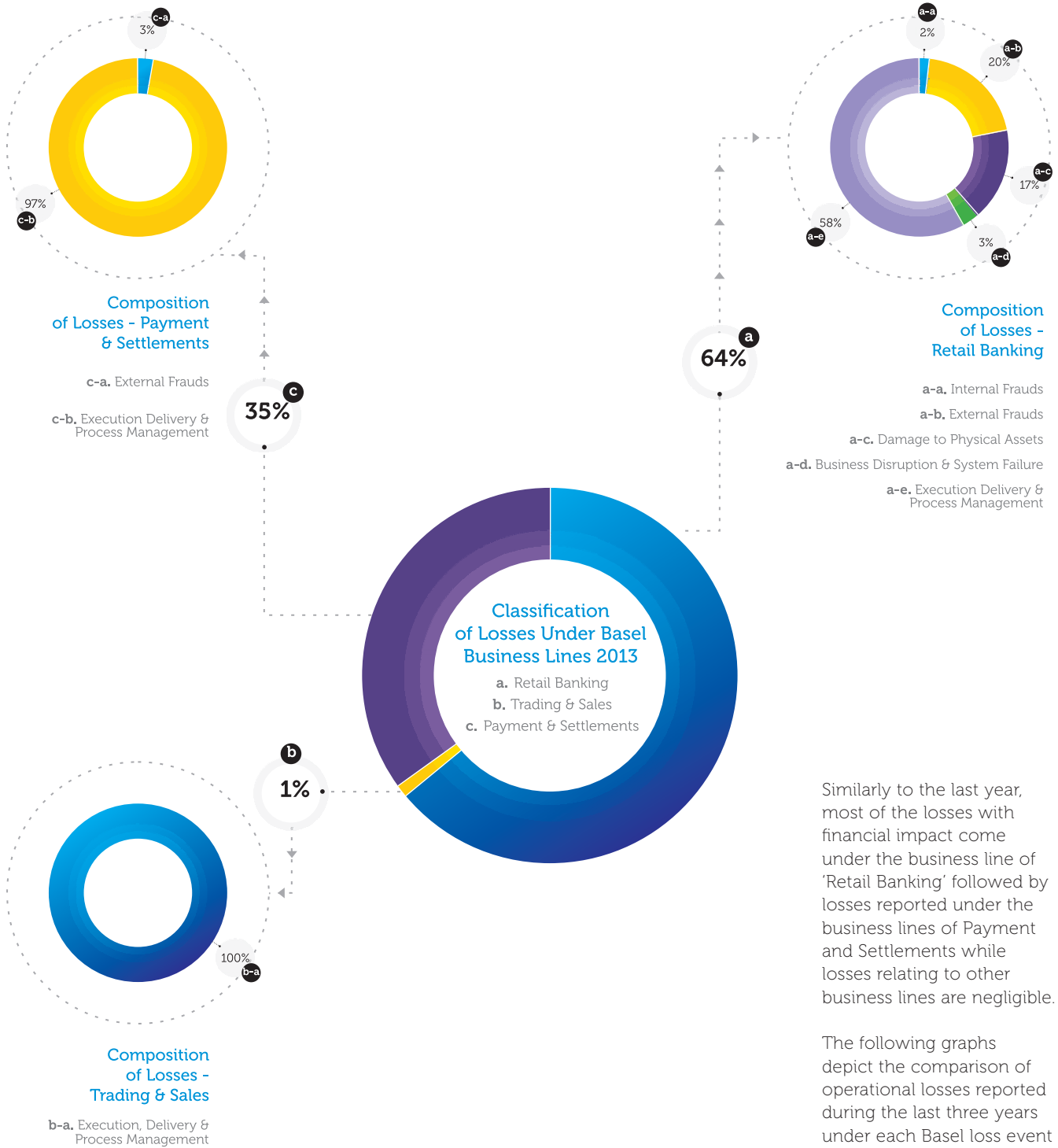
Analysis of Loss Events

The Operational Risk Unit (ORU) of IRMD is maintaining an Operational Risk loss event database of the Bank by collecting losses reported from various units, including losses without any financial impact and 'near misses'. ORU is analysing such data to ascertain trends, patterns of recurring losses in order to identify potential risks in advance, and to adopt proactive mitigatory measures to prevent/ minimise potential losses.

The loss data has been recorded according to the Basel event types under each business line as per the regulatory guidelines. Bank has successfully collected loss data for a period of six years which is one of the major components in moving towards advance approaches in Operational Risk capital calculations in future as prescribed by Basel II, subject to regulatory approval.

Following charts indicate the percentages of Operational Risk losses incurred by the Bank under each business line/category during the year 2013.

Classification of Losses under Basel Business Lines



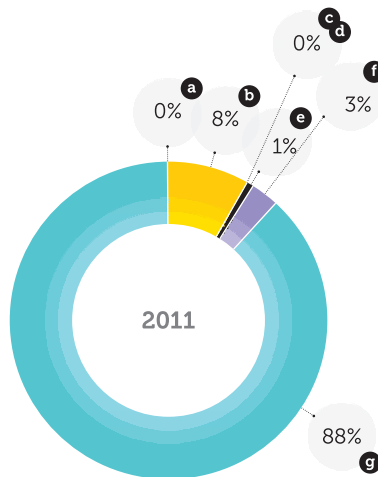
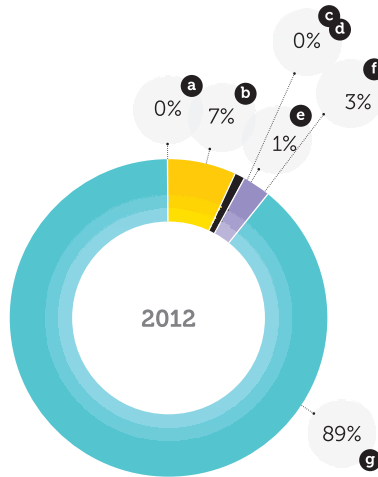
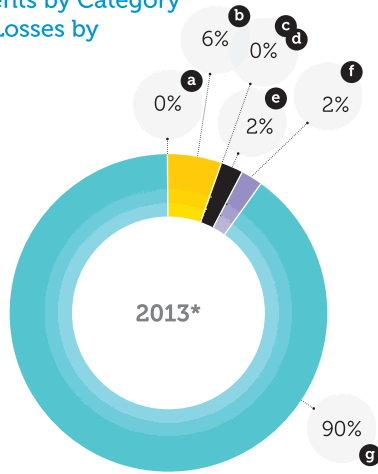
Similarly to the last year, most of the losses with financial impact come under the business line of 'Retail Banking' followed by losses reported under the business lines of Payment and Settlements while losses relating to other business lines are negligible.

The following graphs depict the comparison of operational losses reported during the last three years under each Basel loss event type in terms of value and number of occurrences.

Managing Risk at Commercial Bank

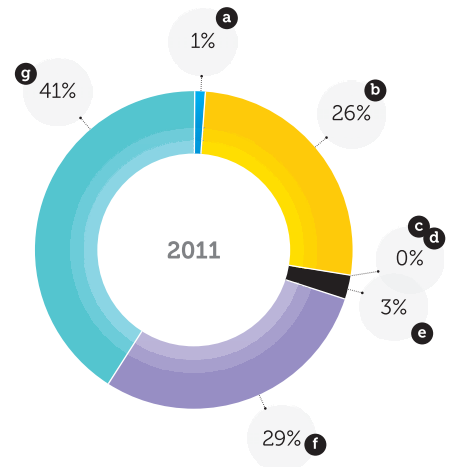
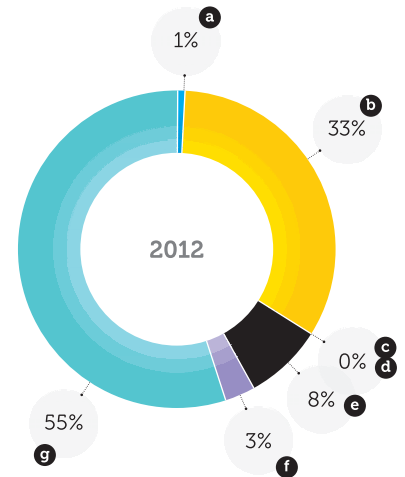
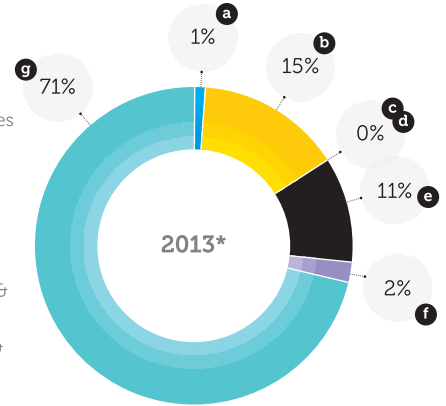
Operational Loss Events by Category
Percentage of Total Losses by
Number of Events

- a. Internal Frauds
- b. External Frauds
- c. Employment Practices & Work place Safety
- d. Clients, Products & Business Practices
- e. Damage To Physical Assets
- f. Business Disruption & System Failures
- g. Execution, Delivery & Process Management



Operational Loss Events
by Category - Percentage of
Total Losses by Value

- a. Internal Frauds
- b. External Frauds
- c. Employment Practices & Work place Safety
- d. Clients, Products & Business Practices
- e. Damage To Physical Assets
- f. Business Disruption & System Failures
- g. Execution, Delivery & Process Management



* (2013 data audited by KPMG)

Operational Loss Events by Category - Percentage of Total Losses by Number of Events

High frequency of loss events of the Bank are with very low financial impact which is in line with the loss patterns observed during last few years. Individual events with monetary values less than Rs. 100,000 accounted for more than 97% of the total loss events for the year 2013. Loss category of 'Execution, Delivery and Process Management' which mainly consists of lower value losses relating to cash and ATM operations in over 850 delivery points in Sri Lanka and Bangladesh accounted for the major portion of the loss events for this year as well. However, average operational loss events for the year under review is mere 0.002% of average number of transactions carried out during the period, which is a further improvement compared to the last year's statistics.

Operational Loss Events by Category - Percentage of Total Losses by Value

As in previous years, the loss type of 'Execution, Delivery and Process Management' accounted for the highest percentage of loss values for the year 2013. Loss categories of 'External Frauds' and 'Damages to Physical Assets' are next in line when considering the loss values for the year. However, as stated under 'Operational

Risk Appetite and Tolerance', gross value of the total operational losses for the year (which includes even the losses recovered in full and 'near-miss' incidents reported) as a percentage of average gross income for the last three years (based on the income considered for the calculation of capital requirement for Operational Risk) is extremely low at 0.18% when compared to the capital allocation of 15% under the Basic Indicator Approach of capital computation as per Basel II. Sound and effective systems/controls in place and proper implementation of the Operational Risk Management Framework by the Bank are the major contributory factors for these exceptionally lower levels of Operational Risk related losses reported during the last few years.

Computation of Operational Risk Requirement under The Standardised Approach

Parallel computation of capital required for Operational Risk under The Standardised Approach (TSA) is being carried out along with the Basic Indicator Approach (BIA).

Operational Risk requirement as per Basic Indicator Approach for the year 2013 would be Rs. 4,097.2 Mn. (Please refer page 214).

Capital required for Operational Risk of the Bank for the year 2013 as per TSA is computed as follows:

Business Line	Weighted Average Rate	Capital Requirement
	(%)	Rs. Mn.
Corporate Finance	18	66.6
Trading and Sales	18	405.8
Payment and Settlements	18	36.1
Agency Services	15	Nil
Asset Management	12	Nil
Retail Brokerage	12	Nil
Retail Banking	12	1,991.9
Commercial Banking	15	1,183.6
Total Requirement		3,684.0

IT Risk Management

Introduction and Objectives

Over the years, Information Technology (IT) has become the backbone of the strategic business model of the Bank. Information and Communication Technology is considered to be the critical success factor of the Bank in effectively and efficiently delivering services to its customers. Consequently, risk management plays a critical role in protecting the Bank's IT infrastructure and resources from potential vulnerabilities.

In this context, the Bank recognises the significance of implementing an appropriate Information Technology Risk Management (IT Risk Management) Framework to sustain the operational continuity of mission critical IT systems and resources, whereby all significant IT risks are identified, measured, assessed, prioritised, treated, managed and monitored

in a consistent and effective manner across the organisation.

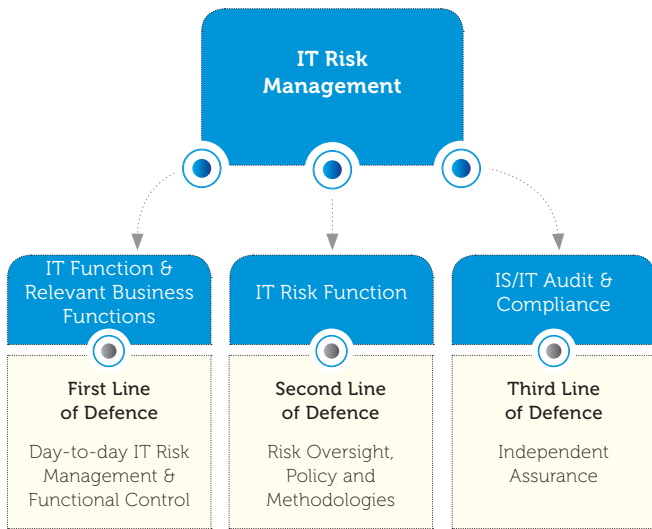
The Bank is on a journey to embed robust IT Risk Management practices, culture and environment beyond regulatory compliance as a value driver that enhances and contributes to stakeholder value. As part of this initiative, the Bank introduced a dedicated, independent IT Risk function under the Operational Risk Unit in 2012, becoming the pioneering local Bank to undertake such initiative.

IT Risk Management Process

Organisation Structure

The Bank is embedding and continuously improving upon a robust IT Risk Management Framework based on the principle of 'three lines of defence' in risk management.

Managing Risk at Commercial Bank



The 'first line of defence' is the IT line management and relevant business units with the primary responsibility for risk identification, assessment, mitigation, management and compliance with standards and policies.

The IT Risk function constitutes the 'second line of defence' with responsibility for establishing frameworks, standards and policies, and providing independent oversight of the IT Risk management activities of the 'first line of defence'.

The IS/IT Audit and Compliance functions serve as the 'third line of defence' by providing independent assurance on the adequacy and effectiveness of IT Risk management.

Based on this partnership model, IT Risk is managed within acceptable levels through appropriate management focus

and resources aimed at minimising IT-related losses in the Bank.

IT Risk-Related Committees

The Board of Directors of the Bank has the ultimate accountability for the risk and related control environment, and is primarily responsible for exercising oversight over the effective management of all Operational Risks, including IT Risk. The Board's responsibilities are discharged through the Board (BIRMC) and Management (EIRMC) Committees, assisted by several other IT Risk-related committees that include the Board Technology Sub-Committee, IT Management Committee, BCM Steering Committee and the Information Security Council in effectively deploying the IT Risk Management Framework and capabilities to achieve strategic objectives of the Bank.

Policy Framework

Bank's IT Risk Management Framework consists of the core elements which include a comprehensive IT Risk Management Policy that complements the Information Security Management Policy, related processes, objectives and procedures, IT Risk Management organisational structure, Key IT Risk Indicators (KIRIs) and other monitoring and review structures.

The Bank focuses on preventive and proactive IT Risk management practices rather than a reactive approach. Risk and vulnerabilities are identified through a systematic process of risk evaluation and management practice, while documented policies and procedures are used to drive the daily operations of the Bank to effectively manage the IT Risk exposures.

IT Risk Assessment and Evaluation

IT Risks are constantly changing, as are the approaches and techniques used in managing them, which include constant monitoring and risk assessment. IT Risk assessment is used to determine the risks associated with the Information Technology infrastructure and operations of the organisation.

The Bank has implemented a systematic IT Risk evaluation process through the use of proven risk

assessment methodologies which identify key risk areas, in order to derive controls necessary in reducing/mitigating such risks to an acceptable level. These methodologies include an array of tools and techniques such as IT Risk Registers, Risk Control Self-Assessments, results of independent IT Risk assessments and audit findings, analysis of information security incidents. Internal and external loss data are also employed for IT Risk identification and assessment purposes.

The formal risk assessment aspect of the Bank's IT operations has been further strengthened by integrating IT Risk Management into various phases of the System Development Life Cycle (SDLC). IT Risk feedback is also provided for the Bank's Information Security Management System (ISMS) established as per ISO/IEC 27001 Information Security Standard and related policies targeting continuous improvement.

IT Risk Mitigation

Risk mitigation involves prioritising, evaluating, and implementing the appropriate risk-reducing controls or risk treatment techniques recommended from the risk identification and assessment process. The Bank has implemented a range of controls including technical, operational and management controls required to mitigate its identified IT Risks and potential vulnerabilities.

The regular collection and analysis of information security incident related data by the IT Risk function has led to greater awareness of the Bank's IT Risk profile by relevant employees at various levels in the organisation enabling them to provide clear guidance and direction on mitigating IT Risks in a proactive manner.

Disaster Recovery Plan

As part of the overall Business Continuity Management (BCM) process of the Bank, a Disaster Recovery Plan (DRP) focused on technical functionality and continuity of the IT systems and infrastructure is in place. Events that can cause interruptions to key business processes and their impacts are identified in the DRP, and redundancies are built-in to ensure continuous service to customers during any such instances. A framework exists where the DRP is regularly reviewed, updated and tested by the DRP and BCP Committees, under the guidance of the BCM Steering Committee.

An Information Technology disaster recovery site has been established in a geographically separate location from the primary site, allowing continuous operations in an unlikely event of the primary site becoming inaccessible or unavailable. The existing

infrastructure is resilient to handle disaster situations and management of crisis. This disaster recovery facility is compliant with 'ISO/IEC 27001 Information Security Standard' and is annually verified by both external and internal auditors. Alternate sites have also been established to carry out key business operations in case of an emergency, and functionality of these sites are reviewed regularly by internal and external auditors and IRMD.

Training and Awareness

Training and awareness has also been considered as an integral component of the implemented IT Risk Management Framework, where the importance of creating a risk-conscious and information security-aware culture has been afforded much emphasis. Accordingly, an organisation-wide training initiative to influence positive behavioural change for all employees towards IT Risk and information security awareness, leading to create a more secure environment was implemented during the year under review. Under this initiative, comprehensive IT Risk awareness workshops have been conducted for the Corporate and the Senior Management as well as the Middle Management of the Bank.

IT Risk Monitoring and Reporting

Realising that risk management relies heavily on effective monitoring, the IT Risk function carries out continuous, independent risk monitoring, which involves comparing the actual risk levels with criteria established by the Bank's risk appetite and tolerance levels.

For the purpose of articulating the IT Risk appetite, the Bank has defined a list of Key IT Risk Indicators (KIRIs) along with corresponding thresholds that are set according to what level is deemed 'Tolerable', 'Alert' and 'Unacceptable'. The KIRIs are periodically reviewed by the IT Risk function, and risks that are outside the set thresholds receive a higher level of management attention in order to initiate corrective action as necessary. The KIRI review process involves monitoring a range of indicators including information security-related incidents, supplemented by trend analysis that accentuates high-risk or emerging issues so that prompt action can be taken to address them.

Significant external events or internal failures that have occurred are also being analysed to identify the root cause of such incidents for remediation and mitigation. Actual IT loss events are systematically recorded for informed decision making.

Further, an array of automated tools such as Security Information and Event Management Systems, Intrusion Detection and Prevention Systems, Transaction Monitoring Tools etc. are utilised by the IT, IT Risk and IS Audit functions to continuously check the effectiveness of information security controls and understand any security risks faced by the systems in order to initiate necessary mitigation action.

Other Related Risks

Legal Risk

Legal risk, an integral part of Operational Risk, arises out of the legal implications of failed systems, people, processes or external events. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Legal risk is managed by ensuring that applicable regulations are fully taken into consideration in all relations and contracts with individuals and institutions who maintain business relationships with the Bank. Risk of breaching the rules and regulations shall be managed by establishing and operating a sufficient mechanism for verification of conformity of operations with applicable regulations.

Managing Risk at Commercial Bank

Legal risks of the Bank are monitored and reviewed regularly by the EIRMC and BIRMC under its Operational Risk Management Framework to mitigate potential risks.

Compliance and Regulatory Risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or loss of reputation as a result of failure to comply with laws, regulations, rules and codes of conduct applicable to the banking activities.

Compliance function is in place to assess the Bank's compliance with external and internal regulations. A comprehensive Compliance Policy has been implemented to strengthen the compliance function. The Compliance Risk is managed through the procedures adopted by closely monitoring the Bank's compliance with all applicable laws, internal/external regulations, codes of conduct and standards of good practice in carrying out its business activities. These include responsibility for ensuring that appropriate remedial or disciplinary action is taken if breaches are identified.

A quarterly exercise has been carried out by the Bank to confirm the compliance with mandatory banking and other statutory requirements and a report prepared consisting of

confirmations from all Department/Unit Heads on adherence to the above requirements which have been verified by the Inspection Department. All exceptions are reported to the Board Audit Committee with copies to EIRMC/ BIRMC and appropriate actions have been taken to minimise such exceptions in order to avoid any compliance issues.

Strategic Risk

Strategic risk of the Bank refers to the risk to its earnings and profitability that could arise from strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, strategic risk could materialise due to internal or external factors that can cause reduction in shareholder value, loss of earnings, etc.

Strategic risk is managed by critically reviewing the strategic goals in the Bank's well-defined Corporate Planning and Budgeting process and aligning the Vision and Mission statements to set a clear strategic direction. In addition to the above, strategic risk is measured through the detailed scorecard based qualitative model aligned to ICAAP to measure and monitor strategic risk. This scorecard based approach takes into consideration a range of factors, including size and sophistication

of the Bank's business model and the nature and complexity of its activities in measuring strategic risk and highlights the areas that need emphasis to mitigate potential strategic risks.

Reputational Risk

Reputational risk is multi-dimensional and it exists throughout the Bank. Further, it refers to the potential adverse effects which can arise from the Bank's reputation being tarnished due to a wide array of actions, including failure to comply with regulatory or legal obligations, failure to deliver expected standards of service and products, unethical practices, failure to achieve financial performance targets, labour unrest, environmental breaches etc.

Reputational risk is broadly managed through the systems and controls adopted for all other risk types such as Credit, Market, Operational etc. including maintenance of high ethical standards and corporate governance. Further, reputational risk is measured through the detailed scorecard based model developed by the Bank to measure and monitor reputational risk under ICAAP. Timely actions are initiated to mitigate potential reputational risks by critically evaluating the criteria given in the said scorecard.

Basel II Pillar 2 and Internal Capital Adequacy Assessment Process (ICAAP)

In July 2013 the Central Bank of Sri Lanka issued Directions on the implementation of Supervisory Review Process for Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs). The Direction focuses on the requirements for the Banks operating in Sri Lanka to develop and maintain a rigorous and well-documented Internal Capital Adequacy Assessment Process (ICAAP) according to its size, complexity and business strategies, proportional to its operations and risk profile and consistent with prudential requirements. These prudential requirements include: Board and Senior Management oversight, comprehensive assessment of risks, sound capital assessment, monitoring and reporting, internal controls and independent review.

Using the concepts of the Regulatory Capital and the Risk-Weighted Assets, Pillar 1 of Basel II deals with the Capital Adequacy Ratio for Credit, Operational and Market Risks. Meanwhile Pillar 2 is based on four principles:

- i. Bank's own assessment of capital adequacy.
- ii. Supervisory review process.
- iii. Capital above regulatory minimum ratios.
- iv. Supervisory intervention.

With the establishment of capital requirement of Basel II, Pillar 1, capital has been allocated for certain inherent risks which are within the scope of the minimum capital requirement. Yet, there are residual risks arising out of some of these risks which are not covered under Pillar 1, and a number of other inherent risks which are not covered in Pillar 1 calculations. Both these risk aspects are addressed by the Internal Capital Adequacy Assessment Process (ICAAP) established in the Bank.

The first principle under Pillar 2 which states that the Bank should have a process for assessing total overall capital adequacy in relation to its risk profile and a strategy for maintaining their capital levels has been introduced through implementation of an ICAAP Framework in the Bank. This project was facilitated by a reputed overseas risk consultancy firm.

Whilst serving the primary objective of supporting the regulatory review process, ICAAP provides valuable inputs for evaluating the required capital compared to future business plans, thus setting target levels of capital over time, integrating strategic plans and risk management plans with capital plan in a meaningful manner. It also supports profit optimisation through proactive decisions on exposures both current and potential, through measurement

of vulnerabilities by carrying out stress testing and scenario analysis to support proactive decision-making. Identifying gaps in managing qualitative but important risks such as reputational risks and strategic risks which are not covered under Pillar 1 is yet another business benefit for the Bank arising out of ICAAP.

Stress Testing

Stress testing refers to various techniques (quantitative and/ or qualitative) used by the Bank to gauge its vulnerability to exceptional but plausible events and has become an essential component and a vital tool in risk management. It is also considered as an integral part of ICAAP under Pillar 2. Based on the concept of 'proportionality and complexity' and its applicability to the Bank, stress testing considers the size of the Bank, sophistication and diversification of its activities, materiality of different risk types and Bank's vulnerability to such type of risk factors.

Stress testing also serves as an effective communication tool to Senior Management, Risk Owners and Risk Managers as well as Supervisors/Regulators where a broader view of all risks borne by the Bank, in relation to its risk tolerance and strategy in a hypothetical stress situation is provided.

The Bank has taken into consideration a number of factors such as historical data, the current portfolio mix, desired portfolio etc. in deciding the scenarios for stress testing. Stress testing framework has also focused on forward-looking hypothetical scenarios that cover issues and risks which may not be identified by evaluating past and present data alone.

All the material risks such as Credit Risk, Credit Concentration Risk, Liquidity Risk, Foreign Exchange Risk, Interest Rate Risk in the Banking Book using Economic Value of Equity (EVE) and Earnings at Risk (EAR) perspectives are covered under the stress testing framework.

The results of the stress testing are reported to the EIRMC and BIRMC on a quarterly basis for appropriate proactive decision-making if required.

Investor Relations Supplement

Dear Investor

The 'Investor Relations' supplement is presented to you in recognition of your continual support to the success of the Bank. We consider this as a strategic management responsibility to have an effective dialogue with investors. Furthermore, it enables us to provide timely, transparent, accurate and consistent information to the investing public.

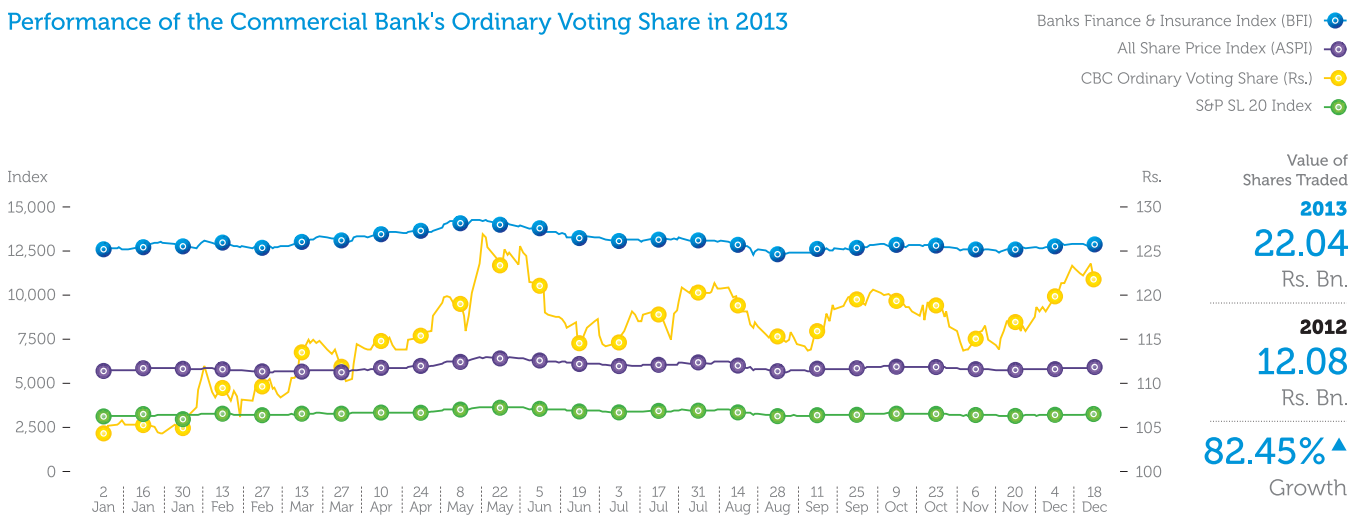
Through shareholder engagement, we expect you to actively seek to influence the behavior of your Bank within your investment portfolio to improve the performance of factors such as environmental, social and governance. Another goal of this engagement is to create a productive dialog to address the risks related to above factors and thereby improve long term corporate performance.

The full report and accounts and the interim reports are available on the Bank's website (<http://www.combank.lk/newweb/investor-relations>). Alternatively, shareholders are able to elect to receive a mailed copy of the Annual Report on request. The Company Secretary of the Bank responds to individual letters received from shareholders.

Our Stock

Commercial Bank stock is traded on the CSE under the ticker symbol 'COMB'. The Bank's shares are listed on the Main Board of the CSE. The 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 2013



Major Achievements In 2013

Only Sri Lankan Bank to feature for three consecutive years amongst world's Top 1000 Banks

The Commercial Bank of Ceylon PLC has been ranked among the Top 1000 Banks of the World for a third successive year, becoming the only Sri Lankan bank to achieve this feat. The prestigious ranking published annually by 'The Banker' of the UK, has ranked Commercial Bank at No. 983 in 2013, with Tier I capital of US \$ 355 Mn. at the end of 2012. The Top 1000 rankings are compiled from a database of over 5,000 banks worldwide and are widely recognised by the global financial community as the definitive guide to bank rankings and analysis.



Making it to the Top 1000 list represents, in itself, a strong acknowledgment of the Bank's standing, and staying in the rankings for three years consecutively speaks much of our consistent performance. A noteworthy feature of the 2013 ranking is the rise to the number one position of Industrial Commercial Bank of China (ICBC), displacing last year's top ranked banks, Bank of America and JPMorgan Chase & Co, which have now taken third and second place respectively, and are followed by HSBC in fourth place.

'Best Bank In Sri Lanka' title for the 15th consecutive year

The Commercial Bank of Ceylon has set yet another record, winning the 'Best Bank in Sri Lanka' title for the 15th consecutive year, in an annual ranking published by Global Finance magazine for the past 20 years. The magazine's list of the 22 'Best Emerging Markets Banks in Asia,' selected after an in-depth survey, is to be published in its May 2013 issue.



Among those ranked alongside Commercial Bank in the worldwide Global Finance list are HSBC of Hong Kong, ANZ Group of Australia, Industrial and Commercial Bank of China, HDFC Bank in India, Deutsche of Germany, BNP Paribas of France, Barclays UK and Bank of America of USA as winners in their respective regions.

Criteria for choosing the winners included growth in assets, profitability, strategic relationships, customer service, competitive pricing, and innovative products. Subjective criteria include the opinions of equity analysts, credit rating analysts, banking consultants and others involved in the industry. The mix of these factors selects leading banks that may not be the largest, the oldest or the most diversified in a given region, but rather the best- the banks with which companies around the world would most likely want to do business.

'Best Sri Lankan Trade Bank in 2013' by Trade Finance



The Commercial Bank of Ceylon has been adjudged the 'Best Trade Bank' in Sri Lanka by Trade Finance magazine of the UK, following an independent poll of services provided by banks. The 2013 Award won by Commercial Bank is its fourth Best Trade Bank Award since Trade Finance began presenting such an award in 2009.

According to Trade Finance, which is published by Euromoney PLC, London, there was a revamp of the country categories in this year's Asia Pacific awards to reflect the heightened role that local and regional banks play in trade finance. Holding on to their Country Awards alongside Commercial Bank in 2013 were the Bank of China, Bank Mandiri (Indonesia), Kookmin Bank (South Korea), CIMB Bank Berhad (Malaysia), Vietcombank (Vietnam) and Habib Bank (Pakistan).

Commercial Bank wins 'Top 10' Award at the 2013 Best Corporate Citizen Sustainability Awards

The Commercial Bank of Ceylon PLC won four awards including a 'Top 10' award at the 2013 Best Corporate Citizen Sustainability Awards presented by the Ceylon Chamber of Commerce to the country's leading business entities. The Bank received the award for 'Governance' in the Category Awards, the award for 'Education' in the awards for Long Term Projects and a merit award for 'Infrastructure' and was adjudged one of Sri Lanka's 10 best corporate citizens at this prestigious event.



The Long Term Projects Award presented to Commercial Bank was in respect of its nationally significant initiative to present fully-equipped IT Labs to schools in all provinces of the country and a programme to help school children with better access to English language education. The Bank donated 52 IT Labs to 46 schools and six other institutions in the year 2013 and completed the second of its English language programme with a batch of 160 students. This is the second time the Bank's education project was awarded Gold at this event.

Commercial Bank dominates the 2013 Annual Reports Awards of the CA Sri Lanka

The Commercial Bank of Ceylon PLC dominated the 2013 Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), winning the topmost award for the Best Annual Report across all sectors and three category awards, reaffirming its superiority in the sphere of financial reporting and corporate disclosures.



The 2012 Annual Report of Sri Lanka's largest private bank received the Cyril Gardiner Memorial Trophy for Overall Excellence in Financial Reporting, the Edmund J. Cooray Memorial Trophy for the Best Annual Report among banking institutions, the Gold award for Management Commentary and the Silver award for Corporate Governance Disclosure at this prestigious event.

Since 2001, Commercial Bank's Annual Report has been adjudged the best in Sri Lanka seven times and the Bank has won the award for the best Annual Report in the banking sector nine times.

A summary of 'Awards and Accolades' won by the Bank in the recent past is given on page 404.

Compliance Report on the Contents of Annual Report in Terms of the Listing Rules of the CSE

This year too we are pleased to inform you that your Bank has complied with all the requirements of the Section 76 of the Listing Rules of the CSE on the contents of the Annual Report and Accounts of a Listed Entity. The table below provides reference to the relevant 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
76 (i)	Names of persons who held the position of Directors during the financial year	<ul style="list-style-type: none"> Annual Report of the Board of Directors 	203
76 (ii)	Principal activities of the Bank and its Subsidiaries during the year and any changes therein	<ul style="list-style-type: none"> Note 1.3 of the Accounting Policies Group Structure 	273 390

Investor Relations Supplement

Rule No.	Disclosure Requirement	Section/Reference	Page/s
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	<ul style="list-style-type: none"> Item 4 of the Investor Relations 	248-249
7.6 (iv)	The public holding percentage	<ul style="list-style-type: none"> Item 4 of the Investor Relations 	248-249
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the beginning and at the end of the financial year	<ul style="list-style-type: none"> Item 5 of the Investor Relations Annual Report of the Board of Directors 	249 205
7.6 (vi)	Information pertaining to material foreseeable risk factors	<ul style="list-style-type: none"> Item 6 of the Investor Relations 	250
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	<ul style="list-style-type: none"> Item 7 of the Investor Relations 	250
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties	<ul style="list-style-type: none"> Notes 30.5 to the Financial Statements on 'Property, Plant & Equipment' 	331
7.6 (ix)	Number of shares representing the Stated Capital	<ul style="list-style-type: none"> Note 43.1 to the Financial Statements on 'Stated Capital' Item 8 of the Investor Relations 	342 250-251
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"> Item 9 of the Investor Relations 	252
7.6 (xi)	Ratios and market price information:		
	<ul style="list-style-type: none"> Equity - Dividend per share, dividend payout ratio, net asset value per share, market value per share 	<ul style="list-style-type: none"> Items 10 (a) and 10 (b) of the Investor Relations 	252-253
	<ul style="list-style-type: none"> Debt - Interest rate of comparable Government security, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year 	<ul style="list-style-type: none"> Items 10 (c) and 10 (d) of the Investor Relations 	253
	<ul style="list-style-type: none"> Any changes in credit rating 	<ul style="list-style-type: none"> Item 10 (e) and 10 (f) of the Investor Relations 	254
7.6 (xii)	Significant changes in the Bank or its Subsidiaries fixed assets and the market value of land, if the value differs substantially from the book value	<ul style="list-style-type: none"> Note 30 to the Financial Statements on 'Property, Plant & Equipment' 	327-334
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year	<ul style="list-style-type: none"> Note 43 to the Financial Statements on 'Stated Capital' 	342
7.6 (xiv)	Information in respect of Employee Share Option Schemes		
	<ul style="list-style-type: none"> Total number of shares allotted during the financial year, price at which shares were allotted and the details of funding granted to employees (if any) 	<ul style="list-style-type: none"> Note 43.2 to the Financial Statements on 'Employee Share Option Plan - 2008' 	343-344
	<ul style="list-style-type: none"> Highest, lowest and closing price of the share recorded during the financial year 	<ul style="list-style-type: none"> Item 10 (b) of the Investor Relations 	253

Investor Relations Supplement

Rule No.	Disclosure Requirement	Section/Reference
76 (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"> Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules
76 (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"> The Bank did not have any related party transaction exceeding this threshold as at end 2013.

1. Quarterly Performance - 2013 Compared to 2012

Summary of the Income Statements

	2013					2012				
	1st Quarter Mar. 31 Rs. Mn.	2nd Quarter Jun. 30 Rs. Mn.	3rd Quarter Sept. 30 Rs. Mn.	4th Quarter Dec. 31 Rs. Mn.	Total Rs. Mn.	1st Quarter Mar. 31 Rs. Mn.	2nd Quarter Jun. 30 Rs. Mn.	3rd Quarter Sept. 30 Rs. Mn.	4th Quarter Dec. 31 Rs. Mn.	Total Rs. Mn.
Group										
Net interest income	5,615.4	6,322.3	6,701.5	6,683.0	25,322.3	5,517.4	5,706.6	5,846.6	5,781.0	22,851.7
Net fees and commission income	909.0	1,012.9	1,225.2	1,105.7	4,252.8	851.8	844.3	894.9	1,007.2	3,598.3
Other operating income (Net)	1,244.0	1,096.1	1,399.9	2,303.8	6,043.8	2,516.7	1,901.7	726.1	1,419.4	6,563.9
Less: Impairment charges for loans and other losses	511.0	1,220.3	1,266.3	1,602.7	4,600.3	1,031.0	1,135.2	723.2	268.8	3,158.3
Net operating income	7,257.4	7,211.0	8,060.4	8,489.8	31,018.6	7,855.0	7,317.4	6,744.3	7,938.8	29,855.6
Less: Expenses	4,004.1	3,918.9	4,161.6	4,248.4	16,333.0	3,827.5	3,834.3	3,604.1	4,289.1	15,555.0
Operating profit	3,253.3	3,292.1	3,898.8	4,241.4	14,685.6	4,027.6	3,483.1	3,140.2	3,649.7	14,300.6
Add: Share of profits/(losses) of associate companies	1.8	1.1	2.0	2.1	7.1	9.3	1.9	1.8	(0.6)	12.4
Profit before income tax	3,255.2	3,292.2	3,900.9	4,243.5	14,692.8	4,036.9	3,485.0	3,142.0	3,649.1	14,312.9
Less: Income tax expense	998.4	1,060.0	1,144.3	916.6	4,119.3	1,225.6	1,133.8	877.9	994.5	4,231.7
Profit for the period	2,256.8	2,232.1	2,756.6	3,326.9	10,573.5	2,811.3	2,351.2	2,264.0	2,654.7	10,081.2
Quarterly profit as a % of the profit after tax	21.3	21.1	26.1	31.5	100.0	27.9	23.3	22.5	26.3	100.0
Cumulative quarterly profit as a % of the profit after tax	21.3	42.5	68.5	100.0		27.9	51.2	73.7	100.0	
Bank										
Net interest income	5,612.8	6,319.1	6,696.6	6,679.7	25,308.2	5,521.0	5,710.0	5,847.0	5,777.0	22,855.0
Net fees and commission income	908.2	1,012.3	1,224.2	1,104.6	4,249.3	851.9	844.4	894.9	1,006.9	3,598.0
Other operating income (Net)	1,224.4	1,101.0	1,408.3	2,362.4	6,096.1	2,503.6	1,896.9	726.3	1,436.3	6,563.1
Less: Impairment charges for loans and other losses	516.9	1,226.7	1,275.1	1,608.6	4,627.3	1,031.0	1,135.2	723.2	307.3	3,196.8
Net operating income	7,228.5	7,205.7	8,054.0	8,538.1	31,026.3	7,845.5	7,316.0	6,744.9	7,912.8	29,819.3
Less: Expenses	3,998.6	3,927.8	4,157.7	4,431.7	16,515.7	3,819.6	3,834.8	3,592.3	4,277.3	15,524.0
Profit before income tax	3,229.9	3,277.9	3,896.3	4,106.4	14,510.5	4,025.9	3,481.3	3,152.6	3,635.5	14,295.3
Less: Income tax expense	989.0	1,047.1	1,134.0	894.9	4,065.0	1,221.6	1,112.8	869.5	993.1	4,197.0
Profit for the period	2,240.9	2,230.8	2,762.3	3,211.5	10,445.5	2,804.3	2,368.4	2,283.1	2,642.4	10,098.3
Quarterly profit as a % of the profit after tax	21.2	21.1	26.7	31.0	100.0	27.7	23.5	22.6	26.2	100.0
Cumulative quarterly profit as a % of the profit after tax	21.2	42.3	69.0	100.0		27.7	51.3	74.0	100.0	

Investor Relations Supplement

Summary of the Statement of Financial Position

	2013				2012			
	As at Mar. 31 Rs. Mn.	As at Jun. 30 Rs. Mn.	As at Sept. 30 Rs. Mn.	As at Dec. 31 Rs. Mn.	As at Mar. 31 Rs. Mn.	As at Jun. 30 Rs. Mn.	As at Sept. 30 Rs. Mn.	As at Dec. 31 Rs. Mn.
Group								
Cash and cash equivalents	17,320.3	17,242.3	12,441.8	14,263.3	18,778.4	15,304.3	14,600.6	19,752.2
Placements with banks	18,392.4	1,657.1	4,949.3	4,131.8	8,930.8	13,640.8	17,421.8	16,163.0
Other financial assets held for trading	9,822.8	10,474.9	10,000.5	6,379.1	6,257.1	5,184.5	7,154.5	6,041.1
Loans and receivables to Banks & other customers	389,317.2	390,085.5	400,159.1	419,490.5	344,186.5	352,105.1	360,323.6	373,486.1
Financial investments - Available-for-sale	59,246.9	96,484.7	122,607.3	123,748.3	59,143.7	63,218.8	58,232.2	57,963.2
Other assets	43,138.1	42,618.8	41,752.7	39,179.4	37,771.7	39,825.9	40,792.5	38,815.1
	537,237.6	558,563.3	591,910.7	607,192.3	475,068.3	489,279.4	498,525.2	512,220.6
Due to Banks	3,698.4	12,254.3	13,474.0	14,194.2	14,353.8	7,942.9	4,045.0	4,893.9
Due to other customers	405,173.1	417,223.9	435,394.0	451,098.9	356,937.2	366,876.2	378,814.4	390,568.7
Other borrowings	46,797.1	47,958.5	54,684.5	53,997.5	42,166.3	53,509.6	50,258.5	47,435.6
Subordinated liabilities	10,512.1	10,934.5	11,250.1	11,056.8	1,006.2	1,039.3	1,072.6	1,106.0
Other liabilities	18,062.0	14,587.3	18,817.6	15,359.8	14,913.8	11,873.7	13,518.0	15,215.9
Shareholders' funds	52,994.9	55,604.8	58,290.5	61,485.0	45,690.9	48,037.7	50,816.6	53,000.6
	537,237.6	558,563.3	591,910.7	607,192.3	475,068.3	489,279.4	498,525.2	512,220.6
Bank								
Cash and cash equivalents	17,345.6	17,231.6	12,434.9	14,261.5	18,756.6	15,288.1	14,619.5	19,732.8
Placements with Banks	18,392.4	1,657.1	4,949.3	4,131.8	8,930.8	13,640.8	17,421.8	16,163.0
Other financial assets held for trading	9,822.8	10,474.9	10,000.5	6,379.1	6,257.1	5,184.5	7,154.5	6,041.1
Loans and receivables to Banks & other customers	389,450.7	390,119.4	400,182.9	419,505.9	344,321.6	352,191.5	360,393.5	373,543.8
Financial investments - Available-for-sale	59,246.9	96,484.7	122,607.3	123,748.3	59,143.7	63,218.8	58,232.1	57,963.2
Other assets	42,627.0	42,143.8	41,314.9	38,580.5	37,348.7	39,480.3	40,437.5	38,298.8
	536,885.3	558,111.5	591,489.7	606,607.1	474,758.5	489,004.1	498,259.0	511,742.7
Due to Banks	3,698.4	12,254.3	13,474.0	14,194.2	14,353.8	7,942.9	4,045.0	4,893.9
Due to other customers	405,246.7	417,282.8	435,469.3	451,152.9	357,048.3	366,958.1	378,851.0	390,611.5
Other borrowings	46,947.7	48,111.8	54,867.2	54,173.2	42,277.1	53,569.2	50,426.8	47,582.9
Subordinated liabilities	10,512.1	10,934.5	11,250.1	11,056.8	1,006.2	1,039.3	1,072.6	1,106.0
Other liabilities	17,922.0	14,371.9	18,581.2	15,085.9	14,809.1	11,751.9	13,352.7	14,971.4
Shareholders' funds	52,558.4	55,156.2	57,848.0	60,944.0	45,264.0	47,742.8	50,511.0	52,577.0
	536,885.3	558,111.5	591,489.7	606,607.1	474,758.5	489,004.1	498,259.0	511,742.7

2. Stock Exchange Listing

The following securities of the Bank are listed on the Main Board of the CSE:

Shares	Ordinary Shares Voting	
	Ordinary Shares Non-Voting	
Debentures	Fixed Rate	• December 2006/16
	Floating Rate	• December 2006/16

Investor Relations Supplement

The Unaudited Interim Financial Statements for the first three quarters of 2013 were submitted to the CSE within 45 days from the respective quarter ends as required by the Rule No. 74 (a) (j) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2012.)

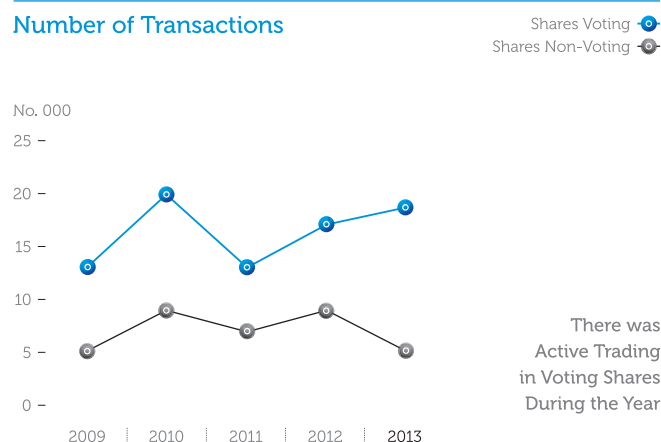
The Unaudited Interim Financial Statements for the fourth quarter of 2013 was submitted to the CSE on February 25, 2014, as required by the Rule No. 74 (a) (j) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2012.)

The Audited Income Statement for the year ended December 31, 2013 and the Audited Statement of Financial Position as at December 31, 2013 will be submitted to the CSE within three months from the year-end, which is well within the required deadline as required by the Rule No. 75 (a) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2012.)

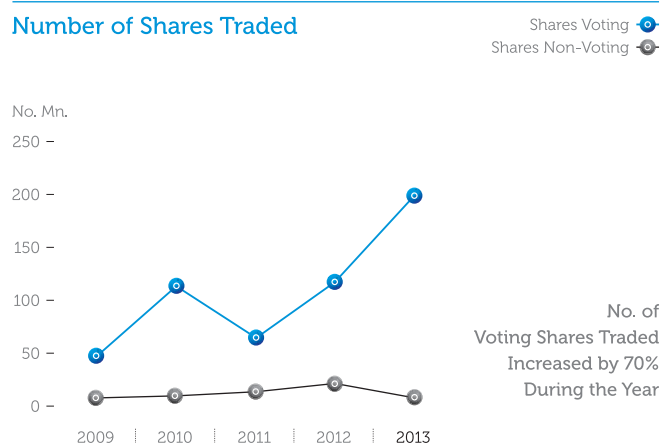
3. Information on Share Trading

	Ordinary Shares Voting		Ordinary Shares Non-Voting	
	2013	2012	2013	2012
Number of transactions	18,733	17,214	5,341	9,137
Number of shares traded	198,501,282	117,120,816	6,769,927	21,436,592
Value of Shares traded (Rs. Bn.)	22.04	12.08	0.63	1.78

Number of Transactions



Number of Shares Traded



4. The Names, Number and Percentage of Shares held by Twenty Largest Shareholders [As Per Rule No. 7.6 (III) of the Listing Rules of the CSE]

As at December 31, Ordinary Shares Voting	2013		2012*	
	No. of Shareholders	%	No. of Shareholders	%
1. DFCC Bank A/C 1	117,951,857	14.85	116,009,375	14.87
2. Employees Provident Fund	77,586,335	9.76	74,641,168	9.57
3. HSBC International Nominees Ltd. - JPMLU - Franklin Templeton Investment Funds	57,224,769	7.20	7,584,878	0.97
4. Sri Lanka Insurance Corporation Ltd. - Life Fund	40,219,594	5.06	39,557,241	5.07
5. CB NY S/A International Finance Corporation	39,756,210	5.00	47,476,548	6.09
6. Mr. Y.S.H.I. Silva	36,000,446	4.53	17,876,644	2.29
7. Sri Lanka Insurance Corporation Ltd. - General Fund	34,583,318	4.35	34,013,785	4.36
8. HSBC International Nominees Ltd. - BPSS - LUX - Aberdeen Global - Emerging Markets Smaller Companies Fund	18,546,949	2.34	15,827,650	2.03
9. HSBC International Nominees Ltd. - BPSS - LUX - Aberdeen Global - Asian Smaller Companies Fund	17,786,191	2.24	17,493,281	2.24
10. Distilleries Company of Sri Lanka PLC	17,348,809	2.18	17,063,102	2.19
11. HSBC International Nominees Ltd. - SSBT- Wasatch Frontier- Emerging Small Countries Fund	15,136,477	1.91	1,865,100	0.25
12. Mrs. L.E.M. Yaseen	11,675,901	1.47	10,257,456	1.32
13. HSBC International Nominees Ltd. - BPSS - LUX - Aberdeen Global Asia Pacific Equity Fund	10,736,297	1.35	10,559,487	1.35
14. Mercantile Investments and Finance PLC	10,244,517	1.29	10,075,806	1.29
15. The Bank of New York Mellon SA/NV - CF Ruffer Total Return Fund	8,071,609	1.02	7,938,683	1.02
16. HSBC International Nominees Ltd. - SSBT - Morgan Stanley Asset Management SA Acting on behalf of Morgan Stanley Galaxy Fund	7,398,991	0.93	7,729,057	0.99
17. HSBC International Nominees Ltd. - SSBT - Aberdeen Institutional Commingled Funds, LLC	6,960,323	0.88	12,560,004	1.62
18. Northern Trust Co. S/A Harding Loevner Frontier Emerging Markets Portfolio	6,850,000	0.86	1,666,000	0.21
19. HSBC International Nominees Ltd. - BP2S London - Aberdeen Asia Smaller Companies Investment Trust	6,672,683	0.84	6,562,795	0.84
20. The Bank of New York Mellon SA/NV - CF Ruffer Absolute Return Fund	6,089,109	0.77	5,988,831	0.77
Sub total	546,840,385	68.83	462,746,891	59.33
Other shareholders	247,695,434	31.17	317,267,341	40.67
Total	794,535,819	100.00	780,014,232	100.00

As per Rule No. 7.6 (iv) of the Listing Rules of the CSE, percentage of public holding of voting shares as at December 31, 2013 was 85.01% (84.99% as at December 31, 2012).

*Comparative shareholdings as at December 31, 2012 of the twenty largest shareholders as at December 31, 2013.

Investor Relations Supplement

As at December 31,	2013		2012*	
	No. of Shareholders	%	No. of Shareholders	%
Ordinary Shares Non-Voting				
1. HSBC International Nominees Ltd. - JPMLU - Franklin Templeton Investment Funds	3,286,705	6.03	3,222,260	6.03
2. Citi Bank NY S/A Forward International Dividend Fund	1,800,733	3.30	1,250,000	2.34
3. GF Capital Global Ltd.	1,516,962	2.78	1,413,199	2.64
4. HINL - JPMCB - Butterfield Trust (Bermuda) Ltd.	1,353,360	2.48	1,326,824	2.48
5. Northern Trust Company S/A The Ashmoreemm Umbrella Fund Trust	1,303,338	2.39	-	-
6. Mr. J.D. Bandaranayake	1,077,799	1.98	1,054,215	1.97
7. Waldock Mackenzie Ltd. / Mr. S.N.P. Palihena and Mrs. A.S. Palihena	1,000,000	1.83	1,000,000	1.87
8. M.J.F. Exports Ltd.	933,060	1.71	914,765	1.71
9. Mas Capital (Pvt) Ltd.	801,620	1.47	785,902	1.47
10. Northern Trust Company S/A Polar Capital Funds PLC	778,280	1.43	715,676	1.34
11. Mr. M.F. Hashim	689,800	1.26	653,749	1.22
12. Saboor Chatoor (Pvt) Ltd.	687,000	1.26	620,000	1.16
13. Mr. M.A. Yaseen	625,016	1.15	612,761	1.15
14. Citi Bank NY S/A Forward Select EM Dividend Fund	618,000	1.13	900,000	1.68
15. Asian Alliance Insurance PLC - A/C 02 - Life Fund	495,072	0.91	485,365	0.91
16. Akbar Brothers (Pvt) Ltd. A/C 1	487,940	0.89	448,628	0.84
17. Dr. A.K.A. Jayawardene	481,472	0.88	472,032	0.88
18. Mrs. L.V.C. Samarasinha	457,144	0.84	395,233	0.74
19. Mr. G.R. Mallawaarachy / Mrs. B.G.P. Mallawaarachy	433,880	0.80	425,373	0.80
20. Mr. W.R.H. Perera	430,961	0.79	335,425	0.63
Sub total	19,258,142	35.31	17,031,407	31.85
Other shareholders	35,285,080	64.69	36,442,341	68.15
Total	54,543,222	100.00	53,473,748	100.00

As per Rule No. 7.6 (iv) of the Listing Rules of the CSE, percentage of public holding of non-voting shares as at December 31, 2013 was 99.94% (99.96% as at December 31, 2012).

*Comparative shareholdings as at December 31, 2012 of the twenty largest shareholders as at December 31, 2013.

5. Directors' Shareholding Including the Chief Executive Officer's Shareholding [As Per Rule No. 7.6 (V) of the Listing Rules of the CSE]

As at December 31,	Ordinary Shares - Voting		Ordinary Shares - Non-Voting	
	2013	2012	2013	2012
Mr. D.S. Weerakkody - <i>Chairman</i>	26,452	26,017	12,220	11,981
Mr. K.G.D.D. Dheerasinghe - <i>Deputy Chairman</i>	20,334	20,000	Nil	Nil
Mr. W.M.R.S. Dias - <i>CEO/MD</i>	696,594	685,123	Nil	Nil
Prof. U.P. Liyanage	Nil	Nil	Nil	Nil
Mr. L. Hulugalle	Nil	Nil	Nil	Nil
Mr. M.P. Jayawardena	Nil	Nil	Nil	Nil
Mr. S. Swarnajothi	Nil	Nil	8,332	8,169
Mr. J. Durairatnam	344,336	309,782	Nil	Nil

6. Material Foreseeable Risk Factors [As Per Rule No. 7.6 (VI) of the Listing Rules of The CSE]

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the CSE are discussed in the section on 'Managing Risk at Commercial Bank' on pages 210 to 240.

7. Material Issues Pertaining to Employees and Industrial Relations Pertaining to the Bank [As Per Rule No. 7.6 (VII) of the Listing Rules of the CSE]

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which needs to be disclosed.

8. Information on Movement in Number of Shares Represented by the Stated Capital [As Per Rule No. 7.6 (IX) of the Listing Rules of the CSE]

Year	Details	Basis	No. of Shares Issued/ (Redeemed)	No. of Shares			
				Ordinary Shares Voting	Ordinary Shares Non-Voting	Cumulative Redeemable Preference Shares	
1987	As at December 31, 1987			3,000,000	–	–	
1988	Bonus Issue	Voting	2 for 3	2,000,000	5,000,000	–	
1990	Bonus Issue	Voting	1 for 1	5,000,000	10,000,000	–	
1993	Rights Issue	Voting	1 for 4	2,500,000	12,500,000	–	
1996	Bonus Issue	Voting	3 for 5	7,500,000	20,000,000	–	
	Rights Issue	Voting	1 for 4	5,000,000	25,000,000	–	
	Share Swap	Non-Voting		894,275	25,000,000	894,275	
	Bonus Issue	Non-Voting	3 for 5	536,565	25,000,000	1,430,840	
	Rights Issue	Non-Voting	1 for 4	357,710	25,000,000	1,788,550	
1998	Bonus Issue	Voting	3 for 10	7,500,000	32,500,000	1,788,550	
	Bonus Issue	Non-Voting	3 for 10	536,565	32,500,000	2,325,115	
2001	Bonus Issue	Voting	1 for 5	6,500,000	39,000,000	2,325,115	
	Bonus Issue	Non-Voting	1 for 5	465,023	39,000,000	2,790,138	
	Issue of Cumulative Redeemable Preference Shares			90,655,500	39,000,000	2,790,138	90,655,500
2003	Bonus Issue	Voting	1 for 3	13,000,000	52,000,000	2,790,138	90,655,500
	Rights Issue	Voting	1 for 4	13,000,000	65,000,000	2,790,138	90,655,500
	Bonus Issue	Non-Voting	1 for 3	930,046	65,000,000	3,720,184	90,655,500
	Rights Issue	Non-Voting	1 for 4	930,046	65,000,000	4,650,230	90,655,500
	Issue of Cumulative Redeemable Preference Shares			100,000,000	65,000,000	4,650,230	190,655,500
2004	ESOP	Voting		29,769	65,029,769	4,650,230	190,655,500

Investor Relations Supplement

Year	Details	Basis	No. of Shares Issued/ (Redeemed)	No. of Shares		
				Ordinary Shares Voting	Ordinary Shares Non-Voting	Cumulative Redeemable Preference Shares
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
	Bonus Issue	Non-Voting	1 for 1	4,650,230	132,780,522	9,300,460
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
	Bonus Issue	Voting	1 for 3	58,204,268	232,011,528	9,300,460
	ESOP	Voting		919,649	232,931,177	9,300,460
	Rights Issue	Non-Voting	3 for 10	2,790,138	232,931,177	12,090,598
	Bonus Issue	Non-Voting	1 for 3	4,030,199	232,931,177	16,120,797
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 Split	Voting	1 for 2	117,402,608	351,223,879	16,120,797
	Share Split	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
2011	Scrip Issue for final dividend 2010	Voting	2,277,195	355,582,582	24,181,195	-
	Scrip Issue for final dividend 2010	Non-Voting	255,734	355,582,582	24,436,929	-
	ESOP	Voting	1,457,645	357,040,227	24,436,929	-
	Rights Issue	Voting	1 for 14	25,502,433	382,542,660	24,436,929
	Rights Issue	Non-Voting	1 for 14	1,745,494	382,542,660	26,182,423
	Share Split	Voting	1 for 1	382,542,660	765,085,320	26,182,423
	Share Split	Non-Voting	1 for 1	26,182,423	765,085,320	52,364,846
2012	Scrip Issue for final dividend 2011	Voting	13,587,144	778,672,464	52,364,846	-
	Scrip Issue for final dividend 2011	Non-Voting	1,108,902	778,672,464	53,473,748	-
	ESOP	Voting	1,341,768	780,014,232	53,473,748	-
2013	Scrip issue for final dividend 2012	Voting	13,076,189	793,090,421	53,473,748	-
	Scrip issue for final dividend 2012	Non-Voting	1,069,474	793,090,421	54,543,222	-
	ESOP	Voting	1,445,398	794,535,819	54,543,222	-

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 Listing Rules of the CSE]

	As at December 31, 2013				As at December 31, 2012			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Ordinary Shares Voting								
1 - 1,000	4,257	46.83	1,070,676	0.13	4,244	44.63	1,134,312	0.15
1,001 - 10,000	3,028	33.31	11,127,681	1.40	3,335	35.07	12,108,082	1.55
10,001 - 100,000	1,503	16.53	43,110,082	5.43	1,619	17.03	46,674,954	5.98
100,001 - 1,000,000	229	2.52	63,934,905	8.05	242	2.54	65,737,603	8.43
Over 1,000,000	74	0.81	675,292,475	84.99	69	0.73	654,359,281	83.89
Total	9,091	100.00	794,535,819	100.00	9,509	100.00	780,014,232	100.00
Ordinary Shares Non-Voting								
1 - 1,000	2,274	52.44	604,911	1.11	2,268	52.15	614,606	1.15
1,001 - 10,000	1,424	32.84	4,798,522	8.79	1,455	33.46	4,912,907	9.19
10,001 - 100,000	534	12.32	14,655,746	26.87	530	12.19	14,785,750	27.65
100,001 - 1,000,000	98	2.26	24,145,146	44.27	90	2.07	23,616,204	44.16
Over 1,000,000	6	0.14	10,338,897	18.96	6	0.13	9,544,281	17.85
Total	4,336	100.00	54,543,222	100.00	4,349	100.00	53,473,748	100.00

10. Information on Ratios, Market Prices of Shares and Credit Ratings (As Per Rule No. 7.6 (XI) of the CSE)

(a) Information on Ratios

		2013	2012
Dividend per Share (Rs.)	Cash		
	First Interim Paid	1.50	1.50
	Second Interim Paid	1.00	1.00
	Final Proposed*/Paid	2.00	2.00
	Total	4.50	4.50
	Issue and Allotment of Shares	Final Proposed*/allotted	
	Total Dividend	6.50	6.50
Dividend Payout Ratio (%)	Cash	36.58	37.16
	Total	52.84	53.69
Net Assets Value per Share (Rs.)		71.78	63.08

* The Board of Directors of the Bank has recommended a final dividend of Rs. 4.00 per ordinary share, which consists of a cash dividend of Rs. 2.00 per share and the balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares for both voting and non-voting shareholders of the Bank for the year ended December 31, 2013 for approval by the shareholders at the 45th Annual General Meeting (AGM), to be held on March 31, 2014. (The Bank declared a final dividend of Rs. 4.00 per share for the year ended December 31, 2012 which consists of a cash dividend of Rs. 2.00 per share and balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares.)

Investor Relations Supplement

(b) Market Prices

	Ordinary Shares Voting		Ordinary Shares Non-Voting	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Highest price	126.00	119.50	102.00	99.50
Date of the highest price	(21.05.2013)	(17.09.2012)	(21.05.2013)	(17.09.2012)
Lowest price	103.20	96.80	87.00	73.00
Date of the lowest price	(02.01.2013)	(25.07.2012)	(04.12.2013)	(06.07.2012)
Year-end price	120.40	103.00	93.00	91.10

(c) Debenture Composition

	Fixed Interest Rate						Floating Interest Rate		
	2013		2012			2013		2012	
Type of issue	Private	Public	Private	Public	Public	Public	Public	Public	
Debenture type	- N/A -	Type 'A'	- N/A -	Type 'A'	Type 'B'	Type 'D'	Type 'D'	Type 'E'	
CSE listing	Not listed	Listed	Not listed	Listed	Listed	Listed	Listed	Listed	
Issue date	May 2006	Dec. 2006	May 2006	Dec. 2006	Dec. 2006	Dec. 2006	Dec. 2006	Dec. 2006	
Maturity date	May 2016	Dec. 2016	May 2016	Dec. 2016	Dec. 2013	Dec. 2016	Dec. 2016	Dec. 2013	
Interest payable frequency	Annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually	
Offered interest rate	13.25% p.a.	14.00% p.a.	13.25% p.a.	14.00% p.a.	13.75% p.a.	12 Months TB Rate (Gross) + 1% p.a.	12 Months TB Rate (Gross) + 1% p.a.	12 Months TB Rate (Gross) + 1% p.a.	
Amount (Rs. Mn.)	505.000	467.260	505.000	467.260	0.250	0.400	0.400	0.300	
Market values									
- Highest (Rs.)	- N/A -	Not traded	- N/A -	Not traded	Not traded	Not traded	Not traded	Not traded	
- Lowest (Rs.)	- N/A -	during the	- N/A -	during the	during the	during the	during the	during the	
- Year-end (Rs.)	- N/A -	year	- N/A -	year	year	year	year	year	
Interest rates									
- Coupon rate (%)	13.25	14.00	13.25	14.00	13.75	13.99	11.34	11.34	
- Effective annual yield (%)	13.25	14.00	13.25	14.00	13.75	13.99	11.66	11.66	
Interest rate of comparable government security	8.85	9.10	11.70	11.50	11.40	10.20	13.65	13.65	
Other ratios as at date of last trade									
- Interest yield (%)	- N/A -	Not traded	- N/A -	Not traded	Not traded	Not traded	Not traded	Not traded	
- Yield to maturity (%)	- N/A -	during the	- N/A -	during the	during the	during the	during the	during the	
		year		year	year	year	year	year	

Twelve 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.

(d) Other Ratios

	2013	2012
Debt equity ratio (%)	33.17	18.25
Interest cover (Times)	20.25	48.61
Liquid assets ratio (%) (Minimum 20%)	34.05	25.79

(e) Credit Ratings

- The Bank's credit rating, AA(lka) was reaffirmed by Fitch Ratings Lanka Ltd. in 2013.
- The Bank's credit rating, AA+ was reaffirmed by RAM Ratings (Lanka) Ltd. in 2013.
- The Bank's Bangladesh Operation's credit rating was reaffirmed as AAA by Credit Rating Information Services Ltd. in 2013.

(f) Credit Ratings - Debentures

- The credit rating of the Bank's subordinated debentures, AA- (lka) too reaffirmed in 2013 by Fitch Ratings Lanka Ltd.

11. Information on Scrip Issues, Rights Issues and Share Splits

Year/Month	Details
2013 April	Issue of ordinary shares to satisfy a part of the final dividend for 2012 of Rs. 2.00 per ordinary share
2012 April	Issue of ordinary shares to satisfy a part of the final dividend for 2011 of Rs. 2.00 per ordinary share
2011 September	Share split of one ordinary share for every one ordinary share held immediately after the right issue
2011 August	Rights issue of one ordinary share for every fourteen ordinary shares held
2011 April	Issue of ordinary shares to satisfy a part of the final dividend for 2010 of Rs. 2.00 per ordinary share
2010 June	Share split of one ordinary share for every two ordinary shares held
2007 June	Scrip issue of one ordinary share for every three ordinary shares held
2007 April	Rights issue of three ordinary shares for every ten ordinary shares held
2005 June	Scrip issue of one ordinary share for every one ordinary share held
2003 October	Rights issue of one ordinary share for every four ordinary shares held
2003 May	Scrip issue of one ordinary share for every three ordinary shares held
2001 May	Scrip issue of one ordinary share for every five ordinary shares held
1998 June	Scrip issue of three ordinary shares for every ten ordinary shares held

Financial Reports

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the HTML web version of the Financial Reports
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Statement of Directors' Responsibility	256
Directors' Statement on Internal Control	258
Assurance Report on Internal Control	260
Managing Director's and Chief Financial Officer's Statement of Responsibility	261
Independent Auditors' Report	262
Financial Statements - Table of Contents	263
Financial Statement Highlights - Bank Income Statement	264 265
Statement of Comprehensive Income	266
Statement of Financial Position	267
Statement of Changes in Equity	268
Statement of Cash Flows	272
Notes to the Financial Statements	273

Financial Calendar

	2013	2014
Final Dividend for 2012/2013 paid/payable	on April 9, 2013	on April 9, 2014
Interim Dividend for the year paid/payable	on November 19, 2013 on January 27, 2014	in the second half of 2014
Annual Report Release for 2012	on March 5, 2013	
Annual Report and Accounts for the year signed/to be signed	on February 24, 2014	in February 2015
44th Annual General Meeting held	on March 28, 2013	
45th and 46th Annual General Meetings to be held	on March 31, 2014	in March 2015
Final Dividend for the year to be proposed	on March 31, 2014	in March 2015
Final Dividend for the year to be paid	on April 9, 2014	in April 2015

Submission of the Interim Financial Statements in Terms of the Rule 7.4 of the Colombo Stock Exchange and as per the Requirements of the Central Bank of Sri Lanka

	2013 Submitted on	2014 To be submitted on or before
Consolidated Results for 2012	February 27, 2013	
For the 3 months ended March 31, (unaudited)	May 13, 2013	May 15, 2014
For the 3 and 6 months ended June 30, (unaudited)	August 12, 2013*	August 15, 2014
For the 3 and 9 months ended September 30, (unaudited)	November 12, 2013	November 15, 2014
For the 3 months and year ended December 31, 2013, (unaudited)	February 25, 2014	February 28, 2015

* These Financial Statements of the Bank were audited.

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 this Statement. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the 'Auditors' Report' given on page 262.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Directors of the Bank are responsible for ensuring that the Group and the Bank keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Bank and the Group as at end of each financial year and of the financial performance of the Bank and the Group for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at December 31, 2013, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows 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 financial position of the Bank and the Group as at Reporting date; and

(b) the financial performance of the Bank and the Group for the financial year ended on the Reporting 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 24, 2014 as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act and other regulatory requirements. Under the Section 148 (1) of the Companies Act, the Directors are also responsible for ensuring that proper accounting records which correctly record and explain the Bank's transactions are maintained and that the Bank's financial position, with reasonable accuracy, at any point of time is determined by the Bank, enabling preparation of the Financial Statements, in accordance with the Act to facilitate proper audit of the Financial Statements.

The Financial Statements for the year 2013, prepared and presented in this Annual Report have been prepared based on Sri Lanka Accounting Standards (LKAS/SLFRS) which came to effect from January 01, 2012 are in agreement 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).

In addition, these Financial Statements comply with the prescribed format issued by the Central Bank of Sri Lanka for the preparation of Annual Financial Statements of licensed commercial banks.

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 the said Committee is given on pages 192 to 194. 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 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 265 to 298 including, appropriate Accounting Policies selected and applied based on the new financial reporting frame work on a consistent basis, while reasonable and prudent judgments have been made so that the form and substance of transactions are properly reflected.

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 Directors' Statement on Internal Control is given on pages 258 and 259 of this Annual Report.

The Board of Directors wishes to confirm that, as required by the 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

Statement of Directors' Responsibility

are made in accordance with the Section 57 of the Companies Act No. 07 of 2007 and have obtained in respect of dividends paid and proposed, and also for which approval is now sought, necessary certificates of solvency from the External Auditors.

The Board of Directors also wishes to confirm that, as required by the 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 Bank, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 75 (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 the Section 07 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange, where applicable.

The Bank's External Auditors, Messrs KPMG who were appointed 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 262.

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 Reporting date have been paid or, where relevant, provided for, except as specified in Note 49 to the Financial Statements on 'Litigation against the Bank' on page 349. 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 'Code on Corporate Governance' issued jointly by the ICASL and the SEC, the Directors have a reasonable expectation that the Bank and its Subsidiaries possess 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 24, 2014

Directors' Statement on Internal Control

Responsibility

In line with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 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 and 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 checks 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, in accordance with the annual audit plan approved by the Board Audit Committee. The frequency of audits of branches 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 Board Audit Committee. Findings of the internal audit are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Bank reviews internal control issues identified by the Internal Audit Division, regulatory authorities and management, and evaluates 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 Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Further, details of the activities undertaken by the Board Audit Committee of the Bank are set out in the 'Board Audit Committee Report' which appears on pages 192 to 194.
- In assessing the internal control system, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Internal Audit Department of the Bank continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. The assessment included Subsidiaries of the Bank as well.

Directors' Statement on Internal Control

- Since the adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented in 2013. Continuous monitoring is in progress to ensure effective implementation of the required processes. The Banks' Internal Audit Department commenced testing these processes since first quarter 2013 and will continue to do so in 2014 as well. The Board is evaluating the need to automate the processes referred to above within suitable time plan.
- The comments made by External Auditors in connection with the internal control system during the financial year 2012 were taken into consideration and appropriate steps have been taken to incorporate them where appropriate.
- The Assurance Report of the External Auditors in connection with internal control over financial reporting is appearing on page 260.

Confirmation

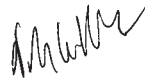
Based on the above processes, the Board of Directors confirms that the financial reporting system of the Bank has been designed to provide

reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the 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 this Annual Report of the Bank for the year ended December 31, 2013 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.

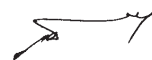
By order of the Board,



D.S. Weerakkody
Chairman



K.G.D.D. Dheerasinghe
Deputy Chairman



W.M.R.S. Dias
Managing Director

Colombo
February 24, 2014

Assurance Report on Internal Control



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To the Board of Directors of Commercial Bank of Ceylon PLC

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ("The Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") for the year ended December 31, 2013, as set out on pages 258 and 259 of this Annual Report.

Management's Responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

Scope of the Engagement in Compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work

performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

Our engagement has been conducted to assess whether the statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Company.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- Reviewed the documentation prepared by the Directors to support their Statement made.
- Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Attended meetings of the Audit Committee at which the Annual Report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
- Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

Our Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in this Annual Report on pages 258 and 259 is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Company.

Chartered Accountants

Colombo
February 24, 2014

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, 2013 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 and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka,
- 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 specified formats prescribed by the Central Bank of Sri Lanka. The Group presents the financial results to its shareholders on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group. Application of Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Board

Audit Committee and Bank's External Auditors. Comparative information has been restated to comply with the current presentation, where applicable. 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 year 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 within 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.

The Financial Statements of the Group were audited by Messrs KPMG, Chartered Accountants and their Report is given on page 262. The Board Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG, 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 KPMG's independence and objectivity.

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 192 to 194. The Board Audit Committee regularly examined the major decisions taken by the Assets and Liabilities Committee (ALCO) and Credit Policy 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.

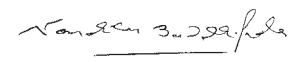
It is also declared and confirmed that the Bank has complied with and ensured compliance with the guidelines for the audit of listed companies where mandatory compliance is required.

We confirm that to the best of our knowledge:

- The Group has complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group other than those disclosed in Note 49 on page 349 of the Financial Statements.
- All taxes, duties, levies and all statutory payments by the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group as at the reporting date have been paid, or where relevant provided for.



W.M.R.S. Dias
Managing Director



K.D.N. Buddhhipala
Chief Financial Officer

Colombo
February 24, 2014

Independent Auditors' Report



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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 ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at December 31, 2013, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of Significant Accounting Policies and other explanatory information set out on pages 265 to 376 of the Annual Report.

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 policies 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 Company maintained proper accounting records for the year ended December 31, 2013 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2013, and of its financial performance and its cash flow 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 financial position of the Company and its subsidiaries dealt with thereby as at December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

1. These financial statements also comply with the requirements of Section 153(2) to 153(7) of the Companies Act No. 07 of 2007.
2. These financial statements present the information required by the Banking Act, No 30 of 1988.

Chartered Accountants

Colombo
February 24, 2014

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapakse ACA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo ACA

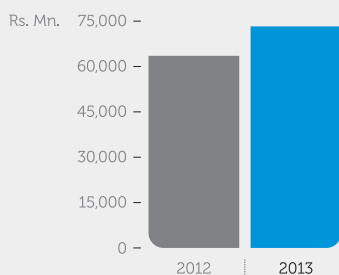
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

Financial Statements - Table of Contents

	Page No.		Page No.
Primary Financial Statements			
Income Statement	265	28. Investments in Subsidiaries	325
Statement of Comprehensive Income	266	29. Investments in Associates	326
Statement of Financial Position	267	30. Property, Plant & Equipment	327
Statement of Changes in Equity	268	31. Intangible Assets	334
Statement of Cash Flows	272	32. Leasehold Property	335
		33. Deferred Tax Assets and Liabilities	336
		34. Other Assets	337
Notes to the Financial Statements General		Notes to the Financial Statements Statement of Financial Position: Liabilities	
1. Reporting Entity	273	35. Due to Banks	337
2. Basis of Preparation	273	36. Derivative Financial Instruments	338
3. Significant Accounting Policies - Recognition of Assets and Liabilities	276	37. Due to Other Customers	338
4. Significant Accounting Policies - Recognition of Income and Expenses	296	38. Other Borrowings	339
5. Significant Accounting Policies - Income Tax Expense	297	39. Other Provisions	339
6. Statement of Cash Flows	298	40. Other Liabilities	340
		41. Due to Subsidiaries	341
		42. Subordinated Liabilities	341
Notes to the Financial Statements Income Statement		Notes to the Financial Statements Statement of Financial Position: Capital and Reserves	
7. Net Interest Income	299	43. Stated Capital	342
8. Net Fees and Commission Income	300	44. Statutory Reserves	344
9. Net Gains/(Losses) from Trading	301	45. Retained Earnings	345
10. Net Gains/(Losses) from Financial Investments	301	46. Other Reserves	345
11. Other Income (Net)	301	47. Non-Controlling Interest	347
12. Impairment Charges for Loans and Other Losses	302		
13. Personnel Expenses	302	Notes to the Financial Statements Other Disclosures	
14. Other Expenses	302	48. Contingent Liabilities and Commitments	347
15. Income Tax Expense	303	49. Litigation Against the Bank	349
16. Earnings Per Share (EPS)	305	50. Maturity Analysis	350
17. Dividends	305	51. Employee Retirement Benefits	354
		52. Operating Segments	355
		53. Related Party Disclosures	359
		54. Events After the Reporting Period	363
		55. Net Assets Value Per Ordinary Share	364
		56. Financial Risk Management	364
Notes to the Financial Statements Statement of Financial Position: Assets		Notes to the Financial Statements Statement of Cash Flows	
18. Classification of Financial Assets and Financial Liabilities	306	57. Non-Cash Items Included In Profit Before Tax	375
19. Fair Values of Financial Instruments	309	58. Change In Operating Assets	376
20. Cash and Cash Equivalents	309	59. Change In Operating Liabilities	376
21. Balances with Central Banks	310		
22. Placements with Banks	310		
23. Derivative Financial Instruments	310		
24. Other Financial Instruments Held-for-Trading	311		
25. Loans and Receivables to Banks	315		
26. Loans and Receivables to Other Customers	316		
27. Financial Investments - Available-for-Sale	322		

Financial Statement Highlights - Bank

Gross Income

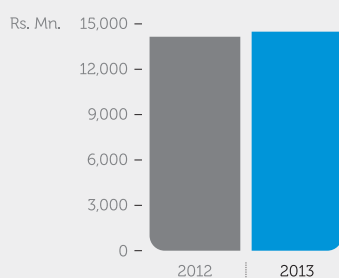


15.40%▲
Growth

2013
73,160
Rs. Mn.

2012
63,395
Rs. Mn.

Profit before Tax

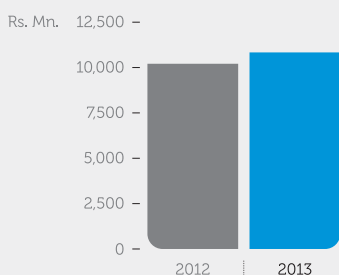


1.51%▲
Growth

2013
14,511
Rs. Mn.

2012
14,295
Rs. Mn.

Profit after Tax

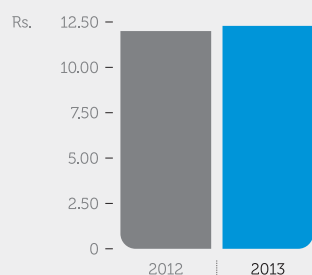


3.44%▲
Growth

2013
10,446
Rs. Mn.

2012
10,098
Rs. Mn.

Earnings per Share

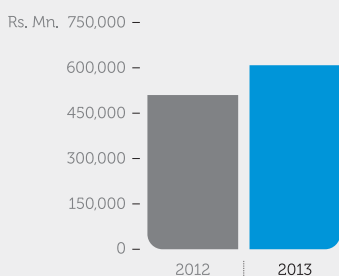


1.48%▲
Growth

2013
12.31
Rs.

2012
12.13
Rs.

Total Assets



18.54%▲
Growth

2013
606,607
Rs. Mn.

2012
511,743
Rs. Mn.

Income Statement

For the year ended December 31,	Note	GROUP			BANK		
		2013 Rs. '000	2012 Rs. '000	Change %	2013 Rs. '000	2012 Rs. '000	Change %
Gross income		73,101,378	63,373,753	15.35	73,159,580	63,395,047	15.40
Interest income		62,177,461	52,662,964	18.07	62,186,957	52,685,427	18.03
Less: Interest expenses		36,855,204	29,811,305	23.63	36,878,755	29,830,397	23.63
Net interest income	7	25,322,257	22,851,659	10.81	25,308,202	22,855,030	10.73
Fees and commission income		4,880,093	4,146,878	17.68	4,876,517	4,146,525	17.60
Less: Fees and commission expenses		627,235	548,560	14.34	627,235	548,560	14.34
Net Fees and commission income	8	4,252,858	3,598,318	18.19	4,249,282	3,597,965	18.10
Net gains/(losses) from trading	9	(1,625,926)	2,494,298	(165.19)	(1,625,926)	2,494,298	(165.19)
Net gains/(losses) from financial instruments designated at fair value through profit or loss		-	-	-	-	-	-
Net gains/(losses) from financial investments	10	1,349,517	31,533	4,179.70	1,349,517	31,533	4,179.70
Other income (net)	11	6,320,233	4,038,080	56.52	6,372,515	4,037,264	57.84
Total operating income		35,618,939	33,013,888	7.89	35,653,590	33,016,090	7.99
Impairment charges for loans and other losses	12	4,600,332	3,158,291	45.66	4,627,325	3,196,760	44.75
Net operating income		31,018,607	29,855,597	3.90	31,026,265	29,819,330	4.05
Less: Expenses							
Personnel expenses	13	8,266,005	7,837,144	5.47	8,186,205	7,769,788	5.36
Other expenses	14	6,098,015	5,730,586	6.41	6,360,587	5,766,896	10.29
Operating profit before value added tax (VAT)		16,654,587	16,287,867	2.25	16,479,473	16,282,646	1.21
Less: Value added tax (VAT) on financial services		1,968,954	1,987,313	(0.92)	1,968,954	1,987,313	(0.92)
Operating profit after value added tax (VAT)		14,685,633	14,300,554	2.69	14,510,519	14,295,333	1.51
Share of profits/(losses) of associates		7,118	12,360	(42.41)	-	-	-
Profit before tax		14,692,751	14,312,914	2.65	14,510,519	14,295,333	1.51
Less: Income tax expense	15	4,119,294	4,231,747	(2.66)	4,065,008	4,197,004	(3.15)
Profit for the year		10,573,457	10,081,167	4.88	10,445,511	10,098,329	3.44
Profit attributable to:							
Equity holders of the Bank		10,563,378	10,079,829	4.80	10,445,511	10,098,329	3.44
Non-controlling interest		10,079	1,338	653.29	-	-	-
Profit for the year		10,573,457	10,081,167	4.88	10,445,511	10,098,329	3.44
Earnings per share							
Basic earnings per share (Rs.)	16	12.45	12.11	2.81	12.31	12.13	1.48
Diluted earnings per share (Rs.)	16	12.43	12.09	2.81	12.29	12.11	1.49
Dividend per ordinary share (Rs.)					6.50	6.50	-

The Notes appearing on pages 273 to 376 form an integral part of these Financial Statements.

Statement of Comprehensive Income

For the year ended December 31,	GROUP			BANK		
	2013 Rs. '000	2012 Rs. '000	Change %	2013 Rs. '000	2012 Rs. '000	Change %
Profit for the Year	10,573,457	10,081,167	4.88	10,445,511	10,098,329	3.44
Other comprehensive income, net of tax						
Items that will never be reclassified to profit or loss						
Net actuarial gains/(losses) on defined benefit plans	(21,409)	-	-	(20,668)	-	-
Net change in revaluation surplus	(121,178)	190,042	(163.76)	(121,178)	121,178	(200.00)
Items that are or may be reclassified to profit or loss						
Net gains/(losses) arising from translating the financial statements of the foreign operation	361,343	548,545	(34.13)	350,969	550,827	(36.28)
Net gains/(losses) on re-measuring available-for-sale financial assets	1,579,100	619,436	154.93	1,579,100	619,436	154.93
Sri Lanka government securities	1,437,346	619,421	132.05	1,437,346	619,421	132.05
Equity securities - Quoted	141,754	15	944,926.67	141,754	15	944,926.67
Add/(Less): Share of other comprehensive income of associates	(2,132)	(28,967)	92.64	-	-	-
Other comprehensive income for the year, net of tax	1,795,724	1,329,056	35.11	1,788,223	1,291,441	38.47
Total comprehensive income for the year	12,369,181	11,410,223	8.40	12,233,734	11,389,770	7.41
Attributable to:						
Equity holders of the Bank	12,359,090	11,405,132	8.36	12,233,734	11,389,770	7.41
Non-controlling interest	10,091	5,091	98.21	-	-	-
Total comprehensive income for the year	12,369,181	11,410,223	8.40	12,233,734	11,389,770	7.41

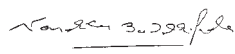
Statement of Financial Position

As at December 31,	Note	GROUP			BANK		
		2013 Rs. '000	2012 Rs. '000	Change %	2013 Rs. '000	2012 Rs. '000	Change %
Assets							
Cash and cash equivalents	20	14,263,533	19,752,205	(27.79)	14,261,549	19,732,834	(27.73)
Balances with Central Banks	21	18,431,936	18,168,039	1.45	18,431,936	18,168,039	1.45
Placements with banks	22	4,131,814	16,162,970	(74.44)	4,131,814	16,162,970	(74.44)
Derivative financial instruments	23	837,694	1,351,095	(38.00)	837,694	1,351,095	(38.00)
Other financial instruments held-for-trading	24	6,379,058	6,041,110	5.59	6,379,058	6,041,110	5.59
Loans and receivables to banks	25	546,270	628,760	(13.12)	546,270	628,760	(13.12)
Loans and receivables to other customers	26	418,944,215	372,857,337	12.36	418,959,675	372,915,081	12.35
Financial investments - Available-for-sale	27	123,748,290	57,963,192	113.49	123,748,290	57,963,192	113.49
Financial investments - Held-to-maturity		-	-	-	-	-	-
Investments in subsidiaries	28	-	-	-	288,946	303,130	(4.68)
Investments in associates	29	94,173	93,712	0.49	44,331	44,331	-
Property, plant & equipment	30	9,175,225	8,946,881	2.55	8,387,344	8,221,118	2.02
Intangible assets	31	477,728	506,161	(5.62)	467,593	497,038	(5.92)
Leasehold property	32	110,324	111,776	(1.30)	76,362	77,304	(1.22)
Deferred tax assets	33	515,323	458,258	12.45	507,078	448,500	13.06
Other assets	34	9,536,683	9,179,144	3.90	9,539,165	9,188,206	3.82
Total assets		607,192,266	512,220,640	18.54	606,607,105	511,742,708	18.54
Liabilities							
Due to banks	35	14,194,219	4,893,945	190.04	14,194,219	4,893,945	190.04
Derivative financial instruments	36	1,411,916	84,291	1,575.05	1,411,916	84,291	1,575.05
Other financial liabilities held-for-trading		-	-	-	-	-	-
Due to other customers	37	451,098,946	390,568,682	15.50	451,152,923	390,611,548	15.50
Other borrowings	38	53,997,503	47,435,565	13.83	54,173,175	47,582,819	13.85
Debt securities issued		-	-	-	-	-	-
Current tax liabilities		1,780,867	2,821,975	(36.89)	1,758,574	2,801,541	(37.23)
Deferred tax liabilities	33	2,278,737	1,889,983	20.57	2,070,148	1,698,067	21.91
Other provisions	39	2,409	2,409	-	2,409	2,409	-
Other liabilities	40	9,885,816	10,417,213	(5.10)	9,827,209	10,362,808	(5.17)
Due to subsidiaries	41	-	-	-	15,686	22,264	(29.55)
Subordinated liabilities	42	11,056,847	1,106,016	899.70	11,056,847	1,106,016	899.70
Total liabilities		545,707,260	459,220,079	18.83	545,663,106	459,165,708	18.84
Equity							
Stated capital	43	19,586,813	18,008,796	8.76	19,586,813	18,008,796	8.76
Statutory reserves	44	4,034,614	3,433,395	17.51	4,034,614	3,433,395	17.51
Retained earnings	45	4,359,632	4,172,814	4.48	4,233,364	4,178,080	1.32
Other reserves	46	33,465,169	27,353,415	22.34	33,089,208	26,956,729	22.75
Total equity attributable to equity holders of the Bank		61,446,228	52,968,420	16.01	60,943,999	52,577,000	15.91
Non-Controlling interest	47	38,778	32,141	20.65	-	-	-
Total equity		61,485,006	53,000,561	16.01	60,943,999	52,577,000	15.91
Total liabilities and equity		607,192,266	512,220,640	18.54	606,607,105	511,742,708	18.54
Contingent liabilities and commitments	48	295,451,955	279,593,112	5.67	295,451,955	279,593,112	5.67
Net assets value per share (Rs.)		72.37	63.55	13.88	71.78	63.08	13.79

The Notes appearing on pages 273 to 376 form an integral part of these Financial Statements.

Certification

These Financial Statements have been prepared in compliance with 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 presentation of these Financial Statements.

Approved and signed for and on behalf of the Board,

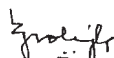


D.S. Weerakkody

Chairman

Colombo

February 24, 2014



K.G.D.D. Dheerasinghe

Deputy Chairman



W.M.R.S. Dias

Managing Director



Mrs. R.R. Dunuwille

Company Secretary

Statement of Changes in Equity

	Stated Capital Rs. '000	Statutory Reserves	
		Statutory Reserve Fund Rs. '000	Primary Dealer Special Risk Reserve Rs. '000
Group			
Balance as at 01.01.2012	16,473,861	2,740,901	149,404
Total comprehensive income for the year 2012			
Profit for the year	-	-	-
Other comprehensive income, net of tax	-	-	-
Total comprehensive income for the year 2012	-	-	-
Transactions with owners, recorded directly in equity contributions and distributions to owners			
Issue of ordinary shares under employee share option plans [Refer Note 43]	62,942	-	-
Dividends to equity holders			
Final cash dividend for 2011	-	-	-
Final dividend for 2011 satisfied in the form of issue and allotment of new shares	1,471,993	-	-
Interim dividends for 2012 [Refer Note 17]	-	-	-
Write-back of dividend payable	-	-	-
Transfers during the year [Refer Notes 44 and 46]	-	504,917	38,173
Total transactions with equity holders	1,534,935	504,917	38,173
Balance as at 31.12.2012	18,008,796	3,245,818	187,577
Total comprehensive income for the year 2013			
Profit for the year	-	-	-
Other comprehensive income, net of tax	-	-	-
Total comprehensive income for the year 2013	-	-	-
Transactions with owners, recorded directly in equity contributions and distributions to owners			
Issue of ordinary shares under employee share option plans [Refer Note 43]	76,074	-	-
Dividends to equity holders			
Second interim dividend for 2012 [Refer Note 17]	-	-	-
Final cash dividend for 2012	-	-	-
Final dividend for 2012 satisfied in the form of issue and allotment of new shares	1,501,943	-	-
First interim dividend for 2013 [Refer Note 17]	-	-	-
Deferred tax effect on pre-acquisition reserves	-	-	-
Re-classification of retained earnings to available-for-sale reserve	-	-	-
Transfers during the year [Refer Notes 44 and 46]	-	522,276	78,943
Total transactions with equity holders	1,578,017	522,276	78,943
Balance as at 31.12.2013	19,586,813	3,768,094	266,520

Statement of Changes in Equity

Retained Earnings Rs. '000	Other Reserves					Shareholders' Funds Rs. '000	Non-Controlling Interest Rs. '000	Total Equity Rs. '000
	Revaluation Reserve Rs. '000	Available-for-Sale Reserve Rs. '000	Foreign Currency Translation Reserve Rs. '000	Investment Fund Account Rs. '000	General Reserve Rs. '000			
2,588,194	4,550,836	(143,969)	(1,303,646)	1,194,328	17,889,471	44,139,380	29,589	44,168,969
10,079,829	-	-	-	-	-	10,079,829	1,338	10,081,167
(28,967)	186,289	619,436	548,545	-	-	1,325,303	3,753	1,329,056
10,050,862	186,289	619,436	548,545	-	-	11,405,132	5,091	11,410,223
-	-	-	-	-	-	62,942	-	62,942
(1,226,661)	-	-	-	-	-	(1,226,661)	(1,308)	(1,227,969)
(1,635,548)	-	-	-	-	-	(163,555)	-	(163,555)
(1,250,161)	-	-	-	-	-	(1,250,161)	(1,308)	(1,251,469)
1,343	-	-	-	-	-	1,343	77	1,420
(4,355,215)	-	-	-	1,652,607	2,159,518	-	-	-
(8,466,242)	-	-	-	1,652,607	2,159,518	(2,576,092)	(2,539)	(2,578,631)
4,172,814	4,737,125	475,467	(755,101)	2,846,935	20,048,989	52,968,420	32,141	53,000,561
10,563,378	-	-	-	-	-	10,563,378	10,079	10,573,457
(21,421)	(121,178)	1,576,968	361,343	-	-	1,795,712	12	1,795,724
10,541,957	(121,178)	1,576,968	361,343	-	-	12,359,090	10,091	12,369,181
-	-	-	-	-	-	76,074	-	76,074
(833,609)	-	-	-	-	-	(833,609)	-	(833,609)
(1,668,826)	-	-	-	-	-	(1,668,826)	(1,308)	(1,670,134)
(1,668,826)	-	-	-	-	-	(166,883)	-	(166,883)
(1,273,491)	-	-	-	-	-	(1,273,491)	(1,308)	(1,274,799)
(14,547)	-	-	-	-	-	(14,547)	(838)	(15,385)
28,967	-	(28,967)	-	-	-	-	-	-
(4,924,807)	-	-	-	1,991,758	2,331,830	-	-	-
(10,355,139)	-	(28,967)	-	1,991,758	2,331,830	(3,881,282)	(3,454)	(3,884,736)
4,359,632	4,615,947	2,023,468	(393,758)	4,838,693	22,380,819	61,446,228	38,778	61,485,006

Statement of Changes in Equity

	Stated Capital Rs. '000	Statutory Reserves	
		Statutory Reserve Fund Rs. '000	Primary Dealer Special Risk Reserve Rs. '000
Bank			
Balance as at 01.01.2012	16,473,861	2,740,901	149,404
Total comprehensive income for the year 2012			
Profit for the year	-	-	-
Other comprehensive income, net of tax	-	-	-
Total comprehensive income for the year 2012	-	-	-
Transactions with owners, recorded directly in equity contributions and distributions to owners			
Issue of ordinary shares under employee share option plans [Refer Note 43]	62,942	-	-
Dividends to equity holders			
Final cash dividend for 2011	-	-	-
Final dividend for 2011 satisfied in the form of issue and allotment of new shares	1,471,993	-	-
Interim dividends for 2012 [Refer Note 17]	-	-	-
Transfers during the year [Refer Notes 44 and 46]	-	504,917	38,173
Total transactions with equity holders	1,534,935	504,917	38,173
Balance as at 31.12.2012	18,008,796	3,245,818	187,577
Total comprehensive income for the year 2013			
Profit for the year	-	-	-
Other comprehensive income, net of tax	-	-	-
Total comprehensive income for the year 2013	-	-	-
Transactions with owners, recorded directly in equity contributions and distributions to owners			
Issue of ordinary shares under employee share option plans [Refer Note 43]	76,074	-	-
Dividends to equity holders			
Second interim dividend for 2012 [Refer Note 17]	-	-	-
Final cash dividend for 2012	-	-	-
Final dividend for 2012 satisfied in the form of issue and allotment of new shares	1,501,943	-	-
First interim dividend for 2013 [Refer Note 17]	-	-	-
Transfers during the year [Refer Notes 44 and 46]	-	522,276	78,943
Total transactions with equity holders	1,578,017	522,276	78,943
Balance as at 31.12.2013	19,586,813	3,768,094	266,520

Statement of Changes in Equity

Retained Earnings Rs. '000	Other Reserves					Shareholders' Funds Rs. '000	Non-Controlling Interest Rs. '000	Total Equity Rs. '000
	Revaluation Reserve Rs. '000	Available-for-Sale Reserve Rs. '000	Foreign Currency Translation Reserve Rs. '000	Investment Fund Account Rs. '000	General Reserve Rs. '000			
2,547,336	4,222,054	(143,969)	(1,308,721)	1,194,328	17,889,471	43,764,665	-	43,764,665
10,098,329	-	-	-	-	-	10,098,329	-	10,098,329
-	121,178	619,436	550,827	-	-	1,291,441	-	1,291,441
10,098,329	121,178	619,436	550,827	-	-	11,389,770	-	11,389,770
-	-	-	-	-	-	62,942	-	62,942
(1,226,661)	-	-	-	-	-	(1,226,661)	-	(1,226,661)
(1,635,548)	-	-	-	-	-	(163,555)	-	(163,555)
(1,250,161)	-	-	-	-	-	(1,250,161)	-	(1,250,161)
(4,355,215)	-	-	-	1,652,607	2,159,518	-	-	-
(8,467,585)	-	-	-	1,652,607	2,159,518	(2,577,435)	-	(2,577,435)
4,178,080	4,343,232	475,467	(757,894)	2,846,935	20,048,989	52,577,000	-	52,577,000
10,445,511	-	-	-	-	-	10,445,511	-	10,445,511
(20,668)	(121,178)	1,579,100	350,969	-	-	1,788,223	-	1,788,223
10,424,843	(121,178)	1,579,100	350,969	-	-	12,233,734	-	12,233,734
-	-	-	-	-	-	76,074	-	76,074
(833,609)	-	-	-	-	-	(833,609)	-	(833,609)
(1,668,826)	-	-	-	-	-	(1,668,826)	-	(1,668,826)
(1,668,826)	-	-	-	-	-	(166,883)	-	(166,883)
(1,273,491)	-	-	-	-	-	(1,273,491)	-	(1,273,491)
(4,924,807)	-	-	-	1,991,758	2,331,830	-	-	-
(10,369,559)	-	-	-	1,991,758	2,331,830	(3,866,735)	-	(3,866,735)
4,233,364	4,222,054	2,054,567	(406,925)	4,838,693	22,380,819	60,943,999	-	60,943,999

Statement of Cash Flows

For the year ended December 31,	Note	GROUP		BANK	
		2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Cash Flows from Operating Activities					
Profit before income tax		14,692,751	14,312,914	14,510,519	14,295,333
Adjustment for;					
Non-cash items included in profits before tax	57	5,631,697	4,485,422	5,722,985	4,439,746
Change in operating assets	58	(102,199,550)	(66,274,558)	(102,163,495)	(66,187,706)
Change in operating liabilities	59	77,034,423	59,823,290	77,067,488	59,799,214
Net (gains)/losses from investing activities		(11,115)	(10,385)	(233)	3,866
Share of profits in associates		(7,118)	(12,360)	-	-
Dividend income from subsidiaries and associates		2,691	8,615	(72,530)	(78,430)
Interest expense on subordinated liabilities		619,126	132,806	619,126	132,806
Benefits paid on defined benefit plans		(47,891)	(34,588)	(46,147)	(32,845)
Income taxes paid		(4,955,764)	(2,563,437)	(4,907,613)	(2,564,629)
Net unrealised gain from translation of financial statements of foreign operations		361,343	548,545	350,969	550,827
Net cash from/(used in) operating activities		(8,879,407)	10,417,335	(8,918,931)	10,358,182
Cash Flows from Investing Activities					
Net purchase of property, plant & equipment		(957,152)	(1,227,853)	(956,337)	(1,165,413)
Proceeds from sale of property, plant & equipment		31,431	70,715	11,927	11,722
Purchase of financial investments		(2,749,888)	(618,517)	(2,749,888)	(618,517)
Proceeds from sale and maturity of financial investments		1,723,893	1,090,366	1,723,893	1,090,366
Net purchase of intangible assets		(119,903)	(202,433)	(119,449)	(202,433)
Net cash flow from acquisition of investment in subsidiaries and associates		-	-	-	(20,628)
Dividends received from investment in subsidiaries and associates		-	-	72,530	78,430
Net cash used in investing activities		(2,071,619)	(887,722)	(2,017,324)	(826,473)
Cash Flows from Financing Activities					
Net proceeds from issue of ordinary share capital		76,074	62,942	76,074	62,942
Net proceeds from subordinated liabilities		9,825,000	-	9,825,000	-
Repayment of subordinated liabilities		(550)	-	(550)	-
Interest paid on subordinated liabilities		(492,745)	(132,429)	(492,745)	(132,429)
Dividend paid to non-controlling interests		(2,616)	(2,539)	-	-
Dividend paid to shareholders of the parent company		(3,942,809)	(2,640,377)	(3,942,809)	(2,640,377)
Net cash from/(used in) financing activities		5,462,354	(2,712,403)	5,464,970	(2,709,864)
Net increase/(decrease) in cash and cash equivalents		(5,488,672)	6,817,210	(5,471,285)	6,821,845
Cash and cash equivalents at beginning of the year		19,752,205	12,934,995	19,732,834	12,910,989
Cash and cash equivalents at end of the year [Refer Note 20]		14,263,533	19,752,205	14,261,549	19,732,834

Notes to the Financial Statements

1. Reporting Entity

1.1 Corporate Information

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, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka. The ordinary shares of the Bank have a primary listing on the Colombo Stock Exchange. For further information please refer inner back cover of this Annual Report.

The staff strength of the Bank as at December 31, 2013 was 4,730 (4,602 as at December 31, 2012).

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2013, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the 'Group' and individually as 'Group entities'), and the Group's interest in its Associates.

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

1.3 Principal Business Activities and Nature of Operations of the Bank, its Subsidiaries and Associates

Entity	Principal Business Activities
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, hire purchase financing, rural credit, issuing of local and international debit and credit cards, tele-banking facilities, internet banking, mobile 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, Bancassurance and Islamic banking products and services, etc.
Subsidiaries	
Commercial Development Company PLC	Property development and related ancillary services and outsourcing of staff for non-critical functions of the Bank.
ONEzero Company Ltd.	Providing IT-related services.
Commex Sri Lanka S.R.L.	Acting as an agent to the Bank and providing money transfer services, opening accounts, issuance and encashment of foreign currencies and Travellers' Cheques and collecting applications for credit facilities. The commercial operations of this company are yet to be commenced.
Associates	
Equity Investments Lanka Ltd.	Fund management.
Commercial Insurance Brokers (Pvt) Ltd.	Insurance brokering.
There were no significant changes in the nature of the principal business activities of the Bank and the Group during the financial year under review.	

2. Basis of Preparation

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS) laid down by The Institute of Chartered Accountant of Sri Lanka and in compliance with

the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These SLFRS are available at www.casrilanka.com.

The Group and the Bank did not adopt any inappropriate accounting treatments which are not in compliance with the requirements of the SLFRSs,

and regulations governing the preparation and presentation of the Financial Statements.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified format prescribed by the Central Bank of Sri Lanka for the Preparation, Presentation and Publication of Annual Audited Financial Statements of Licensed Commercial Banks.

Notes to the Financial Statements

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the Companies Act No. 07 of 2007 and SLFRS.

The Board of Directors acknowledges their responsibility as set out in the 'Annual Report of the Board of Directors', "Statement of Directors' Responsibility" and the certification on the Statement of Financial Position on pages 198, 256 and 267 respectively.

These Financial Statements include the following components:

- an Income Statement and a Statement of Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review (Refer pages 265 and 266);
- a Statement of Financial Position providing the information on the financial position of the Group and the Bank as at the year-end (Refer page 267);
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Bank (Refer pages 268 to 271);
- a Statement of Cash Flows providing the information to the users, on the ability of the

Group and the Bank to generate cash and cash equivalents and the needs of entities to utilise those cash flows (Refer page 272); and

- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 273 to 376).

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Bank for the year ended December 31, 2013 (including comparatives) were approved and authorised for issue by the Board of Directors on February 24, 2014.

2.4 Basis of Measurement

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

2.5 Functional and Presentation Currency

Items included in the Financial Statements of the Group and the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). These 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 these entities 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 'Annexes' on pages 396 and 397 does not form part of the Financial Statements and is solely for the information of stakeholders.

2.6 Presentation of Financial Statements

The assets and liabilities of the Group and the Bank presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the Reporting date and more than 12 months after the Reporting date is presented in Note 50 on pages 350 to 353.

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

Items	Measurement Basis	Note No./s	Page Reference
Held for Trading financial instruments	Fair value	24	311
Available-for-sale financial investments	Fair value	27	322
Land and Buildings	Stated at valuation	30	327
Net defined benefit (asset)/liability	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	40	340

Notes to the Financial Statements

simultaneously. Income and expenses are not offset in the consolidated Statement of Comprehensive Income unless required or permitted by an Accounting Standard or interpretation, and as specifically disclosed in the Accounting Policies of the Bank.

2.7 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 - LKAS 1 on 'Presentation of Financial Statements'.

2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousand, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 1 on 'Presentation of Financial Statements'.

2.9 Use of Judgments and Estimates

In preparing the Financial Statements of the Group and the Bank in conformity with SLFRSs the management has made judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about significant areas of estimation, uncertainty and critical judgments in applying Accounting Policies that have most significant effect on the amounts recognised in the Financial Statements of the Group and the Bank are as follows:

2.9.1 Going Concern

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

2.9.2 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models.

The valuation of financial instruments is described in more detail in Note 3.3.9 on page 284.

The Bank measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements, as described in Note 3.3.9 on page 284.

2.9.3 Financial Assets and Liabilities Classification

The Bank's Accounting Policies provide scope for assets and liabilities to be classified at inception into different accounting categories in certain circumstances.

- In classifying financial assets or liabilities at 'Fair value through profit or loss', and within that category as 'Held-for-Trading' the Bank has determined that it has met the criteria for this designation set out in Notes 3.3.3.1 and 3.3.9 on pages 280 and 284.
- In classifying financial assets as 'Held-to-Maturity', the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 3.3.3.5 on page 282.

2.9.4 Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be provided

for in the Statement of Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions made.

The individual component of the total provision for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. A collective component of the total provision is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired

The collective provision for groups of homogeneous loans is established

using statistical methods or, a formula approach based on historical loss rate experience, using the statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgment to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. The loss rates are regularly benchmarked against actual loss experience.

In assessing the need for collective loss provision, management considers factors such as credit quality (such as loan to collateral ratio, level of restructured performing loans etc.) portfolio size, concentrations and economic factors. To estimate the required provision, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions (including policy rates, inflation, growth in GDP, sovereign rating, etc.).

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

The impairment loss on loans and advances is disclosed in more detail in Note 26.2 on page 318.

2.9.5 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 Notes 3.3.10 and 3.8 on pages 285 to 287 and 290 respectively.

2.9.6 Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which such tax losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies (Refer Note 5.2 on page 297).

2.9.7 Defined Benefit Obligation

The cost of the defined benefit plans is determined using an actuarial valuation. 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. Refer Note 51 on page 354 for the assumptions used.

2.9.8 Provisions for Liabilities and Contingencies

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.

Information about significant areas of estimation uncertainty and critical judgments in applying Accounting Policies other than those stated above that have significant effects on the amounts recognised in the Consolidated Financial Statements are described in Notes 3.14 and 3.15 on page 278.

2.10 Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Reporting Period have been considered and appropriate disclosures are made in Note 54 on page 363 where necessary.

Significant Accounting Policies

The Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Group and the Bank, unless otherwise indicated.

These Accounting Policies have been applied consistently by Group entities.

3. Significant Accounting Policies - Recognition of Assets and Liabilities

3.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiaries in terms of the Sri Lanka Accounting Standard - LKAS 27 on 'Consolidated

Notes to the Financial Statements

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 - LKAS 28 on 'Investments in Associates'. 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.

3.1.1 Business Combinations and Goodwill

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date in terms of the Sri Lanka Accounting Standard - SLFRS 3 on 'Business Combinations'.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity

securities, that the Group incurs in connection with a business combination are expensed as incurred.

The Sri Lanka Accounting Standard - SLFRS 3 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 the excess is negative, a gain from a bargain purchase is recognised immediately in profit or loss.

When Subsidiaries/ Associates/Other Business Units are disposed off, 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 Statement of Comprehensive Income in the year of disposal.

Acquisitions prior to January 1, 2010

As part of its transition to SLFRSs, the Group elected to restate only those business

combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognised under the Group's previous accounting framework (i.e.; Sri Lanka Accounting Standards (SLASs) that were in force up to December 31, 2010).

No goodwill/gain from a bargain purchase arose from the treatment of Associates under the Equity Method since the Group had the respective percentages of ownership in Associates from the commencement of those Associates.

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Financial Statements of Subsidiaries are fully consolidated from the date on which control is transferred to the Bank and continue to be consolidated until the date when such control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

3.1.3 Non-Controlling Interests

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

Non-controlling interests are presented separately in the Consolidated Statement of Comprehensive Income

and within equity in the Consolidated Statement of Financial Position, but separate from Parent shareholders' equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this results in a deficit balance. Acquisitions of non-controlling interests are accounted for using the Parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity. Therefore, no goodwill recognised as a result of such transactions.

The Financial Statements of the Bank's Subsidiaries are prepared for the same reporting year, using consistent Accounting Policies.

The Financial Statements of all Subsidiaries in the Group have a common financial year which ends on December 31.

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

There are no significant restrictions on the ability of Subsidiaries to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

Notes to the Financial Statements

All Subsidiaries of the Bank have been incorporated in Sri Lanka except Commex Sri Lanka S.R.L. which was incorporated in Italy.

A listing of the Bank's Subsidiaries together with contingencies of Subsidiaries is set out in Notes 28 and 48.3 (a) to the Financial Statements on pages 325 and 349.

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 dividends paid are given in the Section on 'Group Structure' on page 390.

3.1.4 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in Associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards - LKAS 28 on 'Investments in Associates'. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align

the Accounting Policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Accordingly, 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 Statement of Financial Position. The Statement of Comprehensive Income reflects the Group's share of current year's profit or loss of the Associates.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. 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 previously.

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 such investments in accordance with the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Where there has been a change recognised directly in the equity of the Associate, the Bank recognises its share of any such changes and discloses same, when applicable, in the Consolidated 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 such Associate.

The Financial Statements of all Associates in the Group have a common financial year which ends on December 31.

There are no significant restrictions on the ability of the Associates to transfer funds to the Parent (the Bank) 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 29 and 48.3 (b) to the Financial Statements on pages 326 and 349.

Summarised financial information of all Associates of the Bank together with the Bank's interests is given in the Section on 'Group Structure' on page 390.

3.1.5 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the Subsidiary, any non-controlling interests and

the other components of equity related to the Subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an Associate or in accordance with the Group's accounting policy for financial instruments (see Accounting Policy 3.1.3 above) depending on the level of influence retained.

3.1.6 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in full in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.7 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.

Notes to the Financial Statements

3.2 Foreign Currency

3.2.1 Foreign Currency Translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Bank's functional 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. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. The Financial Statements of the Off-Shore Banking Unit of the Bank and the Financial Statements of the Foreign Operations of the Bank have been translated into the Group's presentation currency as explained under Notes 3.2.2 and 3.2.3 below:

3.2.2 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 denominated in foreign currencies at the Reporting date are retranslated to the functional currency at the

middle exchange rate of the functional currency ruling at the Reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the Reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in Other Comprehensive Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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 exchange rates ruling at the Reporting date.

3.2.3 Transactions of the Off-Shore Banking Centre

These have been recorded in accordance with Note 3.2.1 above, except the application of the annual weighted average exchange rate for translation of the Statement of Comprehensive Income. Net gains and losses are dealt through the Statement of Comprehensive Income.

3.2.4 Foreign Operations

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

- Assets and liabilities are translated at the rates of exchange ruling at the Reporting 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 off, the deferred cumulative translation gain or loss recognised in Equity relating to that particular foreign operation is recognised in the Statement of Comprehensive Income as part of the gain or loss on disposal.

3.3 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

3.3.1 Date of Recognition

All financial assets and liabilities except 'Regular way trades' are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. 'Regular way trades' means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Those trades are initially recognised on the settlement date.

3.3.2 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. Please refer Notes 3.3.3 and 3.3.4 below for further details on classification of Financial Instruments.

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities at fair value through profit or loss as per the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Statement of Comprehensive Income.

3.3.2.1 'Day 1' Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Statement of Comprehensive Income when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to

employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.3.3 Classification and Subsequent Measurement of Financial Assets

At inception a financial asset is classified into one of the following categories:

- At fair value through profit or loss:
 - Held-for-trading; or
 - Designated at fair value through profit or loss.
- Loans and receivables;
- Available-for-sale; or
- Held-to-maturity

The subsequent measurement of financial assets depends on their classification.

Please refer Accounting Policies 3.3.3.1., 3.3.3.2, 3.3.3.3, 3.3.3.4 and 3.3.3.5 on pages 280 to 282.

3.3.3.1 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss includes financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in 3.3.3.1.1 and 3.3.3.1.2 below.

3.3.3.1.1 Financial Assets Held-for-Trading

Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

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

The Group evaluates its financial assets held-for-trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances.

Financial assets held-for-trading include instruments such as Government and other debt securities and equity instrument that have been acquired principally for the purpose of selling or repurchasing in the near term and derivatives, including separated embedded derivatives explained below unless they are designated as effective hedging instruments.

Details of financial assets held-for-trading are given in Note 24 on page 311 and on the face of the Statement of Financial Position.

Derivatives Recorded at Fair Value through Profit or Loss

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

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held-for-trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements

Details of derivatives recorded at fair value through profit or loss are given in Notes 23 and 36 on pages 310 and 338.

3.3.3.1.2 Financial Assets Designated at Fair Value through Profit or Loss

The Group designates financial assets at fair value through profit or loss in the following circumstances:

- the assets are managed, evaluated and reported internally at fair value;
- the designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- the asset contains an embedded derivative that significantly modifies the cash flows that would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value.

Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'Interest Income', using the EIR, while dividend income is recorded in 'other operating income' when the right to receive the payment has been established.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.3.3.2 Loans and Receivables to Banks and Other Customers

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

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

'Loans and receivable to banks and other customers' include Loans and Advances, Bills of Exchange and Lease Receivable of the Group.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for impairment are classified as lease receivable and are presented within 'loans and receivables to customers' in the Statement of Financial Position.

After initial measurement, 'loans and receivables to banks and other customers' are subsequently measured at amortised cost using the EIR, less provision for impairment except when the Group recognises loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

The Bank may enter into certain lending commitments where the loan, on draw down, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend, if any, are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

Details of 'loans and receivables to banks and other customers' are given in Notes 25 and 26 on pages 315 and 316 respectively.

3.3.3.3 Other Financial Investments Classified as Loans and Receivables

'Other financial investments classified as loans and receivables' include unquoted debt instruments. After initial measurement, these are subsequently measured at amortised cost using the EIR, less provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

Details of 'Other Financial Investments Classified as Loans and Receivables' are given in Note 26 on page 316.

3.3.3.4 Available-for-Sale Financial Investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

Notes to the Financial Statements

The Group has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in Equity through Other Comprehensive Income in the 'available-for-sale reserve'. When the financial investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Statement of Comprehensive Income in 'Other operating income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available-for-Sale financial investments are recognised in the Statement of Comprehensive Income as 'other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'Impairment losses on financial investments' and removed from the 'Available-for-Sale reserve'.

Details of available-for-sale financial investments are given in Note 27 on page 322.

3.3.3.5 Held-to-Maturity Financial Investments

Held-to-Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold-to-maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'), the entire category would be tainted and would have to be reclassified as Available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

The Group has not designated any financial instrument as Held-to-Maturity Financial Investment.

3.3.3.6 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. They are brought to Financial Statements at their face values or the gross values, where appropriate. There were no cash and cash equivalents held by the Group companies that were not available for use by the Group.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

Details of cash and cash equivalents are given in Note 20 to the Financial Statements on page 309.

3.3.3.7 Balances with Central Banks

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 6% on all deposit liabilities denominated in Sri Lankan Rupees (8% in 2012). The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement of 19% (19% in 2012) on time and demand liabilities (both local and

foreign currencies), inclusive of 6% (6% in 2012) in the form of a Cash Reserve Requirement and the balance 13% (13% in 2012) by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank.

Balances with Central Banks are carried at amortised cost in the Statement of Financial Position.

Details of the balances with Central Banks are given in Note 21 to the Financial Statements on page 310.

3.3.4 Classification and Subsequent Measurement of Financial Liabilities

At inception a financial liability is classified into one of the following categories:

- At fair value through profit or loss, or
 - Held-for-trading; or
 - Designated at fair value through profit or loss
- At amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

Please refer Accounting Policies 3.3.4.1 and 3.3.4.2 as detailed below.

3.3.4.1 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Notes to the Financial Statements

Financial liabilities are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading are recognised in the Statement of Comprehensive Income.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.3.4.2 Financial Liabilities at Amortised Cost

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities under 'Due to Banks', 'Debt Securities Issued' or 'Subordinated Liabilities' as appropriate, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the

obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Expenses' in the Statement of Comprehensive Income. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process.

The details of the Bank's Financial liabilities at amortised cost is disclosed in Notes 35, 37, 38 and 42 on pages 337, 338, 339 and 341 respectively.

3.3.5 Reclassification of Financial Instruments

The Bank reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Bank is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Comprehensive Income.

The Bank may reclassify a non-derivative trading asset out of the 'held-for-trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument-by-instrument basis.

The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Bank does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

3.3.6 Derecognition of Financial Assets and Financial Liabilities

3.3.6.1 Financial Assets

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

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in profit or loss.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3.3.6.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3.3.7 Securities Purchased Under Resale Agreements (Reverse Repos)

When the Group purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a financial asset in the Group's Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Group. Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised as interest income in profit or loss.

Details of 'Securities purchased under resale agreements' are given in Note 26.4 (a) to the Financial Statements on page 320.

3.3.8 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

3.3.9 Determination of Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair Value Measurement Hierarchy

Level 1

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations

(assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis, credit models, option pricing models and other relevant valuation models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and

Notes to the Financial Statements

tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. There fair value is determined by using valuation models that have been tested against prices or inputs to actual market transactions and also using the best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument (Refer Note 3.3.2.1 on page 280).

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 3.3 on page 279.

3.3.10 Impairment of Financial Assets

At each Reporting date the Group assesses whether there is objective evidence

that a financial asset or a group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can include:

- significant financial difficulty of the borrower or issuer,
- reschedulement of credit facilities,
- default or delinquency by a borrower,
- restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

3.3.10.1 Impairment of Financial Assets Carried at Amortised Cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have

not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognised in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in 'Interest income'.

Loans together with the associated provision are written-off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the provision account. If a future write-off is later recovered, the recovery is credited to 'Other Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

Notes to the Financial Statements

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year-to-year (such

as changes in policy rates, inflation, growth in GDP, sovereign rating, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment provision on loans and advances by class are given in Note 12 on page 302.

Impairment of Rescheduled Loans and Advances

Where possible, the Bank seeks to reschedule loans and advances rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. In case of individually significant rescheduled credit facilities, once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan/advance is no longer considered past due. Management continually reviews renegotiated loans and advances to ensure that all criteria are met and that future payments are likely to occur.

Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, Government securities, letters of credit/ guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's annual reporting schedule.

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

Collateral Repossessed

The Bank's policy is to carry collaterals repossessed at fair value at the repossession date and such assets will be disposed at the earliest possible opportunity. These assets are recorded under assets held-for-sale as per the Sri Lanka Accounting Standard - SLFRS 5 on 'Non-Current Assets Held for Sale and Discontinued Operations'.

3.3.10.2 Impairment of Financial Investments - Available-for-Sale

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

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Comprehensive Income. Future interest income is based on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income on such assets too is recorded within 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of

Notes to the Financial Statements

Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through Other Comprehensive Income is removed from Equity and recognised in the Income Statement. However, any subsequent recovery in the fair value of an impaired Available-for-sale equity security is recognised in Other Comprehensive Income.

The Group writes-off certain Financial Investments - Available-for-Sale when they are determined to be uncollectible.

3.4 Non-Current Assets Held-for-Sale and Disposal Groups

The Group/Bank intends to recover the value of Non-current Assets and disposal groups classified as held-for-sale as at the Reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for

immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

As per the Sri Lanka Accounting Standard - SLFRS 5 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 Group/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 Group/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, once classified, the Group/Bank neither amortise nor depreciate the assets classified as held-for-sale.

In the Consolidated Statement of Comprehensive Income of the Reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately

from income and expenses from continuing operations, down to the level of profit after taxes, even when the Bank retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Statement of Comprehensive Income.

3.5 Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.5.1 Operating Leases - Bank as a Lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased assets are operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

Details of Operating Leases - Bank as a lessee are given in Note 32 on page 335.

3.5.2 Operating Leases - Bank as a Lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

3.6 Property, Plant & Equipment

The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including buildings under operating leases where the Bank is the lessee) 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 for more than one year.

3.6.1 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.

3.6.2 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 (excluding the costs of day-to-day servicing) as explained in Note 3.6.3 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 items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

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

3.6.2.1 Cost Model

The Group applies the cost model to all Property, Plant & Equipment except freehold land and freehold and leasehold buildings and records at cost of purchase together with any incidental expenses thereon, less

accumulated depreciation and any accumulated impairment losses.

3.6.2.2 Revaluation Model

The Group applies the Revaluation Model for the entire class of freehold land and freehold and leasehold buildings for measurement after initial recognition. Such properties are carried at revalued amounts, 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 Group are revalued every five to seven years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and presented in Revaluation Reserve in Equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is

recognised as an expense in the Income Statement or charged in Other Comprehensive Income and presented in Revaluation Reserve in Equity only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on Retirement or disposal of the asset.

The Group last revalued all its freehold land and buildings as at December 31, 2011.

3.6.3 Subsequent Cost

These are costs that are recognised in the carrying amount of an asset if it is probable that the future economic benefits embodied within that part of the cost will flow to the Group and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.6.4 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 'Other Income/Expenses' in profit or loss 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 Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment'.

3.6.5 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 Statement of Financial Position at cost.

3.6.6 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated.

Notes to the Financial Statements

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

Class of Asset	% Per Annum	Period
Freehold and leasehold buildings	2.5	40 years
Motor vehicles	20	5 years
Computer equipment	20	5 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 rates 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.

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

All classes of Property, Plant & Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 30 on page 327.

3.7 Intangible Assets

The Bank's intangible assets include the value of computer software and copy rights.

3.7.1 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 - LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

3.7.2 Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.7.3 Useful Economic Lives, Amortisation and Impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. The Group does not possess intangible assets with indefinite useful economic lives. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

3.7.3.1 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 Reporting date. Changes in the expected

useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is expensed as incurred.

3.7.3.1.1 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 Statement of Financial Position under the category of Intangible Assets and carried at cost, less accumulated amortisation and accumulated impairment losses, if any.

3.7.3.1.2 Amortisation of Intangible Assets

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives at the rates specified below:

Class of Asset	% Per Annum	Period
Computer software	20	5 years

Above rate is in consistent with the rates used in the comparative years.

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

3.7.3.2 Intangible Assets with Indefinite Useful 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.

The Group/Bank does not have Intangible Assets with indefinite useful lives.

3.7.4 Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their 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 profit or loss.

The Group has only acquired intangible assets, a list of which with the reconciliation of carrying amounts, accumulated amortisation at the beginning and at the end of the periods is given in Note 31 on page 334.

Amortisation recognised during the year in respect of intangible assets is included under the item of 'Amortisation of intangible assets' in the Statement of Comprehensive Income.

3.8 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets are reviewed at each Reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the

asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss under those expense categories consistent with the function of the impaired asset, except for property previously revalued where the gain or loss on revaluation was taken to Equity. In this case, the impairment is also recognised in Equity up to the extent of any previously recognised revaluation gains.

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

amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

3.9 Deposits, Borrowings, Debt Securities Issued and Subordinated Liabilities

Deposits, borrowings, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

3.9.1 Due to Banks and Other Financial Institutions

These represents refinance borrowings, call money borrowings, credit balances in Nostro Accounts and borrowings from financial institutions. Subsequent to initial recognition deposits are measured at their amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

Details of the 'Due to banks and other financial institutions' are given in Notes 35 and 37 on pages 337 and 338 respectively.

3.9.2 Due to Customers

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposit. Subsequent to initial recognition deposits are measured at their amortised

Notes to the Financial Statements

cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in profit or loss.

Details of 'Deposits from customers' are given in Note 37 on page 338.

3.9.3 Debt Securities Issued

These represent the funds borrowed by the Bank for long-term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the EIR method, except where the Group designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

3.9.4 Securities Sold Under Repurchase Agreements (Repos)

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (Repo), the arrangement is accounted for as a financial liability, and the underlying asset continues to be recognised in the Group's Financial Statements as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement

of Financial Position as an asset with a corresponding obligation to return it as a liability under 'Securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group.

Subsequent to initial recognition, these securities sold are measured at their amortised cost using the EIR method with the corresponding interest payable is recognised as interest expense in profit or loss.

Details of 'Securities sold under repurchase agreements' are given in Note 35 and 38 on pages 337 and 339.

3.10 Dividends Payable

Dividends on ordinary shares are recognised as a liability and deducted from Equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the Reporting date are disclosed as an event after the Reporting Period in accordance with the Sri Lanka Accounting Standard - LKAS 10 on 'Events after the Reporting Period'.

3.11 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 Reporting date.

Details of 'Other Liabilities' are given in Note 40 on page 340.

3.12 Provisions

A provision is recognised in the Statement of Financial Position 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 - LKAS 37 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 Reporting 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.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

3.13 Employee Benefits

3.13.1 Defined Benefit Plans (DBPs)

A Defined Benefit Plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard - LKAS 19 on 'Employee Benefits'.

3.13.1.1 Defined Benefit Pension Plans

3.13.1.1.1 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 1, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they

Notes to the Financial Statements

are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank.

During 2006, 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 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 the Financial Statements for Retirement Gratuity from the first year of service for all employees

who joined the Bank on or after January 1, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees 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.

The Bank's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by using the Projected Unit Credit Actuarial Valuation Method, as per the Sri Lanka Accounting Standard - LKAS 19 on 'Employee Benefits'. This method involves estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value as detailed in Note 51 on page 354.

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.

3.13.1.1.2 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the Other Comprehensive Income in the period in which they arise.

3.13.1.1.3 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.

3.13.2 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 in the profit or loss as incurred. The Group has three such plans as explained in Notes 3.13.2.1, 3.13.2.2 and 3.13.2.3 below.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 13 on page 302.

3.13.2.1 Defined Contribution Pension Plans

As explained in Note 3.13.1.1.1.a, 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 pre-determined contribution rates to be applied for on their salaries, which are 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.

Notes to the Financial Statements

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.

3.13.2.2 Employees' Provident Fund

The Bank and employees contribute to the approved Private Provident Fund at 12% and 8% respectively, on the salaries of each employee. 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.

3.13.2.3 Employees' Trust Fund

The Bank and other entities of the Group contribute at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the Central Bank of Sri Lanka.

3.13.3 Other Long-Term Employee Benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate used as the yield at the Reporting date was the

current market rate that has been extrapolated to reflect long-term rate of discount based on market rates of interest on short-term corporate/government bonds and anticipated long-term rate of inflation. The calculation is performed using the Projected Unit Credit Method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

The Group does not have any other long-term employee benefit plans.

3.13.4 Terminal Benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable after more than one year from the Reporting date, then they are discounted to their present value.

3.13.5 Other Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.13.6 Equity Compensation Benefits

Share-based payment arrangements in which the Bank receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Bank. Employees (including Senior Executives) of the Bank receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Bank does not operate any cash-settled share-based payment transactions.

The Bank applies the requirements of the Sri Lanka Accounting Standard - SLFRS 2 on 'Share-Based Payment'

in accounting for equity settled share-based payment transactions, if any, that were granted after January 1, 2012 and had not vested at the same date. As per the Sri Lanka Accounting Standard - SLFRS 2 on 'Share-Based Payment', on the grant date fair value of equity-settled share-based payment awards (i.e., share options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

As the Bank did not grant any share-based payment transaction after January 1, 2012, it did not apply the above accounting treatment during the year and the

proceeds received by the Bank in consideration for the shares issued were accounted for as Stated Capital within equity.

The details of Employee Share Option Plans are given in Notes 43.2 on page 343.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share as disclosed in Note 16 on page 305.

3.14 Commitments

All discernible risks are accounted for in determining the amount of other liabilities as explained in Note 3.15 below.

Details of the commitments are given in Note 48.2 to the Financial Statements on page 348.

3.15 Contingent Liabilities and Commitments for Leasing Arrangements

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 as defined in the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank too form part of commitments of the Bank.

Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank as disclosed in Note 48.1 on page 347.

All discernible risks are accounted for in determining the amount of other liabilities as explained in Note 39 on page 339.

3.15.1 Legal Claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the Reporting date the Bank had several unresolved legal claims. The significant unresolved legal claims against the Bank for which legal advisor of the Bank advised as the loss is possible, but not probable, that the action will succeed. Accordingly, no provision for any claims has been made in these Financial Statements.

A detailed list of significant pending litigations against the Bank is given in Note 49 on page 349.

3.15.2 Contingent Liabilities, Commitments of Other Group Entities

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.

Details of the commitments and contingencies of other Group entities are given in Note 48.3 on page 349.

3.16 Earnings Per Share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Details of earnings per share are given in Note 16 on page 305.

3.17 Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For each of the strategic divisions, the Group's management monitors the

Notes to the Financial Statements

operating results separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported on a net basis as management primarily relies on net interest income as a performance measure and not the gross income and expense.

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.

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

Detailed information on the results of each reportable segment as required by the Sri Lanka Accounting Standard - SLFRS 8 on 'Operating Segments' is provided in Note 52 on page 355.

3.18 Fiduciary Assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Bank.

3.19 New Accounting Standards Issued Not Yet Adopted

There are a number of new Accounting Standards, amendments to standards, which have been issued but not yet effective as at the Reporting date have not been applied in preparing these Consolidated Financial Statements. The Group and the Bank will adopt the following new/revised Accounting Standards which will be effective from January 1, 2014/2015. Accordingly, these Accounting Standards have not been applied in preparing these Financial Statements.

- SLFRS 9 - Financial Instruments
- SLFRS 10 - Consolidated Financial Statements
- SLFRS 11 - Joint Arrangements
- SLFRS 12 - Disclosure of Interest in Other Entities
- SLFRS 13 - Fair Value Measurement

Pending a detailed review on these new/revised Accounting Standards, the financial impact is not reasonably estimable as at the date of publication of these Consolidated Financial Statements.

Sri Lanka Accounting Standard - SLFRS 9 'Financial Instruments'

The objective of this Accounting Standard is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of Financial Statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 'Financial Instruments: Recognition and Measurement'.

The effective date of this Accounting Standard has been deferred as at the date of publication of these Consolidated/Separate Financial Statements.

Sri Lanka Accounting Standard - SLFRS 10 'Consolidated Financial Statements'

The objective of this Accounting Standard is to establish principles for the presentation and preparation of Consolidated Financial Statements when an entity controls one or more other entities.

SLFRS 10 is effective from January 1, 2014.

Sri Lanka Accounting Standard - SLFRS 11 'Joint Arrangements'

The objective of this Accounting Standard is to establish principles for financial reporting by

entities that have an interest in arrangements that are controlled jointly (i.e., joint arrangements).

SLFRS 11 is effective from January 1, 2014.

Sri Lanka Accounting Standard - SLFRS 12 'Disclosure of Interests in Other Entities'

The objective of this Accounting Standard is to require an entity to disclose information that enables users of its Financial Statements to evaluate the nature of, and risks associated with its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

SLFRS 12 will become effective from January 1, 2014.

Sri Lanka Accounting Standard - SLFRS 13, 'Fair Value Measurement'

This Accounting Standard defines fair value, sets out in a single SLFRS a framework for measuring fair value; and requires disclosures about fair value measurements.

This SLFRS will become effective from January 1, 2014 and shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

4. Significant Accounting Policies - Recognition of Income and Expenses

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

4.1 Interest Income and Expense

For all financial instruments measured at amortised cost, interest income and expense are recognised in profit or loss using the EIR method. The EIR is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the EIR, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the EIR takes into account all contractual terms of the financial instruments (for example, prepayment options) and includes all material transaction costs and fees that are an integral part of the EIR. Transaction costs include incremental costs that are

directly attributable to the acquisition or issue of a financial asset or liability.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of receipts or payments. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded in 'Interest Income' for financial assets and in 'Interest Expenses' for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

4.2 Fees and Commission Income and Expense

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

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

4.3 Net Trading Income

Results arising from trading activities include all realised and unrealised gains and losses from changes in fair value and related interest income or expense, dividends and foreign exchange differences for financial assets and financial liabilities 'held-for-trading'.

4.4 Dividend Income

Dividend income is recognised when the Group's/Bank's right to receive the payment is

established. Usually, this is the ex-dividend date for equity securities.

Dividends are presented in 'net trading income' for financial instruments at fair value through profit or loss held-for-trading. Dividends on available-for-sale equity securities are presented in 'other operating income' in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented as a reduction in the value of the investment.

4.5 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard - LKAS 17 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 recognised in profit or loss over the term of the lease commencing from the month in which the lease is executed using EIR.

4.6 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over

Notes to the Financial Statements

the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

4.7 Rental Income and Expense

Rental income and expense are recognised in the profit or loss on an accrual basis.

4.8 Borrowing Costs

As per the Sri Lanka Accounting Standard - LKAS 23 on 'Borrowing Costs', the Group/Bank capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

5. Significant Accounting Policies - Income Tax Expense

As per the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes', tax expense (tax income) is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Income Statement except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognised in Equity or in OCI.

5.1 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 Reporting date. Accordingly, provision for taxation is made on the basis of the accounting 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 15 on page 303. 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 - LKAS 12 on 'Income Taxes'.

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

5.2 Deferred Taxation

Deferred tax is provided on temporary differences at the Reporting 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 or loss 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 Reporting 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 Reporting 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 Reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are set-off, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Details of Deferred Tax Assets and Liabilities as at the Reporting date are given in Note 33 on page 336.

5.3 Tax Exposures

In determining the amount of current and deferred tax, the Group/Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group/Bank to change its judgment regarding the adequacy of existing tax liabilities. Such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

5.4 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

5.5 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.

5.6 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 1, 2004. Currently, the ESC is payable at 0.25% on 'Exempt 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.

5.7 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 or loss for the period is given in the Income Statement on page 265.

6. Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard - LKAS 7 on 'Statement of Cash Flows'. 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 Statement of Cash Flows are comprised of those items as explained in Note 20 on page 309.

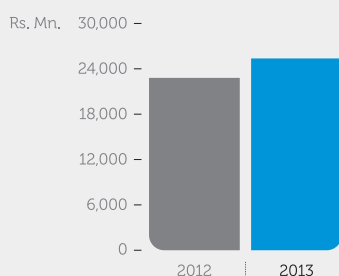
The Statement of Cash Flows is given on page 272.

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
7. Net Interest Income				
Interest Income				
Cash and cash equivalents	290,537	470,764	290,537	470,764
Placements with banks	65,013	339,115	65,013	339,115
Derivative financial instruments	–	314	–	314
Other financial instruments held-for-trading	447,257	421,315	447,257	421,315
Loans and receivables to banks	6,412	19,557	6,412	19,557
Loans and receivables to other customers	49,973,484	45,037,407	49,980,422	45,057,595
Financial investments - Available-for-sale	11,392,946	6,374,471	11,392,946	6,374,471
Other interest income	1,812	21	4,370	2,296
Total interest income	62,177,461	52,662,964	62,186,957	52,685,427

Interest Expenses

Due to banks	439,102	226,606	439,102	226,606
Derivative financial instruments	–	314	–	314
Due to other customers	32,097,921	25,284,506	32,103,850	25,289,941
Other borrowings	3,699,055	4,167,073	3,716,677	4,180,730
Subordinated liabilities	619,126	132,806	619,126	132,806
Total interest expenses	36,855,204	29,811,305	36,878,755	29,830,397
Net interest income	25,322,257	22,851,659	25,308,202	22,855,030

Net Interest Income - Bank

10.73%▲
Growth

2013
25,308
Rs. Mn.

2012
22,855
Rs. Mn.

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
7.1 (a) Net Interest Income from Sri Lanka Government Securities				
Interest income	14,159,223	8,504,143	14,159,223	8,504,143
Less: Interest expenses	3,187,878	3,421,816	3,205,500	3,421,816
Sub total	10,971,345	5,082,327	10,953,723	5,082,327

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
7.1 (b) Net Interest Income from Bangladesh Government Securities				
Interest income	1,121,953	773,254	1,121,953	773,254
Less: Interest expenses	7,875	19,715	7,875	19,715
Sub total	1,114,078	753,539	1,114,078	753,539

7.2 Interest Income from Other Financial Instruments at Fair Value through Profit or Loss

Derivative financial instruments	–	314	–	314
Other financial instruments held-for-trading	447,257	421,315	447,257	421,315
Sub total	447,257	421,629	447,257	421,629

7.3 Interest Income on Impaired Financial Assets

Interest income from impaired loans and receivables to other customers	304,712	249,760	304,712	249,760
Sub total	304,712	249,760	304,712	249,760

8. Net Fees and Commission Income

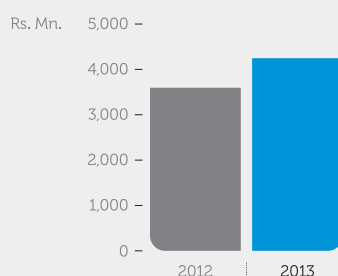
Fees and commission income [Refer Note 8.1]	4,880,093	4,146,878	4,876,517	4,146,525
Less: Fees and commission expenses [Refer Note 8.2]	627,235	548,560	627,235	548,560
Net fees and commission income	4,252,858	3,598,318	4,249,282	3,597,965

8.1 Fees and Commission Income

Loans and advances	346,034	370,601	346,034	370,601
Credit and debit cards	1,455,167	1,141,231	1,455,167	1,141,231
Trade and remittances	1,794,432	1,661,914	1,794,432	1,661,914
Deposits	579,589	330,976	579,640	331,028
Guarantees	481,550	439,225	481,550	439,225
Other financial services	223,321	202,931	219,694	202,526
Sub total	4,880,093	4,146,878	4,876,517	4,146,525

8.2 Fees and Commission Expenses

Loans and advances	35,066	30,396	35,066	30,396
Credit and debit cards	491,364	425,589	491,364	425,589
Trade and remittances	38,287	30,295	38,287	30,295
Other financial services	62,518	62,280	62,518	62,280
Sub total	627,235	548,560	627,235	548,560

Net Fees and Commission Income - Bank

18.10% ▲
Growth

2013
4,249
Rs. Mn.

2012
3,598
Rs. Mn.

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
9. Net Gains/(Losses) from Trading				
Foreign exchange				
From banks	-	-	-	-
From other customers	(1,866,386)	2,334,295	(1,866,386)	2,334,295
Interest rates				
Net mark to market gains/(losses)	83,268	44,794	83,268	44,794
Net capital gains/(losses)	131,488	86,374	131,488	86,374
Equities				
Net mark to market gains/(losses)	2,225	15,945	2,225	15,945
Net capital gains/(losses)	13,644	3,864	13,644	3,864
Dividend income	9,835	9,026	9,835	9,026
Total	(1,625,926)	2,494,298	(1,625,926)	2,494,298
10. Net Gains/(Losses) from Financial Investments				
Financial Investments - Available-for-sale				
Government securities	544,903	-	544,903	-
Equities	790,358	2,584	790,358	2,584
Loans and receivables				
Government securities	-	-	-	-
Debt securities	14,256	28,949	14,256	28,949
Total	1,349,517	31,533	1,349,517	31,533
11. Other Income (Net)				
Gains/(losses) on sale of property, plant & equipment	11,115	10,385	233	(3,866)
Gains/(losses) on revaluation of foreign exchange	3,862,003	2,352,716	3,862,435	2,352,716
Reversal of impairment charges and loans written-off	2,228,281	1,475,232	2,228,281	1,475,232
Dividend from subsidiaries	-	-	70,451	70,428
Dividend from associates	2,691	8,615	2,079	8,002
Rental and other income	218,834	199,747	209,036	134,752
Less: Dividends received from associates transferred to investment	(2,691)	(8,615)	-	-
Total	6,320,233	4,038,080	6,372,515	4,037,264

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
12. Impairment Charges for Loans and Other Losses				
Loans and receivables				
To banks [Refer Note 25.2]	–	–	–	–
To other customers	4,600,332	3,158,291	4,600,332	3,158,291
Charge/(write back) to the Income Statement on Individual Impairment [Refer Note 26.2]	3,021,394	1,296,697	3,021,394	1,296,697
Charge/(write back) to the Income Statement on Collective Impairment [Refer Note 26.2]	1,479,914	1,856,688	1,479,914	1,856,688
Direct write-offs	99,024	4,906	99,024	4,906
Investment in subsidiaries [Refer Note 28.1]	–	–	14,184	32,942
Due from subsidiaries	–	–	12,809	5,527
Total	4,600,332	3,158,291	4,627,325	3,196,760

13. Personnel Expenses

Salary and bonus [Refer Note 13.1]	6,170,603	5,881,820	6,108,648	5,837,733
Pension costs				
Contributions to defined contribution/ benefit plans - Funded schemes	904,919	868,352	900,844	863,018
Contributions to defined benefit plans - Unfunded schemes	165,791	228,793	160,113	224,390
Other	1,024,692	858,179	1,016,600	844,647
Total	8,266,005	7,837,144	8,186,205	7,769,788

13.1 Salary and Bonus

Salary and bonus and contributions to defined contribution/benefit plans, reported above includes the amounts paid to and contribution made on behalf of Executive Directors.

14. Other Expenses

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Directors' emoluments [Refer Note 14.1]	24,453	20,549	23,058	19,524
Auditors' remunerations	22,856	21,210	19,890	17,235
Audit fees and expenses	10,823	11,207	8,596	7,929
Audit related fee and expenses	6,654	5,631	6,405	5,230
Non-audit fee and expenses	5,379	4,372	4,889	4,076
Professional and legal expenses	251,068	280,154	305,450	275,987
Depreciation of property, plant and equipment [Refer Note 30]	717,583	942,765	786,024	859,675
Amortisation of leasehold property [Refer Note 32]	1,452	1,452	942	942
Amortisation of intangible assets [Refer Note 31]	149,347	174,104	149,291	174,055
Office administration and establishment expenses	4,140,883	3,536,867	4,211,399	3,663,775
Maintenance of fixed assets	790,373	753,485	864,533	755,703
Total	6,098,015	5,730,586	6,360,587	5,766,896

14.1 Directors' Emoluments

Directors emoluments represent the fees paid to both the Executive and Non-Executive Directors of the Bank/Group.

Notes to the Financial Statements

15. Income Tax Expense

15.1 Entity-wise Breakup of the Income Tax Expense

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Bank				
Current Year Tax expense				
Current year Income tax expense of Domestic banking unit	2,869,752	3,082,348	2,869,752	3,082,348
Current year Income tax expense of Off-shore banking centre	191,760	204,960	191,760	204,960
Current year Income tax expense of Bangladesh operation	960,937	827,480	960,937	827,480
Profit remittance tax of Bangladesh operation	–	81,406	–	81,406
Prior years				
Under/(over) provision of taxes in respect of prior years	(161,504)	(140,315)	(161,504)	(140,315)
	3,860,945	4,055,879	3,860,945	4,055,879
Deferred Tax Expense				
Effect of change in tax rates	–	–	–	–
Temporary differences	204,063	141,125	204,063	141,125
	4,065,008	4,197,004	4,065,008	4,197,004
Subsidiaries				
Income tax expense of Commercial Development Company PLC	46,266	25,216	–	–
Income tax expense of ONEzero Company Ltd.	6,187	8,456	–	–
Associates				
Share of income tax expense of Equity Investments Lanka Ltd.	(33)	18	–	–
Share of income tax expense of Commercial Insurance Brokers (Pvt) Ltd.	1,866	1,053	–	–
Total income tax expense	4,119,294	4,231,747	4,065,008	4,197,004
Effective tax rate (excluding deferred tax)			26.61%	28.37%

The Bank's and Subsidiary's, income tax for 2013 and 2012 have been provided on the taxable income at the rates shown below:

	2013 %	2012 %
Domestic operations of the Bank	28.0	28.0
Off-shore banking centre of the Bank	28.0	28.0
Bangladesh operation of the Bank	42.5	42.5
Commercial Development Company PLC	28.0	28.0
ONEzero Company Ltd.	28.0	28.0

15.2 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 on Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one-ninth of the net interest income), provided such interest income forms part of statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned by the Group and the Bank from the secondary market transactions in Government Securities for the year, has been grossed up in these Financial Statements and the resulting notional tax credit amounted to Rs. 905.425 Mn. and Rs. 903.649 Mn. respectively (Rs. 331.288 Mn. and Rs. 329.922 Mn. respectively in 2012).

15.3 A Reconciliation between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate:

	Tax Rate		GROUP		BANK	
	2013 %	2012 %	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Accounting profit before tax from operations			14,692,751	14,312,914	14,510,519	14,295,333
Tax effect at the statutory income tax rate			4,430,380	4,333,483	4,389,700	4,300,497
Domestic operations of the bank	28	28	3,256,166	3,287,958	3,256,166	3,287,958
Operations of the off-shore banking centre of the bank	28	28	167,244	189,513	167,244	189,513
Bangladesh operation	42.5	42.5	966,290	823,026	966,290	823,026
Subsidiaries	28	28	40,680	32,986	-	-
Tax effect of exempt income			(887,400)	(574,543)	(887,400)	(574,543)
Tax effect of non-deductible expenses			4,359,378	4,301,816	4,344,749	4,279,897
Tax effect of deductible expenses			(3,842,137)	(3,919,113)	(3,824,600)	(3,891,063)
Remittance tax of Bangladesh operation			-	81,406	-	81,406
Share of income tax expense of Associates			1,833	1,070	-	-
(Over)/under provision of taxes in respect of prior years			(149,266)	(140,243)	(161,504)	(140,315)
Deferred tax expense [Refer Note 33]			206,506	147,871	204,063	141,125
Income tax expense reported in the income statement at the effective income tax rate			4,119,294	4,231,747	4,065,008	4,197,004

Notes to the Financial Statements

16. Earnings Per Share (EPS)

	GROUP		BANK	
	2013	2012	2013	2012
Amounts used as the numerator:				
Net profit attributable to equity holders of the Parent (Rs. '000)	10,563,378	10,079,829	10,445,511	10,098,329
Profit for the year attributable to equity holders of the Parent for basic and diluted earnings per share (Rs. '000)	10,563,378	10,079,829	10,445,511	10,098,329
Number of ordinary shares used as the denominator:				
Weighted average number of Ordinary shares	848,528,406	832,618,649	848,528,406	832,618,649
Weighted average number of Ordinary shares for basic earnings per share calculation	848,528,406	832,618,649	848,528,406	832,618,649
Effect of dilution:				
Bonus element on number of outstanding options under ESOP 2008 as at the year-end	1,334,722	1,035,169	1,334,722	1,035,169
Weighted average number of ordinary shares adjusted for the effect of dilution	849,863,128	833,653,818	849,863,128	833,653,818
Basic earnings per ordinary share (Rs.)	12.45	12.11	12.31	12.13
Diluted earnings per ordinary share (Rs.)	12.43	12.09	12.29	12.11

17. Dividends

	GROUP		BANK	
	2013 Second Interim Rs. 1.00 Per share for 2012 (Paid during 2013) Rs. '000	2012 First Interim Rs. 1.50 Per share for 2012 (Paid during 2012) Rs. '000	2013 Second Interim Rs. 1.00 Per share for 2012 (Paid during 2013) Rs. '000	2012 First Interim Rs. 1.50 Per share (Paid during 2012) Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders	755,339	1,132,618	755,339	1,132,618
Withholding tax deducted at source	78,270	117,543	78,270	117,543
Gross ordinary dividend paid	833,609	1,250,161	833,609	1,250,161
	First Interim Rs. 1.50 Per share for 2013 (Paid during 2013) Rs. '000		First Interim Rs. 1.50 Per share for 2013 (Paid during 2013) Rs. '000	
On Ordinary Shares				
Net dividend paid to the ordinary shareholders	1,152,615	–	1,152,615	–
Withholding tax deducted at source	120,876	–	120,876	–
Gross ordinary dividend paid	1,273,491	–	1,273,491	–
Total Gross ordinary dividend paid	2,107,100	1,250,161	2,107,100	1,250,161

The Bank declared and paid a second interim dividend of Rs. 1.00 per share on January 27, 2014 to both voting and non-voting ordinary shareholders of the Bank. (The second interim dividend for the year 2012 was Rs. 1.00 per share and was paid on February 18, 2013).

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 the balance entitlement of Rs. 2.00 per share that will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2013 (Bank declared a final dividend of Rs. 4.00 per share in 2012 and this was satisfied by way of Rs. 2.00 per share in the form of cash and Rs. 2.00 per share in the form of shares). The total dividend recommended by the Board is to approved at the forthcoming Annual General Meeting to be held on March 31, 2014. In accordance with provisions of the Sri Lanka Accounting

Notes to the Financial Statements

Standard No. 10 on 'Events after the Reporting Period', the second interim dividend declared and paid in January 2014 and the proposed final dividend have not been recognised as a liability as at the year-end. Final dividend payable for the year 2013 has been estimated at Rs. 3,396.595 Mn. (Actual final dividend for 2012 amounted to Rs. 3,337,651 Mn.).

18. Classification of Financial Assets and Financial Liabilities

18.1 Classification of Financial Assets and Financial Liabilities - Group

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Group.

18.1 (a) Group - 2013

	Note	Held-for-Trading (HFT) Rs.'000	Amortised Cost Rs.'000	Available-for-Sale (AFS) Rs.'000	Total Rs.'000
Financial Assets					
Cash and cash equivalents	20	–	14,263,533	–	14,263,533
Balances with central banks	21	–	18,431,936	–	18,431,936
Placements with banks	22	–	4,131,814	–	4,131,814
Derivative financial instruments	23	837,694	–	–	837,694
Other financial instruments held-for-trading	24	6,379,058	–	–	6,379,058
Loans and receivables to banks	25	–	546,270	–	546,270
Loans and receivables to other customers	26	–	418,944,215	–	418,944,215
Financial investments - Available-for-sale	27	–	–	123,748,290	123,748,290
Total financial assets		7,216,752	456,317,768	123,748,290	587,282,810
Financial Liabilities					
Due to banks	35	–	14,194,219	–	14,194,219
Derivative financial instruments	36	1,411,916	–	–	1,411,916
Due to other customers	37	–	451,098,946	–	451,098,946
Other borrowings	38	–	53,997,503	–	53,997,503
Subordinated liabilities	42	–	11,056,847	–	11,056,847
Total financial liabilities		1,411,916	530,347,515	–	531,759,431

Notes to the Financial Statements

18.1 (b) Group - 2012

	Note	Held-for- Trading (HFT) Rs. '000	Amortised Cost Rs. '000	Available- for-Sale (AFS) Rs. '000	Total Rs. '000
Financial Assets					
Cash and cash equivalents	20	–	19,752,205	–	19,752,205
Balances with central banks	21	–	18,168,039	–	18,168,039
Placements with banks	22	–	16,162,970	–	16,162,970
Derivative financial instruments	23	1,351,095	–	–	1,351,095
Other financial instruments held-for-trading	24	6,041,110	–	–	6,041,110
Loans and receivables to banks	25	–	628,760	–	628,760
Loans and receivables to other customers	26	–	372,857,337	–	372,857,337
Financial investments - Available-for-sale	27	–	–	57,963,192	57,963,192
Total financial assets		7,392,205	427,569,311	57,963,192	492,924,708
Financial Liabilities					
Due to banks	35	–	4,893,945	–	4,893,945
Derivative financial instruments	36	84,291	–	–	84,291
Due to other customers	37	–	390,568,682	–	390,568,682
Other borrowings	38	–	47,435,565	–	47,435,565
Subordinated liabilities	42	–	1,106,016	–	1,106,016
Total financial liabilities		84,291	444,004,208	–	444,088,499

18.2 Classification of Financial Assets and Financial Liabilities - Bank

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Bank.

18.2 (a) Bank - 2013

	Note	Held-for- Trading (HFT) Rs. '000	Amortised Cost Rs. '000	Available- for-Sale (AFS) Rs. '000	Total Rs. '000
Financial Assets					
Cash and cash equivalents	20	–	14,261,549	–	14,261,549
Balances with central banks	21	–	18,431,936	–	18,431,936
Placements with banks	22	–	4,131,814	–	4,131,814
Derivative financial instruments	23	837,694	–	–	837,694
Other financial instruments held-for-trading	24	6,379,058	–	–	6,379,058
Loans and receivables to banks	25	–	546,270	–	546,270
Loans and receivables to other customers	26	–	418,959,675	–	418,959,675
Financial investments - Available-for-sale	27	–	–	123,748,290	123,748,290
Total financial assets		7,216,752	456,331,244	123,748,290	587,296,286
Financial Liabilities					
Due to banks	35	–	14,194,219	–	14,194,219
Derivative financial instruments	36	1,411,916	–	–	1,411,916
Due to other customers	37	–	451,152,923	–	451,152,923
Other borrowings	38	–	54,173,175	–	54,173,175
Subordinated liabilities	42	–	11,056,847	–	11,056,847
Total financial liabilities		1,411,916	530,577,164	–	531,989,080

Notes to the Financial Statements

18.2 (b) Bank - 2012

	Note	Held-for- Trading (HFT) Rs. '000	Amortised Cost Rs. '000	Available- for-Sale (AFS) Rs. '000	Total Rs. '000
Financial Assets					
Cash and cash equivalents	20	–	19,732,834	–	19,732,834
Balances with central banks	21	–	18,168,039	–	18,168,039
Placements with banks	22	–	16,162,970	–	16,162,970
Derivative financial instruments	23	1,351,095	–	–	1,351,095
Other financial instruments held-for-trading	24	6,041,110	–	–	6,041,110
Loans and receivables to banks	25	–	628,760	–	628,760
Loans and receivables to other customers	26	–	372,915,081	–	372,915,081
Financial investments - Available-for-sale	27	–	–	57,963,192	57,963,192
Total financial assets		7,392,205	427,607,684	57,963,192	492,963,081
Financial Liabilities					
Due to banks	35	–	4,893,945	–	4,893,945
Derivative financial instruments	36	84,291	–	–	84,291
Due to other customers	37	–	390,611,548	–	390,611,548
Other borrowings	38	–	47,582,819	–	47,582,819
Subordinated liabilities	42	–	1,106,016	–	1,106,016
Total financial liabilities		84,291	444,194,328	–	444,278,619

Notes to the Financial Statements

19. Fair Values of Financial Instruments

Financial Instruments Measured at Fair Value - Fair Value Hierarchy

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position.

Note	GROUP				BANK			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
As at December 31, 2013								
Assets								
Derivative financial instruments	23	837,694		837,694	837,694			837,694
Other financial instruments held-for-trading	24	6,379,058		6,379,058	6,379,058			6,379,058
Financial investments - Available-for-sale*	27	123,703,198		123,703,198	123,703,198			123,703,198
Total assets at fair value		130,082,256	837,694	130,919,950	130,082,256	837,694	-	130,919,950
Liabilities								
Derivative financial instruments	36		1,411,916	1,411,916		1,411,916		1,411,916
Total liabilities at fair value		-	1,411,916	1,411,916	-	1,411,916	-	1,411,916
As at December 31, 2012								
Assets								
Derivative financial instruments	23		1,351,095	1,351,095		1,351,095		1,351,095
Other financial instruments held-for-trading	24	6,041,110		6,041,110	6,041,110			6,041,110
Financial investments - Available-for-sale*	27	57,927,513		57,927,513	57,927,513			57,927,513
Total assets at fair value		63,968,623	1,351,095	65,319,718	63,968,623	1,351,095	-	65,319,718
Liabilities								
Derivative financial instruments	36		84,291	84,291		84,291		84,291
Total liabilities at fair value		-	84,291	84,291	-	84,291	-	84,291

* Unquoted share value of Rs. 45,092 Mn., in Group and Bank for the year 2013 (for the year 2012 was Rs. 35,679 Mn.) categorised under Financial Investments - Available-for-sale in the Statement of Financial Position has not been considered for above note due to non-availability of reliable market values.

19.1 Fair Value of Financial Assets not Carried at Fair Value

Financial assets not carried at fair value are disclosed under the category Amortised Cost. The values reported under Amortised Cost category are comparable to their fair value.

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
20. Cash and Cash Equivalents				
Cash in hand				
Coins and notes held in local currency	9,643,069	9,993,872	9,641,519	9,974,501
Coins and notes held in foreign currency	1,866,981	1,100,258	1,866,547	1,100,258
Balances with banks	2,635,082	4,140,608	2,635,082	4,140,608
Money at call and short notice	118,401	4,517,467	118,401	4,517,467
Total	14,263,533	19,752,205	14,261,549	19,732,834

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
21. Balances with Central Banks				
Statutory balances with central banks				
Central Bank of Sri Lanka	15,449,704	15,786,899	15,449,704	15,786,899
Bangladesh Bank	2,982,232	2,381,140	2,982,232	2,381,140
Non-statutory balances with central banks				
Central Bank of Sri Lanka	-	-	-	-
Bangladesh Bank	-	-	-	-
Total	18,431,936	18,168,039	18,431,936	18,168,039

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, 2013, the minimum cash reserve requirement was 6.00% of the rupee deposit liabilities (8.00% in 2012). 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 as at December 31, 2013 was 19.00% (19.00% in 2012) on time and demand liabilities (both local and foreign currencies), which includes a 6.00% (6.00% in 2012) cash reserve requirement and the balance 13.00% is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank.

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
22. Placements with Banks				
Placements - Within Sri Lanka	-	3,584,000	-	3,584,000
Placements - Outside Sri Lanka	4,131,814	12,578,970	4,131,814	12,578,970
Total	4,131,814	16,162,970	4,131,814	16,162,970

23. Derivative Financial Instruments

Interest rate derivatives				
Interest rate swaps	-	-	-	-
Foreign currency derivatives				
Forward foreign exchange contracts	837,694	1,351,095	837,694	1,351,095
Total	837,694	1,351,095	837,694	1,351,095

Notes to the Financial Statements

	GROUP				BANK			
	As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
	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
Overseas Reality Ceylon PLC (174,000 Ordinary Shares) (174,000 Ordinary Shares as at December 31, 2012)	2,512	3,184 (@ Rs. 18.30)	2,512	2,506 (@ Rs. 14.40)	2,512	3,184 (@ Rs. 18.30)	2,512	2,506 (@ Rs. 14.40)
Distilleries Company of Sri Lanka PLC (281,490 Ordinary Shares) (430,417 Ordinary Shares as at December 31, 2012)	44,929	54,328 (@ Rs. 193.00)	69,341	71,449 (@ Rs. 166.00)	44,929	54,328 (@ Rs. 193.00)	69,341	71,449 (@ Rs. 166.00)
Lanka Milk Foods (CWE) PLC (250,000 Ordinary Shares) (250,000 Ordinary Shares as at December 31, 2012)	27,866	26,325 (@ Rs. 105.30)	27,866	25,000 (@ Rs. 100.00)	27,866	26,325 (@ Rs. 105.30)	27,866	25,000 (@ Rs. 100.00)
Chemical Industries Colombo PLC (161,400 Non-Voting Ordinary Shares) (161,400 Non-Voting Ordinary Shares as at December 31, 2012)	11,692	5,568 (@ Rs. 34.50)	11,692	8,909 (@ Rs. 55.20)	11,692	5,568 (@ Rs. 34.50)	11,692	8,909 (@ Rs. 55.20)
Haycarb PLC (107,100 Ordinary Shares) (204,968 Ordinary Shares as at December 31, 2012)	15,914	20,328 (@ Rs. 189.80)	31,748	35,070 (@ Rs. 171.10)	15,914	20,328 (@ Rs. 189.80)	31,748	35,070 (@ Rs. 171.10)
Ceylon Hospitals PLC (156,900 Ordinary Shares) (156,900 Ordinary Shares as at December 31, 2012)	16,665	17,259 (@ Rs. 110.00)	16,665	14,435 (@ Rs. 92.00)	16,665	17,259 (@ Rs. 110.00)	16,665	14,435 (@ Rs. 92.00)
Ceylon Hospitals PLC (61,100 Non-Voting Ordinary Shares) (61,100 Non-Voting Ordinary Shares as at December 31, 2012)	4,423	4,583 (@ Rs. 75.00)	4,423	4,094 (@ Rs. 67.00)	4,423	4,583 (@ Rs. 75.00)	4,423	4,094 (@ Rs. 67.00)
Lanka Walltile PLC (60 Ordinary Shares) (60 Ordinary Shares as at December 31, 2012)	5	3 (@ Rs. 53.90)	5	4 (@ Rs. 60.80)	5	3 (@ Rs. 53.90)	5	4 (@ Rs. 60.80)
Kotagala Plantations PLC (201,750 Ordinary Shares) (1,400 Ordinary Shares as at December 31, 2012)	9,172	7,465 (@ Rs. 37.00)	156	104 (@ Rs. 74.00)	9,172	7,465 (@ Rs. 37.00)	156	104 (@ Rs. 74.00)

Notes to the Financial Statements

	GROUP				BANK			
	As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
	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
Royal Ceramics Lanka PLC (264,896 Ordinary Shares) (55,000 Ordinary Shares as at December 31, 2012)	30,676	22,410 (@ Rs. 84.60)	7,772	5,445 (@ Rs. 99.00)	30,676	22,410 (@ Rs. 84.60)	7,772	5,445 (@ Rs. 99.00)
COCO Lanka PLC (402,000 Ordinary Shares) (201,000 - Ordinary Shares as at December 31, 2012)	7,062	6,633 (@ Rs. 16.50)	7,062	7,316 (@ Rs. 36.40)	7,062	6,633 (@ Rs. 16.50)	7,062	7,316 (@ Rs. 36.40)
COCO Lanka PLC (1,000 Non-Voting Ordinary Shares) (500 Non-Voting Ordinary Shares as at December 31, 2012)	15	13 (@ Rs. 13.10)	15	15 (@ Rs. 29.50)	15	13 (@ Rs. 13.10)	15	15 (@ Rs. 29.50)
Citizen Development Bank PLC (123,950 Non-Voting Ordinary Shares) (123,950 Non-Voting Ordinary Shares as at December 31, 2012)	4,130	4,413 (@ Rs. 35.60)	4,130	3,719 (@ Rs. 30.00)	4,130	4,413 (@ Rs. 35.60)	4,130	3,719 (@ Rs. 30.00)
Lanka Venture PLC (100,000 Ordinary Shares) (100,000 Ordinary Shares as at December 31, 2012)	3,033	4,100 (@ Rs. 41.00)	3,033	3,200 (@ Rs. 32.00)	3,033	4,100 (@ Rs. 41.00)	3,033	3,200 (@ Rs. 32.00)
Renuka Holdings PLC (100,000 Non-Voting Ordinary Shares) (100,000 Non-Voting Ordinary Shares as at December 31, 2012)	2,477	2,070 (@ Rs. 20.70)	2,477	2,450 (@ Rs. 24.50)	2,477	2,070 (@ Rs. 20.70)	2,477	2,450 (@ Rs. 24.50)
Renuka Holdings PLC (50,000 Ordinary Shares) (50,000 Ordinary Shares as at December 31, 2012)	1,770	1,530 (@ Rs. 30.60)	1,770	1,805 (@ Rs. 36.10)	1,770	1,530 (@ Rs. 30.60)	1,770	1,805 (@ Rs. 36.10)
Hemas Power PLC (336,657 Ordinary Shares) (222,100 Ordinary Shares as at December 31, 2012)	6,748	5,925 (@ Rs. 17.60)	4,622	4,864 (@ Rs. 21.90)	6,748	5,925 (@ Rs. 17.60)	4,622	4,864 (@ Rs. 21.90)
Hatton National Bank PLC (82 Ordinary Shares) (207,623 Ordinary Shares as at December 31, 2012)	12	12 (@ Rs. 147.00)	29,925	30,728 (@ Rs. 148.00)	12	12 (@ Rs. 147.00)	29,925	30,728 (@ Rs. 148.00)

Notes to the Financial Statements

	GROUP				BANK			
	As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
	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
Property Developments Ltd. (83,235 Ordinary Shares) (83,235 Ordinary Shares as at December 31, 2012)	4,693	5,494 (@ Rs. 66.00)	4,693	3,929 (@ Rs. 47.20)	4,693	5,494 (@ Rs. 66.00)	4,693	3,929 (@ Rs. 47.20)
Nations Trust Bank PLC (262,314 Ordinary Shares) (2012 - Nil)	16,238	16,316 (@ Rs. 62.20)	-	-	16,238	16,316 (@ Rs. 62.20)	-	-
Colombo Dockyard PLC (75,000 Ordinary Shares) (2012 - Nil)	16,685	14,220 (@ Rs. 189.60)	-	-	16,685	14,220 (@ Rs. 189.60)	-	-
Hemas Holdings PLC (635,750 Ordinary Shares) (2012 - Nil)	23,242	21,616 (@ Rs. 34.00)	-	-	23,242	21,616 (@ Rs. 34.00)	-	-
Sampath Bank PLC (25,000 Ordinary Shares) (2012 - Nil)	4,298	4,298 (@ Rs. 171.90)	-	-	4,298	4,298 (@ Rs. 171.90)	-	-
John Keells Hotels PLC (137,608 Ordinary Shares) (2012 - Nil)	1,638	1,720 (@ Rs. 12.50)	-	-	1,638	1,720 (@ Rs. 12.50)	-	-
NDB Bank PLC (2013 - Nil) (100,000 Ordinary Shares as at December 31, 2012)	-	-	13,348	13,790 (@ Rs. 137.90)	-	-	13,348	13,790 (@ Rs. 137.90)
Hatton National Bank PLC (2013 - Nil) (53,608 Ordinary Shares as at December 31, 2012)	-	-	5,013	6,031 (@ Rs. 112.50)	-	-	5,013	6,031 (@ Rs. 112.50)
DFCC Bank PLC (2013 - Nil) (54,400 Ordinary Shares as at December 31, 2012)	-	-	6,353	6,142 (@ Rs. 112.90)	-	-	6,353	6,142 (@ Rs. 112.90)
Sub total	340,289	334,407	330,984	322,879	340,289	334,407	330,984	322,879
Mark to market gains/(losses)	(5,882)		(8,105)		(5,882)		(8,105)	
Total	334,407	334,407	322,879	322,879	334,407	334,407	322,879	322,879

Notes to the Financial Statements

	GROUP				BANK			
	As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
	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
24.3 Equity Shares - Composition								
Banks	24,678	25,039	58,769	60,410	24,678	25,039	58,769	60,410
Corporate Entities	315,611	309,368	272,215	262,469	315,611	309,368	272,215	262,469
Sub total	340,289	334,407	330,984	322,879	340,289	334,407	330,984	322,879
Add/(less): Mark to market gains/(losses)	(5,882)	–	(8,105)	–	(5,882)	–	(8,105)	–
Total	334,407	334,407	322,879	322,879	334,407	334,407	322,879	322,879

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
25. Loans and Receivables to Banks				
Gross loans and receivables	546,270	628,760	546,270	628,760
Less: Provision for impairment [Refer Note 25.2]	–	–	–	–
Net loans and receivables	546,270	628,760	546,270	628,760

25.1 Analysis**25.1 (a) By product**

Loans and advances

Overdrafts	–	–	–	–
Short-term loans	–	–	–	–
Long-term loans	–	–	–	–
Reverse repo agreements	–	–	–	–

Others

Sri Lanka Government Securities	–	–	–	–
Investments [Refer Note 25.3]	–	95,000	–	95,000
Others (*)	546,270	533,760	546,270	533,760
Total	546,270	628,760	546,270	628,760

(*) The Bank did not make payments to counterparty banks for the oil hedging transactions with effect from June 2, 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 US\$ 4.170 Mn. (Rs. 546.270 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 (made by the Bank) and the amount due to the said counterparty bank have been recorded in the Statement of Financial Position.

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
25.1 (b) By currency				
Sri Lankan Rupee	–	95,000	–	95,000
United States Dollar	546,270	533,760	546,270	533,760
Great Britain Pound	–	–	–	–
Bangladesh Taka	–	–	–	–
Other currencies	–	–	–	–
Total	546,270	628,760	546,270	628,760

25.2 Movement in Provision for Impairment

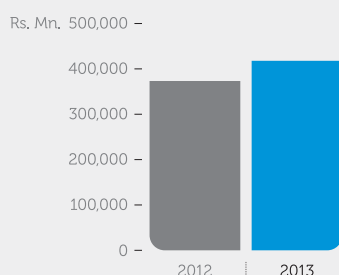
Opening balance	–	–	–	–
Charge/(write back) to the Income Statement	–	–	–	–
Write-off during the year	–	–	–	–
Other movements	–	–	–	–
Closing balance	–	–	–	–

25.3 Investments

	GROUP				BANK			
	As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
	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
Nations Trust Bank PLC (20.53% - 2013)	–	–	95,000	95,000	–	–	95,000	95,000
(2013 - Nil)				(@ Rs. 1,000.00)				(@ Rs. 1,000.00)
(95,000 Debentures as at December 31, 2012)								
Total	–	–	95,000	95,000	–	–	95,000	95,000

26. Loans and Receivables to Other Customers

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Gross loans and receivables [Refer Note 26.1]	434,731,383	386,358,564	434,746,843	386,416,308
Less: Provision for individual impairment [Refer Note 26.2]	4,204,654	3,402,168	4,204,654	3,402,168
Provision for collective impairment [Refer Note 26.2]	11,582,514	10,099,059	11,582,514	10,099,059
Net loans and receivables	418,944,215	372,857,337	418,959,675	372,915,081

**Loans and
Receivables to
Other Customers -
Bank**


12.35%▲
Growth

2013
418,960
Rs. Mn.

2012
372,915
Rs. Mn.

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
26.1 Analysis				
26.1 (a) By product				
Loans and advances				
Overdrafts	72,420,675	69,476,949	72,420,675	69,477,242
Trade finance	47,957,137	39,006,056	47,957,137	39,006,056
Lease receivable [Refer Note 26.3]	21,778,745	25,188,248	21,795,710	25,245,649
Credit cards	3,999,619	2,779,375	3,999,619	2,779,375
Pawning	6,995,603	10,947,448	6,995,603	10,947,448
Staff loans	3,885,911	3,175,953	3,885,911	3,175,953
Housing loans	27,729,953	25,466,504	27,729,953	25,466,504
Personal loans	16,517,343	18,016,009	16,517,343	18,016,009
Term loans				
Short-term	30,636,267	29,144,209	30,636,267	29,144,259
Long-term	133,326,027	111,155,039	133,324,522	111,155,039
Bills of Exchange	5,043,658	5,685,865	5,043,658	5,685,865
Securities purchased under resale agreements	8,946,499	3,697,682	8,946,499	3,697,682
Sub total	379,237,437	343,739,337	379,252,897	343,797,081
Others				
Government securities [Refer Note 26.5]	51,116,932	39,283,936	51,116,932	39,283,936
Investments [Refer Note 26.6]	4,377,014	3,335,291	4,377,014	3,335,291
Sub total	55,493,946	42,619,227	55,493,946	42,619,227
Total of gross loans and receivables	434,731,383	386,358,564	434,746,843	386,416,308
26.1 (b) By currency				
Sri Lanka Rupee	314,608,021	285,107,232	314,623,481	285,164,976
United States Dollar	78,911,348	69,930,980	78,911,348	69,930,980
Great Britain Pound	871,965	525,914	871,965	525,914
Euro currency	1,466,964	867,484	1,466,964	867,484
Australian Dollar	46,234	105,795	46,234	105,795
Japanese Yen	613	12,111	613	12,111
Singapore Dollar	5,127	715	5,127	715
Bangladesh Taka	38,821,111	29,779,782	38,821,111	29,779,782
Other Currencies	–	28,551	–	28,551
Sub total	434,731,383	386,358,564	434,746,843	386,416,308

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
26.1 (c) By Industry (*)				
Agriculture and fishing	38,013,743	37,799,861	38,013,743	37,799,861
Manufacturing	49,650,801	43,557,515	49,650,801	43,557,515
Tourism	14,242,671	12,203,840	14,242,671	12,203,840
Transport	10,157,863	5,665,451	10,174,829	5,665,451
Construction	35,601,502	29,425,050	35,601,502	29,425,050
Traders	52,367,237	49,426,885	52,367,237	49,426,885
New economy	6,440,151	5,456,003	6,440,151	5,456,003
Financial and business services	16,415,452	15,112,163	16,415,452	15,112,163
Infrastructure	12,814,953	6,917,962	12,814,953	6,917,962
Other services	30,420,543	27,135,490	30,420,543	27,135,490
Other customers	113,112,521	111,039,117	113,111,015	111,096,861
Sub total	379,237,437	343,739,337	379,252,897	343,797,081

(*) Industry-wise breakdown is provided only for loans and advances.

26.2 Movement in Provision for Individual and Collective Impairment during the Year

Movement in Provision for Individual Impairment				
Opening balance	3,402,168	3,363,859	3,402,168	3,363,859
Charge/(write back) to the income statement	3,021,394	1,296,697	3,021,394	1,296,697
Net write-off/(recoveries) during the year	(2,320,881)	(1,491,247)	(2,320,881)	(1,491,247)
Exchange rate variance on foreign currency provisions	18,792	14,807	18,792	14,807
Interest accrued/(reversals) on impaired loans and advances	(304,712)	(249,760)	(304,712)	(249,760)
Other movements	387,893	467,812	387,893	467,812
Closing balance	4,204,654	3,402,168	4,204,654	3,402,168
Movement in Provision for Collective Impairment				
Opening balance	10,099,059	8,237,033	10,099,059	8,237,033
Charge/(write back) to the income statement	1,479,914	1,856,688	1,479,914	1,856,688
Exchange rate variance on foreign currency provisions	3,541	5,338	3,541	5,338
Other movements	-	-	-	-
Closing balance	11,582,514	10,099,059	11,582,514	10,099,059
Total of individual and collective impairment	15,787,168	13,501,227	15,787,168	13,501,227

26.3 Lease Receivable

26.3 (a) Gross Lease Receivable

Within one year	8,805,101	8,488,519	8,822,066	8,521,928
From one to five years	12,968,682	16,699,526	12,968,682	16,723,518
Over five years	4,962	203	4,962	203
Total gross lease receivable (before the impairment provision)	21,778,745	25,188,248	21,795,710	25,245,649

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
26.3 (b) Lease Receivable within One Year				
Total lease receivable within one year	11,668,279	11,803,820	11,685,244	11,837,229
Less: Unearned lease income	2,863,178	3,315,301	2,863,178	3,315,301
Provision for individual impairment	21,428	16,366	21,428	16,366
Provision for collective impairment	311,517	192,440	311,517	192,440
Sub total	8,472,156	8,279,713	8,489,121	8,313,122
26.3 (c) Lease Receivable from One to Five Years				
Total lease receivable from one to five years	15,327,002	20,005,414	15,327,002	20,029,406
Less: Unearned lease income	2,358,320	3,305,888	2,358,320	3,305,888
Provision for individual impairment	32,876	33,735	32,876	33,735
Provision for collective impairment	477,954	396,667	477,954	396,667
Sub total	12,457,852	16,269,124	12,457,852	16,293,116
26.3 (d) Lease Receivable after Five Years				
Total lease receivable after five years	5,667	209	5,667	209
Less: Unearned lease income	705	6	705	6
Provision for individual impairment	13	–	13	–
Provision for collective impairment	183	5	183	5
Sub total	4,766	198	4,766	198
Total gross lease receivable	21,778,745	25,188,248	21,795,710	25,245,649
Total net lease receivable	20,934,774	24,549,035	20,951,739	24,606,436
26.3 (e) Movement in Provision for Individual Impairment on Lease Receivable				
Opening balance	50,100	34,337	50,100	34,337
Charge/(write back) to the income statement	124,732	74,471	124,732	74,471
Net write-off/(recoveries) during the year	(121,122)	(58,114)	(121,122)	(58,114)
Exchange rate variance on foreign currency provisions	–	–	–	–
Interest accrued on impaired loans and advances	(2,891)	(1,270)	(2,891)	(1,270)
Other movements	3,498	676	3,498	676
Closing balance	54,317	50,100	54,317	50,100
26.3 (f) Movement in the Provision for Collective Impairment on Lease Receivable				
Opening balance	589,113	357,719	589,113	357,719
Charge/(write back) to the income statement	200,541	231,394	200,541	231,394
Exchange rate variance on foreign currency provisions	–	–	–	–
Other movements	–	–	–	–
Closing balance	789,654	589,113	789,654	589,113
Total of individual and collective impairment on lease receivable	843,971	639,213	843,971	639,213

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
26.4 Summary of Gross Loans and Receivables to Other Customers				
26.4 (a) Gross Loans and Receivables to Other Customers				
Bills of exchange	5,043,658	5,685,865	5,043,658	5,685,865
Loans and advances	343,468,535	309,167,542	343,467,030	309,167,885
Lease receivable	21,778,745	25,188,248	21,795,710	25,245,649
Securities purchased under resale agreements	8,946,499	3,697,682	8,946,499	3,697,682
Total gross loans and advances	379,237,437	343,739,337	379,252,897	343,797,081
26.4 (b) Gross Other Receivables				
Government securities [Refer Note 26.5]	51,116,932	39,283,936	51,116,932	39,283,936
Investments [Refer Note 26.6]	4,377,014	3,335,291	4,377,014	3,335,291
Total gross other receivables	55,493,946	42,619,227	55,493,946	42,619,227
Total gross loans and receivables to other customers	434,731,383	386,358,564	434,746,843	386,416,308
26.5 Government Securities				
Government Securities - Sri Lanka				
Treasury bills	39,751	17,000	39,751	17,000
Treasury bonds	605,859	605,859	605,859	605,859
Sri Lanka development bonds	42,502,838	33,694,269	42,502,838	33,694,269
Sub total	43,148,448	34,317,128	43,148,448	34,317,128
Investments in Government Securities - Bangladesh				
Treasury bills and bonds	7,968,484	4,966,808	7,968,484	4,966,808
Sub total	7,968,484	4,966,808	7,968,484	4,966,808
Total government securities	51,116,932	39,283,936	51,116,932	39,283,936
26.6 Investments				
Debentures [Refer Note 26.6 (a)]	3,273,401	447,296	3,273,401	447,296
Lease backed securities [Refer Note 26.6 (b)]	–	106,477	–	106,477
Trust certificates [Refer Note 26.6 (c)]	1,029,072	2,137,534	1,029,072	2,137,534
Corporate debts [Refer Note 26.6 (d)]	–	539,831	–	539,831
Corporate bonds in Bangladesh [Refer Note 26.6 (e)]	74,541	104,153	74,541	104,153
Total investments	4,377,014	3,335,291	4,377,014	3,335,291

Notes to the Financial Statements

	GROUP				BANK			
	As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
	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
26.6 (a) Debentures								
Quoted - Debentures								
Urban Development Authority (11% - 2015)	447,296	447,296	447,296	428,427	447,296	447,296	447,296	428,427
People's Leasing & Finance PLC	541,589	541,589	-	-	541,589	541,589	-	-
Senkadagala Finance PLC	41,869	41,869	-	-	41,869	41,869	-	-
Singer (Sri Lanka) PLC	181,005	181,005	-	-	181,005	181,005	-	-
Central Finance PLC	273,078	273,078	-	-	273,078	273,078	-	-
Lion Brewery (Ceylon) PLC	1,031,658	1,031,658	-	-	1,031,658	1,031,658	-	-
Hayleys PLC	91,575	91,575	-	-	91,575	91,575	-	-
Singer Finance (Lanka) PLC	355,756	355,756	-	-	355,756	355,756	-	-
Nawaloka Hospitals PLC	237,256	237,256	-	-	237,256	237,256	-	-
Abans Ltd.	72,319	72,319	-	-	72,319	72,319	-	-
Sub total	3,273,401	3,273,401	447,296	428,427	3,273,401	3,273,401	447,296	428,427
The above debentures are stated at cost and classified under loans and receivables due to the inactive market.								
26.6 (b) Lease Backed Securities								
People's Leasing Company PLC	-	-	106,477	106,477	-	-	106,477	106,477
Sub total	-	-	106,477	106,477	-	-	106,477	106,477
26.6 (c) Trust Certificates								
People's Leasing Company PLC	629,717	629,717	1,297,269	1,297,269	629,717	629,717	1,297,269	1,297,269
LB Finance PLC	297,415	297,415	573,835	573,835	297,415	297,415	573,835	573,835
Softlogic Finance PLC	101,940	101,940	184,879	184,879	101,940	101,940	184,879	184,879
Central Finance PLC	-	-	81,551	81,551	-	-	81,551	81,551
Sub total	1,029,072	1,029,072	2,137,534	2,137,534	1,029,072	1,029,072	2,137,534	2,137,534
26.6 (d) Corporate Debts								
Singer Sri Lanka PLC - 2012/13	-	-	539,831	539,831	-	-	539,831	539,831
Sub total	-	-	539,831	539,831	-	-	539,831	539,831
26.6 (e) Corporate Bonds in Bangladesh								
Corporate Bonds in Bangladesh	74,541	74,541	104,153	104,153	74,541	74,541	104,153	104,153
Sub total	74,541	74,541	104,153	104,153	74,541	74,541	104,153	104,153

Notes to the Financial Statements

	BANK			
	2013		2012	
	Individually Impaired Loans and Receivables Rs. '000	Individual Impairment Rs. '000	Individually Impaired Loans and Receivables Rs. '000	Individual Impairment Rs. '000
26.7 Summary of Individually Impaired Loans and Receivables				
Loans and Advances				
Overdrafts	1,011,562	755,677	999,942	594,264
Trade finance	495,877	355,102	1,958,765	1,142,987
Lease receivable	135,148	54,317	105,247	50,099
Credit cards	-	-	-	-
Pawning	-	-	-	-
Staff loans	-	-	-	-
Housing loans	23,456	4,182	-	-
Personal loans	2,148	1,476	1,927	1,927
Term loans	5,134,833	3,033,900	2,905,405	1,612,891
Bills of exchange	-	-	-	-
Securities purchased under resale agreements	-	-	-	-
Total impaired loans and advances	6,803,024	4,204,654	5,971,286	3,402,168
Other receivables				
Government securities	-	-	-	-
Investments	-	-	-	-
Total Impaired other receivables	-	-	-	-
Total impaired loans and receivables	6,803,024	4,204,654	5,971,286	3,402,168

27. Financial Investments - Available-for-Sale

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Government securities [Refer Note 27.1]	123,557,706	57,923,776	123,557,706	57,923,776
Equity securities [Refer Note 27.2]	190,584	39,416	190,584	39,416
Quoted shares - (Mark to market value)	145,492	3,737	145,492	3,737
Unquoted shares - (at cost)	45,092	35,679	45,092	35,679
Total	123,748,290	57,963,192	123,748,290	57,963,192

There were no impairment losses on financial investments - available-for-sale as at December 31, 2013 (2012 - Nil).

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
27.1 Government Securities				
Treasury bills	81,742,889	29,872,941	81,742,889	29,872,941
Treasury bonds	39,902,375	28,050,835	39,902,375	28,050,835
Sri Lanka sovereign bonds	1,912,442	-	1,912,442	-
Total	123,557,706	57,923,776	123,557,706	57,923,776

Notes to the Financial Statements

27.2 Equity Securities

	GROUP				BANK			
	As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
	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
Quoted Shares:								
Hatton National Bank PLC (11,760 Ordinary Shares) (11,760 Ordinary Shares as at December 31, 2012)	315	1,729 (@ Rs. 147.00)	315	1,740 (@ Rs. 148.00)	315	1,729 (@ Rs. 147.00)	315	1,740 (@ Rs. 148.00)
Sampath Bank PLC (3,714 Ordinary Shares) (3,606 Ordinary Shares as at December 31, 2012)	72	638 (@ Rs. 171.90)	72	723 (@ Rs. 200.50)	72	638 (@ Rs. 171.90)	72	723 (@ Rs. 200.50)
Seylan Bank PLC (1,015 Ordinary Shares) (1,000 Ordinary Shares as at December 31, 2012)	24	65 (@ Rs. 64.20)	24	56 (@ Rs. 56.00)	24	65 (@ Rs. 64.20)	24	56 (@ Rs. 56.00)
DFCC Bank PLC (3,496 Ordinary Shares) (3,496 Ordinary Shares as at December 31, 2012)	155	451 (@ Rs. 129.00)	155	395 (@ Rs. 112.90)	155	451 (@ Rs. 129.00)	155	395 (@ Rs. 112.90)
Nations Trust Bank PLC (1,333 Ordinary Shares) (1,333 Ordinary Shares as at December 31, 2012)	22	83 (@ Rs. 62.20)	22	75 (@ Rs. 56.00)	22	83 (@ Rs. 62.20)	22	75 (@ Rs. 56.00)
NDB Bank PLC (5,424 Ordinary Shares) (5,424 Ordinary Shares as at December 31, 2012)	215	871 (@ Rs. 160.50)	215	748 (@ Rs. 137.90)	215	871 (@ Rs. 160.50)	215	748 (@ Rs. 137.90)
VISA Inc. (4,856 Class C Common Stock) (2012- Nil)	-	141,655 (@ US\$. 222.68)	-	-	-	141,655 (@ US\$. 222.68)	-	-
Sub total	803	145,492	803	3,737	803	145,492	803	3,737
Unquoted Shares:								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares) (4,400 Ordinary Shares as at December 31, 2012)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)

Notes to the Financial Statements

	GROUP				BANK			
	As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
	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
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares) (62,500 Ordinary Shares as at December 31, 2012)	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 December 31, 2012)	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 Service Bureau Ltd. (225,000 Ordinary Shares) (225,000 Ordinary Shares as at December 31, 2012)	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)
Society for Worldwide Interbank Financial Telecommunication (SWIFT) (47 Ordinary Shares) (47 Ordinary Shares as at December 31, 2012)	7,259	7,259	7,259	7,259	7,259	7,259	7,259	7,259
		(@Rs. 154,446)		(@Rs. 154,446)		(@Rs. 154,446)		(@Rs. 154,446)
RAM Ratings (Lanka) Ltd. (689,590 Ordinary Shares) (2012 - Nil)	8,620	8,620	-	-	8,620	8,620	-	-
		(@ Rs. 12.50)		-		(@ Rs. 12.50)		-
Central Depository of Bangladesh Ltd. (3,427,083 Shares of Bangladesh Taka 2.75 each, converted @ Rs. 1.68825 per Taka) (3,427,083 Shares of Bangladesh Taka 2.75 each, converted @ Rs. 1.60411 per Taka as at December 31, 2012)	15,898	15,898	15,105	15,105	15,898	15,898	15,105	15,105
Sub total	45,092	45,092	35,679	35,679	45,092	45,092	35,679	35,679
Total	45,895	190,584	36,482	39,416	45,895	190,584	36,482	39,416

Notes to the Financial Statements

28. Investments in Subsidiaries

Holding	%	GROUP				BANK			
		As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
		Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000
Local Subsidiaries:									
Quoted:									
Commercial Development Company PLC	94.55	–	–	–	–	274,393	752,220	274,393	692,088
(11,345,705 Ordinary Shares)						(@ Rs. 66.30)		(@ Rs. 61.00)	
(11,345,705 Ordinary Shares as at December 31, 2012)									
Unquoted:									
ONEzero Company Ltd.	100.00	–	–	–	–	5,000	5,000	5,000	5,000
(500,001 Ordinary Shares)						(@ Rs. 10.00)		(@ Rs. 10.00)	
(500,001 Ordinary Shares as at December 31, 2012)									
Foreign Subsidiary:									
Unquoted:									
Commex - Sri Lanka S.R.L. (Incorporated in Italy) *	100.00	–	–	–	–	95,133	95,133	95,133	95,133
Gross Total		–	–	–	–	374,526	852,353	374,526	792,221
Less: Provision for impairment [Refer Note 28.1]		–	–	–	–	(85,580)	(85,580)	(71,396)	(71,396)
Net Total		–	–	–	–	288,946	766,773	303,130	720,825

* The Bank is yet to commence intended commercial operations in Italy and as such made provisions for the expenses incurred on account of Italy operations before finalising the Bank's Financial Statements. All arrangements have been made to submit the new application to 'Bank of Italy' to obtain Money Transfer License during the first half of 2014 and it is expected to commence commercial operations during the second half of 2014.

28.1 Movement in Provision for Impairment during the Year

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	–	–	71,396	38,454
Charge/(write back) to the income statement	–	–	14,184	32,942
Closing balance	–	–	85,580	71,396

Notes to the Financial Statements

29. Investments in Associates

	Holding %	GROUP				BANK			
		As at December 31, 2013		As at December 31, 2012		As at December 31, 2013		As at December 31, 2012	
		Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000	Cost Rs. '000	Market Value/ Directors' Valuation Rs. '000
Local Associates:									
Unquoted:									
Equity Investments Lanka Ltd. (4,110,938 Ordinary Shares) (4,110,938 Ordinary Shares as at December 31, 2012)	22.92	44,331	60,411	44,331	62,711	44,331	60,411	44,331	62,711
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		18,380		47,580					
Current year's share of profit/(loss) after tax		(221)		(21,198)					
Less: Dividend received during the year		(2,079)		(8,002)					
Current year's retained profit		(2,300)		(29,200)					
Balance at the end of the year		16,080		18,380					
Total		60,411	60,411	62,711	62,711	44,331	60,411	44,331	62,711
Commercial Insurance Brokers (Pvt) Ltd. (120,000 Ordinary Shares) (120,000 Ordinary Shares as at December 31, 2012)	18.91	100	33,762	100	31,001				
Add: Share of profit applicable to the Bank:									
Balance at the beginning of the year		30,901		27,970					
Current year's share of profit after tax		3,374		3,544					
Less: Dividend received during the year		(613)		(613)					
Current year's retained profit		2,761		2,931					
Balance at the end of the year		33,662		30,901					
Total		33,762	33,762	31,001	31,001				
Total value of Investments in Unquoted associates at carrying value on equity basis		94,173		93,712		44,331		44,331	
Less: provision for impairment		-		-		-		-	
Net Total		94,173		93,712		44,331		44,331	
Total market value/Directors' Valuation of Investments in Associates			94,173		93,712		60,411		62,711

The Group recognises the share of net assets of associates under equity method to arrive at the Director's valuation.

Notes to the Financial Statements

30. Property, Plant & Equipment

30.1 Group - 2013

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs. '000	Office Equipment - Furniture & Fixtures Rs. '000	Capital Work-in- Progress Rs. '000	Total 31.12.2013 Rs. '000	Total 31.12.2012 Rs. '000
Cost/Valuation									
Opening balance	3,502,740	2,209,630	838,626	3,170,031	367,490	3,542,095	119,003	13,749,615	12,719,314
Additions during the year	51,658	20,389	-	348,577	20,858	384,674	132,863	959,019	1,260,079
Surplus on revaluation of property	-	-	-	-	-	-	-	-	192,237
Disposals during the year	-	-	-	(137,017)	(58,843)	(86,011)	-	(281,871)	(396,409)
Exchange rate variance	-	-	-	6,580	2,357	13,874	1,399	24,210	58,524
Transfers/adjustments	-	-	-	(59)	-	235	(2,102)	(1,926)	(84,130)
Closing balance	3,554,398	2,230,019	838,626	3,388,112	331,862	3,854,867	251,163	14,449,047	13,749,615
Accumulated Depreciation									
Opening balance	-	67,722	146,515	2,351,033	236,328	2,001,136	-	4,802,734	4,216,103
Charge for the year	-	69,132	21,949	337,730	48,169	359,948	-	836,928	942,765
Reversal of over provided depreciation	-	-	(119,345)	-	-	-	-	(119,345)	-
Disposals during the year	-	-	-	(136,262)	(50,221)	(75,072)	-	(261,555)	(336,079)
Exchange rate variance	-	-	-	5,710	1,746	7,663	-	15,119	31,849
Transfers/adjustments	-	-	-	(59)	-	-	-	(59)	(51,904)
Closing balance	-	136,854	49,119	2,558,152	236,022	2,293,675	-	5,273,822	4,802,734
Net book value as at 31.12.2013	3,554,398	2,093,165	789,507	829,960	95,840	1,561,192	251,163	9,175,225	
Net book value as at 31.12.2012	3,502,740	2,141,908	692,111	818,998	131,162	1,540,959	119,003		8,946,881

Notes to the Financial Statements

30.2 Group - 2012

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs. '000	Office Equipment - Furniture & Fixtures Rs. '000	Capital Work-in-Progress Rs. '000	Total 31.12.2012 Rs. '000	Total 31.12.2011 Rs. '000
Cost/Valuation									
Opening balance	3,340,369	2,118,829	626,755	2,991,766	407,363	3,172,049	62,183	12,719,314	10,277,801
Additions during the year	169,371	83,801	3,547	362,217	85,743	468,513	86,887	1,260,079	1,391,393
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	(161,279)
Surplus on revaluation of property	-	-	192,237	-	-	-	-	192,237	1,669,182
Disposals during the year	-	-	-	(199,527)	(131,485)	(65,397)	-	(396,409)	(34,387)
Exchange rate variance	-	-	-	15,064	5,869	34,977	2,614	58,524	(42,102)
Transfers/adjustments	(7,000)	7,000	16,087	511	-	(68,047)	(32,681)	(84,130)	(381,294)
Closing balance	3,502,740	2,209,630	838,626	3,170,031	367,490	3,542,095	119,003	13,749,615	12,719,314
Accumulated Depreciation									
Opening balance	-	-	111,792	2,087,949	259,938	1,756,424	-	4,216,103	3,688,573
Charge for the year	-	67,722	34,723	448,211	59,589	332,520	-	942,765	734,115
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	(161,279)
Disposals during the year	-	-	-	(197,489)	(86,744)	(51,846)	-	(336,079)	(22,654)
Exchange rate variance	-	-	-	12,081	3,545	16,223	-	31,849	(22,594)
Transfers/adjustments	-	-	-	281	-	(52,185)	-	(51,904)	(58)
Closing balance	-	67,722	146,515	2,351,033	236,328	2,001,136	-	4,802,734	4,216,103
Net book value as at 31.12.2012	3,502,740	2,141,908	692,111	818,998	131,162	1,540,959	119,003	8,946,881	
Net book value as at 31.12.2011	3,340,369	2,118,829	514,963	903,817	147,425	1,415,625	62,183		8,503,211

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	2013			2012		
	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000
Freehold Land	608,588	-	608,588	556,930	-	556,930
Freehold buildings	1,027,212	269,653	757,559	1,006,822	243,973	762,849
Leasehold buildings	259,759	136,567	123,192	255,908	128,348	127,560
Total	1,895,559	406,220	1,489,339	1,819,660	372,321	1,447,339

Notes to the Financial Statements

30.3 Bank - 2013

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs. '000	Office Equipment - Furniture & Fixtures Rs. '000	Capital Work-in- Progress Rs. '000	Total 31.12.2013 Rs. '000	Total 31.12.2012 Rs. '000
Cost/Valuation									
Opening balance	3,502,740	2,209,630	104,625	3,165,537	127,704	3,539,146	98,604	12,747,986	11,793,172
Additions during the year	51,658	20,389	-	348,142	20,858	384,294	132,863	958,204	1,197,639
Disposals during the year	-	-	-	(137,017)	(4,435)	(86,011)	-	(227,463)	(266,664)
Exchange rate variance	-	-	-	6,580	2,357	13,789	-	22,726	55,788
Transfers/adjustments	-	-	-	(59)	-	235	(2,102)	(1,926)	(31,949)
Closing balance	3,554,398	2,230,019	104,625	3,383,183	146,484	3,851,453	229,365	13,499,527	12,747,986
Accumulated Depreciation									
Opening balance	-	67,722	27,170	2,348,915	83,297	1,999,764	-	4,526,868	3,886,142
Charge for the year	-	69,132	3,599	337,145	16,479	359,669	-	786,024	859,675
Disposals during the year	-	-	-	(136,262)	(4,435)	(75,072)	-	(215,769)	(251,075)
Exchange rate variance	-	-	-	5,710	1,746	7,663	-	15,119	31,849
Transfers/adjustments	-	-	-	(59)	-	-	-	(59)	277
Closing balance	-	136,854	30,769	2,555,449	97,087	2,292,024	-	5,112,183	4,526,868
Net book value as at									
31.12.2013	3,554,398	2,093,165	73,856	827,734	49,397	1,559,429	229,365	8,387,344	
Net book value as at 31.12.2012	3,502,740	2,141,908	77,455	816,622	44,407	1,539,382	98,604		8,221,118

Notes to the Financial Statements

30.4 Bank - 2012

	Freehold Land Rs. '000	Freehold Buildings Rs. '000	Leasehold Buildings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs. '000	Office Equipment - Furniture & Fixtures Rs. '000	Capital Work-in-Progress Rs. '000	Total 31.12.2012 Rs. '000	Total 31.12.2011 Rs. '000
Cost/Valuation									
Opening balance	3,340,369	2,118,829	104,625	2,987,702	95,111	3,102,138	44,398	11,793,172	9,351,129
Additions during the year	169,371	83,801	-	361,787	28,464	467,329	86,887	1,197,639	1,379,607
Accumulated depreciation	-	-	-	-	-	-	-	-	(161,279)
Surplus on revaluation of property	-	-	-	-	-	-	-	-	1,654,329
Disposals during the year	-	-	-	(199,527)	(1,740)	(65,397)	-	(266,664)	(7,682)
Exchange rate variance	-	-	-	15,064	5,869	34,855	-	55,788	(42,075)
Transfers/adjustments	(7,000)	7,000	-	511	-	221	(32,681)	(31,949)	(380,857)
Closing balance	3,502,740	2,209,630	104,625	3,165,537	127,704	3,539,146	98,604	12,747,986	11,793,172
Accumulated Depreciation									
Opening balance	-	-	23,571	2,086,344	68,923	1,707,304	-	3,886,142	3,421,568
Charge for the year	-	67,722	3,599	447,698	12,569	328,087	-	859,675	648,543
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	(161,279)
Disposals during the year	-	-	-	(197,489)	(1,740)	(51,846)	-	(251,075)	(38)
Exchange rate variance	-	-	-	12,081	3,545	16,223	-	31,849	(22,594)
Transfers/adjustments	-	-	-	281	-	(4)	-	277	(58)
Closing balance	-	67,722	27,170	2,348,915	83,297	1,999,764	-	4,526,868	3,886,142
Net book value as at 31.12.2012	3,502,740	2,141,908	77,455	816,622	44,407	1,539,382	98,604	8,221,118	
Net book value as at 31.12.2011	3,340,369	2,118,829	81,054	901,358	26,188	1,394,834	44,398		7,907,030

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	2013			2012		
	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000	Cost Rs. '000	Accumulated Depreciation Rs. '000	Net Book Value Rs. '000
Freehold Land	608,588	-	608,588	556,930	-	556,930
Freehold buildings	1,027,212	269,653	757,559	1,006,822	243,973	762,849
Leasehold buildings	102,726	38,437	64,289	102,726	35,869	66,857
Total	1,738,526	308,090	1,430,436	1,666,478	279,842	1,386,636

Notes to the Financial Statements

30.5 (a) Information on Freehold Land and Buildings of the Bank - Extents and Locations

[As required by Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange]

Location	Extent (Perches)	Buildings (Square Feet)	Revalued Amounts Land Rs. '000	Revalued Amounts Buildings Rs. '000	Net Book Value Rs. '000	As a % of Total NBV
CEO's Bungalow - No. 27, Queens Road, Colombo 3	64	5,616	416,650	8,350	422,637	7.48
Holiday Bungalow - Bandarawela	423	5,546	51,400	11,400	61,890	1.10
Ambatenne Estate, Bandarawela						
Holiday Bungalow - Haputale	207	4,533	25,700	15,300	39,475	0.70
No. 23, Lily Avenue, Welimada Road, Haputale						
Branch Buildings						
Battaramulla - No. 213, Kaduwela Road, Battaramulla	14	11,216	24,517	61,483	81,910	1.45
Borella - No. 92, D.S. Senanayake Mawatha, Borella, Colombo 8	16	12,566	70,335	62,202	128,399	2.27
Chilaw - No. 44, Colombo Road, Chilaw	35	10,000	61,750	70,104	128,312	2.27
Galewela - No. 49/57, Matale Road, Galewela	99	6,380	19,800	13,200	32,341	0.57
Galle City - No. 130, Main Street, Galle	7	3,675	33,750	7,250	40,518	0.72
Galle Fort - No. 22, Church Street, Fort, Galle	100	11,625	100,000	50,000	147,504	2.61
Gampaha - No. 51, Queen Mary's Road, Gampaha	33	9,000	51,658	10,101	61,715	1.10
Hikkaduwa - No. 217, Galle Road, Hikkaduwa	37	6,713	16,740	21,260	36,939	0.65
Ja-Ela - No. 140, Negombo Road, Ja-Ela	13	7,755	23,187	16,813	39,161	0.69
Jaffna - No. 474, Hospital Road, Jaffna	77	5,146	272,135	12,865	283,971	5.03
Kandy - No. 120, Kotugodella Veediya, Kandy	45	44,500	342,000	231,000	557,632	9.87
Kegalle - No. 186, Main Street, Kegalle	85	2,650	115,000	7,000	121,533	2.15
Keyzer Street - No. 32, Keyzer Street, Colombo 11	7	5,608	45,000	25,000	68,752	1.22
Kollupitiya - No. 285, Galle Road, Colombo 3	17	16,254	100,000	63,000	159,855	2.83
Kotahena - No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	33,017	110,000	219,768	318,781	5.64
Kurunegala - No. 4, Suratissa Mawatha, Kurunegala	15	8,916	140,000	85,000	220,757	3.91
Maharagama - No. 154, High Level Road, Maharagama	18	8,000	62,125	43,200	102,451	1.81
Matale - No. 70, King Street, Matale	51	9,950	60,000	62,000	118,905	2.11
Matara - No. 18, Station Road, Matara	37	8,137	28,155	24,145	51,080	0.90
Minuwangoda - No. 42, Siriwardena Mawatha, Minuwangoda	25	4,950	37,500	36,958	72,591	1.29
Mutwal - No. 160, St. James Street, Colombo 15	17	Bare Land	22,300	-	22,300	0.39
Narahenpita - No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	99,225	70,775	165,291	2.93
Narammala - No. 55, Negombo Road, Narammala	43	5,760	44,550	15,450	59,229	1.05
Negombo - No. 24, 26, Fernando Avenue, Negombo	37	14,439	49,500	27,004	74,806	1.32
Nugegoda - No. 100, Stanley Thilakaratne Mawatha, Nugegoda	39	11,138	195,000	44,552	235,997	4.18
Nuwara Eliya - No. 36, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	72,000	69,000	137,555	2.44
Panadura - No. 375, Galle Road, Panadura	12	6,168	18,450	19,735	36,215	0.64
Pettah - People's Park Shopping Complex, Colombo 11	-	3,183	-	50,000	47,148	0.83
Pettah - Stores - People's Park Shopping Complex, Colombo 11	-	218	-	4,000	3,681	0.07
Pettah - Main Street - No. 280, Main Street, Pettah, Colombo 11	30	22,760	169,371	73,704	240,512	4.27
Trincomalee - No. 474, Power House Road, Trincomalee	100	Bare Land	75,000	-	75,000	1.33
Union Place - No. 1, Union Place, Colombo 2	30	63,385	360,000	640,000	957,422	16.95
Wellawatte - No. 343, Galle Road, Colombo 6	45	15,050	204,100	35,900	236,421	4.19
Wennappuwa - No. 262, 264, Colombo Road, Wennappuwa	36	8,852	37,500	22,500	58,877	1.04
Total			3,554,398	2,230,019	5,647,563	100.00

Notes to the Financial Statements

30.5 (b) Information on Freehold Land and Buildings of the Bank - Valuations

[As required by Rule No. 7.6 (viii) of the 'Continuing Listing Requirements' of the Colombo Stock Exchange.]

Date of Valuation December 31, 2011

Location	Address	Name of Professional Valuer	Method of Valuation	Net Book Value before Revaluation		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
				Land	Buildings	Land	Buildings	Land	Buildings
				Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
CEO's Bungalow	No. 27, Queens Road, Colombo 3	Siri Nissanka	Depreciated Replacement Cost Method	352,550	4,967	416,650	8,350	64,100	3,383
Holiday Bungalow - Bandarawela	Ambatenne Estate, Bandarawela	Sarath G. Fernando	Comparative Method	8,468	2,347	51,400	11,400	42,932	9,053
Holiday Bungalow - Haputale	No. 23, Lily Avenue, Welimada Road, Haputale	Sarath G. Fernando	Comparative Method	5,189	945	25,700	15,300	20,512	14,355
Battaramulla	No. 213, Kaduwela Road, Battaramulla	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	11,208	31,453	24,517	61,483	13,309	30,030
Borella	No. 92, D.S. Senanayake Mawatha, Colombo 8	Ranjan J. Samarakone	Contractor's Method	23,000	30,000	70,335	62,202	47,335	32,202
Chilaw	No. 44, Colombo Road, Chilaw	P.B. Kalugalagedara	Direct Capital Comparison Method	25,850	65,673	61,750	67,000	35,900	1,327
Galewela	No. 49/57, Matale Road, Galewela	W.S. Pematne	Contractor's Method/ Comparison Method	10,455	1,936	19,800	13,200	9,346	11,264
Galle City	No. 130, Main Street, Galle	S.A.S. Fernando	Comparison Method	5,064	4,445	33,750	7,250	28,687	2,805
Galle Fort	No. 22, Church Street, Fort, Galle	S.A.S. Fernando	Comparison Method	90,000	17,500	100,000	50,000	10,000	32,500
Hikkaduwa	No. 217, Galle Road, Hikkaduwa	S.A.S. Fernando	Comparison Method	1,303	4,293	16,740	21,260	15,439	16,965
Ja-Ela	No. 140, Negombo Road, Ja-Ela	W.D.P. Rupananda	Contractor's Test Method	11,021	15,382	23,187	16,812	12,163	1,430
Jaffna	No. 474, Hospital Road, Jaffna	S.T. Sanmuganathan	Depreciated Replacement Cost Method/Investment Method	137,135	6,432	272,135	12,865	135,000	6,433
Kandy	No. 120, Kotugodella Veediya, Kandy	Sarath G. Fernando	Comparative Method/ Income Method	333,832	181,078	342,000	231,000	8,168	49,922
Kegalle	No. 186, Main Street, Kegalle	Sarath G. Fernando	Comparative Method/ Income Method	100,000	-	122,000	-	22,000	-
Keyzer Street	No. 32, Keyzer Street, Colombo 11	P.B. Kalugalagedara	Investment Method	14,940	6,401	45,000	25,000	30,060	18,599
Kollupitiya	No. 285, Galle Road, Colombo 3	P.B. Kalugalagedara	Investment Method	82,000	56,842	100,000	63,000	18,000	6,158
Kotahena	No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	P.B. Kalugalagedara	Investment Method	85,000	374,928	110,000	208,984	25,000	(165,944)
Kurunegala	No. 4, Suratissa Mawatha, Kurunegala	W.S. Pematne	Investment Method	39,481	10,542	140,000	85,000	100,519	74,458
Maharagama	No. 154, Highlevel Road, Maharagama	Ranjan J. Samarakone	Contractor's Method	5,238	13,518	62,125	43,200	56,887	29,682
Matale	No. 70, King Street, Matale	Sarath G. Fernando	Comparative Method/ Income Method	8,000	36,203	60,000	62,000	52,000	25,797
Matara	No. 18, Station Road, Matara	S.A.S. Fernando	Comparison Method	16,893	7,116	28,155	23,595	11,264	16,479
Minuwangoda	No. 42, Siriwardena Mawatha, Minuwangoda	P.B. Kalugalagedara	Direct Capital Comparison Method	8,575	4,348	37,500	32,500	28,925	28,152
Mutwal	No. 160, St. James Street, Colombo 15	P.B. Kalugalagedara	Direct Capital Comparison Method	20,592	-	22,300	-	1,708	-

Notes to the Financial Statements

Location	Address	Name of Professional Valuer	Method of Valuation	Net Book Value before Revaluation		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
				Land	Buildings	Land	Buildings	Land	Buildings
				Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Narahenpita	No. 201, Kirula Road, Narahenpita, Colombo 5	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	88,200	59,593	99,225	70,775	11,025	11,182
Narammala	No. 55, Negombo Road, Narammala	W.S. Pematne	Investment Method	11,510	4,360	44,550	15,450	33,040	11,090
Negombo	No. 24, 26, Fernando Avenue, Negombo	W.D.P. Rupananda	Contractor's Test Method	16,000	16,929	49,500	25,516	33,500	8,587
Nugegoda	No. 100, Stanley Thilakaratne Mawatha, Nugegoda	Ranjan J. Samarakone	Contractor's Method	39,000	15,876	195,000	44,552	156,000	28,676
Nuwara Eliya	No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	Sarath G. Fernando	Comparative Method/ Income Method	61,800	61,492	72,000	69,000	10,200	7,508
Panadura	No. 375, Galle Road, Panadura	Ranjan J. Samarakone	Contractor's Method	8,930	11,592	18,450	19,735	9,520	8,143
Pettah	People's Park Shopping Complex, Colombo 11	W.D.P. Rupananda	Investment Method	-	11,288	-	54,000	-	42,712
Trincomalee	No. 474, Power House Road, Trincomalee	S.A.S. Fernando	Comparison Method	27,500	-	75,000	-	47,500	-
Union Place	No. 1, Union Place, Colombo 2	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	300,000	554,464	360,000	640,000	60,000	85,536
Wellawatte	No. 343, Galle Road, Colombo 6	K.C.B. Condegama	Investment Method	187,375	33,444	204,100	35,900	16,725	2,456
Wennappuwa	No. 262, 264, Colombo Road, Wennappuwa	W.D.P. Rupananda	Contractor's Test Method	8,665	14,710	37,500	22,500	28,835	7,790
Total				2,144,774	1,660,097	3,340,369	2,118,829	1,195,599	458,730

30.6 Title Restriction on Property, Plant & Equipment

There were no restrictions existed on the title of the property, plant & equipment of the Group as at the date of the Statement of Financial Position.

30.7 Property, Plant & Equipment Pledged as Security for Liabilities

There were no items of property, plant & equipment pledged as securities for liabilities.

30.8 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.

30.9 Fully Depreciated Property, Plant & Equipment

The cost of fully-depreciated property, plant & equipment of the Bank which are still in use as at the date of the Statement of Financial Position is as follows:

	31.12.2013 Rs. '000	31.12.2012 Rs. '000
Computer equipment	1,794,881	1,463,312
Office equipment, furniture & fixtures	1,127,494	986,218
Motor vehicles	38,486	36,494

30.10 Temporarily Idle Property, Plant & Equipment

Following property, plant & equipment of the Bank were temporarily idle (until the assets issue to business unit) as at the date of the Statement of Financial Position:

	31.12.2013 Rs. '000	31.12.2012 Rs. '000
Computer equipment	70,862	46,637
Office equipment, furniture & fixtures	80,490	66,594

30.11 Property, Plant & Equipment Retired from Active Use

Following property, plant & equipment of the Bank were retired from active use as at the date of the Statement of Financial Position.

	31.12.2013 Rs. '000	31.12.2012 Rs. '000
Computer equipment	32,726	67,773
Office equipment, furniture & fixtures	16,300	9,309
Motor vehicles	214	-

30.12 Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of property, plant & equipment during the year 2013 (2012 - Nil).

31. Intangible Assets

31.1 Computer Software

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Cost/Valuation				
At the beginning of the year	1,262,607	1,121,243	1,262,281	1,120,917
Additions during the year	216,162	139,161	215,708	139,161
Disposals during the year	-	-	-	-
Exchange rate variance	1,182	2,944	1,182	2,944
Transfers/adjustments	-	(741)	-	(741)
At the end of the year	1,479,951	1,262,607	1,479,171	1,262,281
Accumulated Amortisation				
At the beginning of the year	906,586	731,326	906,427	731,216
Amortisation for the year	149,347	174,104	149,291	174,055
Disposals during the year	-	-	-	-
Exchange rate variance	785	1,298	785	1,298
Transfers/adjustments	-	(142)	-	(142)
At the end of the year	1,056,718	906,586	1,056,503	906,427
Net book value	423,233	356,021	422,668	355,854

Notes to the Financial Statements

31.2 Software Under Development

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Cost/Valuation				
At the beginning of the year	150,140	85,121	141,184	77,313
Additions during the year	77,850	116,486	77,850	116,486
Transfers/adjustments during the year	(174,109)	(52,615)	(174,109)	(52,615)
Exchange rate variance	614	1,148	-	-
Disposals during the year	-	-	-	-
At the end of the year	54,495	150,140	44,925	141,184
Total intangible assets [Refer Notes 31.1 and 31.2]	477,728	506,161	467,593	497,038

There were no restrictions existed on the title of the intangible assets of the group as at the date of the Statement of Financial Position. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2013 (2012 - Nil).

32. Leasehold Property

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Cost/Valuation				
At the beginning of the year	128,700	128,700	84,840	84,840
Additions during the year	-	-	-	-
At the end of the year	128,700	128,700	84,840	84,840
Accumulated Amortisation				
At the beginning of the year	16,924	15,472	7,536	6,594
Amortisation for the year	1,452	1,452	942	942
At the end of the year	18,376	16,924	8,478	7,536
Net book value	110,324	111,776	76,362	77,304

Notes to the Financial Statements

33. Deferred Tax Assets and Liabilities

33.1 Summary of Net Deferred Tax Liability

	GROUP				BANK			
	2013		2012		2013		2012	
	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
At the beginning of the year	5,191,693	1,431,725	4,724,597	1,276,116	4,541,132	1,249,567	4,300,809	1,234,469
Amount originating/(reversing) to income statement	755,857	206,506	707,638	147,871	747,134	204,063	673,102	141,125
Amount originating/(reversing) to Statement of Comprehensive Income	(27,425)	(7,679)	-	-	(28,704)	(8,037)	-	-
Tax effect on revaluation surplus on property	-	-	192,237	133,765	-	-	-	-
Tax effect on pre-acquisition reserves	54,947	15,385	-	-	-	-	-	-
Unwinding of the deferred tax effect on revaluation surplus on Freehold Buildings	432,779	121,178	(432,779)	(121,178)	432,779	121,178	(432,779)	(121,178)
Exchange rate variance	-	(3,701)	-	(4,849)	-	(3,701)	-	(4,849)
At the end of the year	6,407,851	1,763,414	5,191,693	1,431,725	5,692,341	1,563,070	4,541,132	1,249,567

33.2 Reconciliation of Net Deferred Tax Liability

	GROUP					
	Statement of Financial Position		Income Statement		Statement of Comprehensive Income	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes - Own assets	397,135	342,038	(55,097)	(412)	-	-
Accelerated depreciation for tax purposes - Leased assets	1,274,209	1,049,259	(224,950)	(237,157)	-	-
Revaluation surplus on freehold buildings	589,937	619,855	29,918	-	-	-
Tax effect on actuarial gains on Defined Benefit Plans	2,062	-	-	-	(2,062)	-
Tax effect on pre-acquisition reserves	15,385	-	-	-	-	-
Unwinding of the deferred tax effect on revaluation surplus on freehold buildings	-	(121,178)	-	-	-	-
Effect of exchange rate variance	9	9	(3,701)	(4,849)	-	-
	2,278,737	1,889,983	(253,830)	(242,418)	(2,062)	-
Deferred Tax Assets on:						
Finance leases	2,004	5,090	(3,086)	2,882	-	-
Defined Benefit Plans	245,563	203,903	41,660	69,753	-	-
Tax effect on actuarial losses on Defined Benefit Plans	9,741	-	-	-	9,741	-
General provision on credit card advances	-	18,567	(18,567)	3,861	-	-
Specific provision on lease receivable	56,254	119,536	(63,282)	-	-	-
Leave encashment	153,608	111,162	42,446	18,051	-	-
Straight lining of lease rentals	8,739	-	8,739	-	-	-
De-recognition of commission income	39,414	-	39,414	-	-	-
	515,323	458,258	47,324	94,547	9,741	-
Deferred tax effect on comprehensive income			(206,506)	(147,871)	7,679	-
Net deferred tax liability	1,763,414	1,431,725				

Notes to the Financial Statements

33.3 Reconciliation of Net Deferred Tax Liability

	Bank					
	Statement of Financial Position		Income Statement		Statement of Comprehensive Income	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Deferred Tax Liabilities on:						
Accelerated depreciation for tax purposes - Own assets	366,494	312,132	(54,362)	11,998	-	-
Accelerated depreciation for tax purposes - Leased assets	1,274,208	1,049,259	(224,949)	(237,157)	-	-
Revaluation surplus on freehold buildings	427,927	457,845	29,918	-	-	-
Tax effect on actuarial gains on Defined Benefit Plans	1,510	-	-	-	(1,510)	-
Unwinding of the deferred tax effect on revaluation surplus on freehold buildings	-	(121,178)	-	-	-	-
Effect of exchange rate variance	9	9	(3,701)	(4,849)	-	-
	2,070,148	1,698,067	(253,094)	(230,008)	(1,510)	-
Deferred Tax Assets on:						
Finance leases	-	-	-	-	-	-
Defined Benefit Plans	239,516	199,234	40,282	66,970	-	-
Tax effect on actuarial losses on Defined Benefit Plans	9,547	-	-	-	9,547	-
General provision on credit card advances	-	18,568	(18,568)	3,862	-	-
Specific provision on lease receivable	56,254	119,536	(63,282)	-	-	-
Leave encashment	153,608	111,162	42,446	18,051	-	-
Straight-lining of lease rentals	8,739	-	8,739	-	-	-
De-recognition of commission income	39,414	-	39,414	-	-	-
	507,078	448,500	49,031	88,883	9,547	-
Deferred tax effect on comprehensive income			(204,063)	(141,125)	8,037	-
Net deferred tax liability	1,563,070	1,249,567				

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000

34. Other Assets

Income receivable	22,335	34,999	22,335	34,999
Deposits and prepayments	1,518,412	1,365,559	1,521,526	1,358,727
Clearing account balance	2,999,575	4,126,806	2,999,575	4,126,806
Unamortised cost on staff loans	2,757,193	2,106,871	2,757,103	2,106,768
Other accounts	2,239,168	1,544,909	2,238,626	1,560,906
Total	9,536,683	9,179,144	9,539,165	9,188,206

35. Due to Banks

Borrowings	7,915,406	4,763,565	7,915,406	4,763,565
Local currency borrowings	-	65,018	-	65,018
Foreign currency borrowings	7,915,406	4,698,547	7,915,406	4,698,547
Securities sold under repurchase (repo) agreements	6,278,813	130,380	6,278,813	130,380
Total	14,194,219	4,893,945	14,194,219	4,893,945

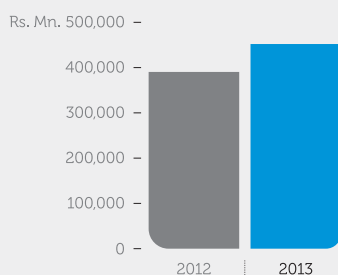
Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
36. Derivative Financial Instruments				
Interest rate derivatives				
Interest rate swaps	-	-	-	-
Foreign currency derivatives				
Forward foreign exchange contracts	1,411,916	84,291	1,411,916	84,291
Total	1,411,916	84,291	1,411,916	84,291

37. Due to Other Customers

Local currency deposits	342,766,249	291,139,626	342,820,225	291,168,788
Foreign currency deposits	108,332,697	99,429,056	108,332,698	99,442,760
Total	451,098,946	390,568,682	451,152,923	390,611,548

Due to
Other
Customers - Bank



15.50%▲
Growth

2013
451,153
Rs. Mn.

2012
390,612
Rs. Mn.

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
37.1 Analysis of Due to Customers				
(a) By product				
Current account deposits	36,887,413	32,076,534	36,887,453	32,076,534
Savings deposits	159,395,267	141,810,844	159,421,958	141,840,006
Time deposits	251,250,263	208,095,610	251,277,509	208,109,314
Certificates of deposit	3,566,003	8,585,694	3,566,003	8,585,694
Sub total	451,098,946	390,568,682	451,152,923	390,611,548
(b) By currency				
Sri Lanka Rupee	342,766,249	291,139,626	342,820,225	291,168,788
United States Dollar	59,873,350	52,783,593	59,873,351	52,797,297
Bangladesh Taka	6,556,111	24,964,651	6,556,111	24,964,651
Great Britain Pound	7,437,142	6,476,478	7,437,142	6,476,478
Australian Dollar	5,474,369	8,322,024	5,474,369	8,322,024
Euro	27,698,162	5,591,752	27,698,162	5,591,752
Other currencies	1,293,563	1,290,558	1,293,563	1,290,558
Sub total	451,098,946	390,568,682	451,152,923	390,611,548
(c) By institution/customers				
Deposits from banks	1,704,408	2,957,256	1,704,408	2,957,256
Deposits from finance companies	3,736,661	3,004,452	3,736,661	3,004,452
Deposits from other customers	445,657,877	384,606,974	445,711,854	384,649,840
Sub total	451,098,946	390,568,682	451,152,923	390,611,548

The maturity analysis of Deposits is given in Note 50.

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
38. Other Borrowings				
Refinance borrowings	6,427,536	7,633,595	6,427,536	7,633,595
Securities sold under repurchase (repo) agreements	39,054,967	31,481,970	39,230,639	31,629,224
Borrowings from International Finance Corporation (IFC)	8,515,000	8,320,000	8,515,000	8,320,000
Total	53,997,503	47,435,565	54,173,175	47,582,819

39. Other Provisions

Provision for contingencies	2,409	2,409	2,409	2,409
Total	2,409	2,409	2,409	2,409

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
40. Other Liabilities				
Accrued expenditure	1,672,283	1,856,614	1,666,095	1,850,635
Cheques sent on clearing	2,974,099	4,150,799	2,974,099	4,150,799
Provision for gratuity payable [Refer Note 40.1]	624,642	494,507	604,324	478,506
Provision for unfunded pension scheme [Refer Note 40.2]	191,541	167,394	191,541	167,394
Payable on oil hedging transactions	812,719	794,108	812,719	794,108
Other payables	3,610,532	2,953,791	3,578,431	2,921,366
Total	9,885,816	10,417,213	9,827,209	10,362,808

40.1 Provision for Gratuity Payable

At the beginning of the year	494,507	317,115	478,506	303,774
Expense recognised in the income statement [Refer Note 40.1 (a)]	147,378	179,083	141,700	174,680
Exchange difference	7,294	9,509	7,294	9,509
Paid during the year	(19,528)	(11,200)	(17,784)	(9,457)
Expense recognised in other comprehensive income	(5,009)	–	(5,392)	–
At the end of the year	624,642	494,507	604,324	478,506

40.1 (a) Expense Recognised in the Income Statement - Gratuity

Interest cost	56,118	26,090	54,470	25,062
Current service cost	91,260	152,993	87,230	149,618
Total	147,378	179,083	141,700	174,680

40.2 Provision for Unfunded Pension Scheme

At the beginning of the year	167,394	141,072	167,394	141,072
Expense recognised in the income statement [Refer Note 40.2 (a)]	18,413	49,710	18,413	49,710
Paid during the year	(28,363)	(23,388)	(28,363)	(23,388)
Expense recognised in other comprehensive income	34,097	–	34,097	–
At the end of the year	191,541	167,394	191,541	167,394

40.2 (a) Expense Recognised in the Income Statement - Unfunded Pension Scheme

Interest cost	18,413	14,107	18,413	14,107
Current service cost	–	–	–	–
Actuarial loss	–	35,603	–	35,603
Total	18,413	49,710	18,413	49,710

40.3 Actuarial Gains/(Losses)

From 2013, actuarial gains/(losses) resulting from remeasurement of defined benefit liabilities/(assets) are recognised in the other comprehensive income. The comparatives have not been adjusted based on materiality.

Notes to the Financial Statements

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
41. Due to Subsidiaries				
Local Subsidiaries				
Commercial Development Company PLC	–	–	8,934	7,823
ONEzero Company Ltd.	–	–	6,752	14,441
Sub Total	–	–	15,686	22,264
Foreign Subsidiaries				
Commex Sri Lanka S.R.L. - Italy	–	–	–	–
Sub Total	–	–	–	–
Total	–	–	15,686	22,264

42. Subordinated Liabilities

At beginning of the year	973,210	973,210	973,210	973,210
Redemptions during the year	(550)	–	(550)	–
Sub total [Refer Note 42.1]	972,660	973,210	972,660	973,210
Amount borrowed during the year [Refer Note 42.3]	9,825,000	–	9,825,000	–
Balance before adjusting for amortised interest	10,797,660	973,210	10,797,660	973,210
Net effect on amortised interest payable	259,187	132,806	259,187	132,806
At the end of the year	11,056,847	1,106,016	11,056,847	1,106,016

Outstanding debentures as at December 31, 2013, consisted of 972,660 (2012 - 973,210) Unsecured Subordinated Redeemable debentures of Rs. 1,000/- each issued by the Bank in 2006, details of which are given below:

42.1 Debenture Categories

Debenture Categories	BANK							
	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		Value as at	
					2013 %	2012 %	31.12.2013 Rs. '000	31.12.2012 Rs. '000
Fixed Rate Debentures								
2006/2016 - 13.25% p.a.	Not listed	Annually	16.05.2006	16.05.2016	13.25	13.25	505,000	505,000
2006/2016 - 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	14.00	14.00	467,260	467,260
Debenture Redeemed in 2013								
2006/2013 - 13.75% p.a.	Listed	Annually	18.12.2006	18.12.2013	13.75	13.75	–	250
							972,260	972,510
Floating Rate Debentures								
2006/2016 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2016	13.99	9.15	400	400
Debenture Redeemed in 2013								
2006/2013 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2013	13.99	9.15	–	300
							400	700
Sub total							972,660	973,210

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

Notes to the Financial Statements

42.2 Debentures by Maturity

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Due within 1 year	–	550	–	550
Due after 1 year	972,660	972,660	972,660	972,660
Total	972,660	973,210	972,660	973,210

42.3 Other Subordinated Liabilities

	Interest Payable Frequency	Allotment Date	Maturity Date	Effective Annual Yield		Value as at	
				2013	2012	31.12.2013	31.12.2012
				%	%	Rs. '000	Rs. '000
Borrowings from International Finance Corporation (IFC)	Bi-annually	13.03.2013	14.03.2023	5.75 + LIBOR	–	9,825,000	–
Sub total						9,825,000	–

The above liabilities would in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the year ended December 31, 2013.

43. Stated Capital

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	18,008,796	16,473,861	18,008,796	16,473,861
Issue of Ordinary Voting Shares under Employee Share Option Plan	76,074	62,942	76,074	62,942
Issue of Ordinary Shares as part of the final dividend satisfied in the form of issue and allotment of new shares	1,501,943	1,471,993	1,501,943	1,471,993
Closing Balance	19,586,813	18,008,796	19,586,813	18,008,796

43.1 Movement in Number of Ordinary Shares

	No. of Ordinary Voting Shares		No. of Ordinary Non-Voting Shares	
	2013	2012	2013	2012
Opening balance	780,014,232	765,085,320	53,473,748	52,364,846
Issue of Ordinary Voting Shares under Employee Share Option Plan	1,445,398	1,341,768	–	–
Issue of Ordinary Shares as part of the final dividend satisfied in the form of issue and allotment of new shares	13,076,189	13,587,144	1,069,474	1,108,902
Closing Balance	794,535,819	780,014,232	54,543,222	53,473,748

The shares of Commercial Bank of Ceylon PLC are quoted in the Colombo Stock Exchange. The Non-Voting Ordinary Shares of the Bank, 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.

The Bank has issued employee share options. The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at meetings of the Bank.

Notes to the Financial Statements

43.2 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% shares each year over a period of three to five years, upon the Bank achieving specified performance targets.

1/3 of the options offered under each tranche is vested to eligible employees after one year from the date of offer, second 1/3 of the options after two years from the date of offer and final 1/3 after three years from the date of offer as detailed below:

Option price is 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.

Number of options offered under each tranche is based on the overall performance of the Bank and the individual performance of the eligible employees in the preceding year. 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 options offered and the price are suitably adjusted as per the applicable rules of ESOP - 2008 which have been drafted in line with the accepted market practices.

	Tranche I			Total
	April 30, 2008	April 30, 2008	April 30, 2008	
Date granted				
Price (Rs.) - (**)	46.91	46.91	46.91	
	1/3 of Options	1/3 of Options	1/3 of Options	
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 Splits and Rights issues	692,095	789,320	1,045,640	2,527,055
Number of options cancelled before vesting	(52,943)	(52,943)	(52,943)	(158,829)
Options vested	1,416,460	1,513,685	1,770,005	4,700,150
Options cancelled due to non-acceptance	-	-	-	-
Number of options exercised up to December 31, 2013	(1,416,460)	(1,310,853)	(1,408,442)	(4,135,755)
Number of options outstanding as at December 31, 2013	-	202,832	361,563	564,395

(**) Adjusted on account of the dividends declared in the form of issue and allotment of new shares, rights issue of shares and sub-division of shares.

	Tranche II			Total
	April 30, 2011	April 30, 2011	April 30, 2011	
Date granted				
Price (Rs.)	132.33	132.33	132.33	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2012 to April 29, 2016	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	
Original number of options	1,213,384	1,213,384	1,213,384	3,640,152
Additions consequent to share split made in September 2011	1,213,384	1,213,384	1,213,384	3,640,152
Options vested/to be vested as at December 31, 2013	2,426,768	2,426,768	2,426,768	7,280,304

Notes to the Financial Statements

	Tranche III			Total
	April 30, 2012	April 30, 2012	April 30, 2012	
Date granted				
Price (Rs.)	104.63	104.63	104.63	
	1/3 of Options	1/3 of Options	1/3 of Options	
Exercisable between	April 30, 2013 to April 29, 2017	April 30, 2014 to April 29, 2018	April 30, 2015 to April 29, 2019	
Original number of options	2,596,622	2,596,622	2,596,600	7,789,844
Number of options cancelled before vesting	–	(43,222)	(43,224)	(86,446)
Options vested	2,596,622	2,553,400	2,553,376	7,703,398
Number of options exercised up to December 31, 2013	(143,282)	–	–	(143,282)
Options vested/to be vested as at December 31, 2013	2,453,340	2,553,400	2,553,376	7,560,116

44. Statutory Reserves

44.1 Statutory Reserve Fund

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	3,245,818	2,740,901	3,245,818	2,740,901
Transfers during the year	522,276	504,917	522,276	504,917
Closing Balance	3,768,094	3,245,818	3,768,094	3,245,818

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

The balance in the Statutory Reserve Fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

44.2 Primary Dealer Special Risk Reserve

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	187,577	149,404	187,577	149,404
Transfers during the year	78,943	38,173	78,943	38,173
Closing balance	266,520	187,577	266,520	187,577
Total Statutory Reserves	4,034,614	3,433,395	4,034,614	3,433,395

As per the Direction issued by the Public Debt Department of Central Bank of Sri Lanka on April 18, 2005, with effect from July 1, 2005. Primary Dealers who maintain a capital above Rs. 300 Mn. are required to allocate 25% of post tax profits of the Primary Dealer Unit to a special risk reserve annually.

Notes to the Financial Statements

45. Retained Earnings

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	4,172,814	2,588,194	4,178,080	2,547,336
Total comprehensive income	10,541,957	10,050,862	10,424,843	10,098,329
Profit for the year	10,563,378	10,079,829	10,445,511	10,098,329
Other comprehensive income	(21,421)	(28,967)	(20,668)	–
Transfer to other reserves	(4,924,807)	(4,355,215)	(4,924,807)	(4,355,215)
Dividends	(5,444,752)	(4,112,370)	(5,444,752)	(4,112,370)
Deferred tax effect on pre-acquisition reserves	(14,547)	–	–	–
Re-classification of retained earnings to available-for-sale reserve	28,967	–	–	–
Write-back of dividend payable	–	1,343	–	–
Closing Balance	4,359,632	4,172,814	4,233,364	4,178,080

46. Other Reserves

	GROUP			BANK		
	Opening Balance Rs. '000	Movement/ Transfers Rs. '000	Closing Balance Rs. '000	Opening Balance Rs. '000	Movement/ Transfers Rs. '000	Closing Balance Rs. '000
46 (a) Current Year - 2013						
Revaluation reserve [Refer Note 46.1]	4,737,125	(121,178)	4,615,947	4,343,232	(121,178)	4,222,054
General reserve [Refer Note 46.2]	20,048,989	2,331,830	22,380,819	20,048,989	2,331,830	22,380,819
Available-for-sale reserve [Refer Note 46.3]	475,467	1,548,001	2,023,468	475,467	1,579,100	2,054,567
Foreign currency translation reserve [Refer Note 46.4]	(755,101)	361,343	(393,758)	(757,894)	350,969	(406,925)
Investment fund reserve [Refer Note 46.5]	2,846,935	1,991,758	4,838,693	2,846,935	1,991,758	4,838,693
Total	27,353,415	6,111,754	33,465,169	26,956,729	6,132,479	33,089,208

46 (b) Previous Year - 2012

Revaluation reserve [Refer Note 46.1]	4,550,836	186,289	4,737,125	4,222,054	121,178	4,343,232
General reserve [Refer Note 46.2]	17,889,471	2,159,518	20,048,989	17,889,471	2,159,518	20,048,989
Available-for-sale reserve [Refer Note 46.3]	(143,969)	619,436	475,467	(143,969)	619,436	475,467
Foreign currency translation reserve [Refer Note 46.4]	(1,303,646)	548,545	(755,101)	(1,308,721)	550,827	(757,894)
Investment fund reserve [Refer Note 46.5]	1,194,328	1,652,607	2,846,935	1,194,328	1,652,607	2,846,935
Total	22,187,020	5,166,395	27,353,415	21,853,163	5,103,566	26,956,729

46.1 Revaluation Reserve

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	4,737,125	4,550,836	4,343,232	4,222,054
Surplus on revaluation of freehold land and buildings	–	181,760	–	–
Deferred tax effect on revaluation surplus on freehold buildings	(121,178)	4,529	(121,178)	121,178
Closing balance	4,615,947	4,737,125	4,222,054	4,343,232

The revaluation reserve relates to revaluation of freehold land & buildings and represents the fair value changes of the land & buildings as at the date of revaluation.

Notes to the Financial Statements

The Bank carried out a revaluation of all its freehold lands & buildings and recognised Rs. 1,654 Mn. as revaluation surplus as at December 31, 2011. (The Bank recognised Rs. 1,739 Mn. as Revaluation Surplus on a revaluation carried out on selected freehold lands & buildings as at December 31, 2010.)

46.2 General Reserve

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	20,048,989	17,889,471	20,048,989	17,889,471
Transfers during the year	2,331,830	2,159,518	2,331,830	2,159,518
Closing balance	22,380,819	20,048,989	22,380,819	20,048,989

The general reserve is the result of the Bank transferring a certain amount of profit from retained earnings account to general reserve account. The purpose of setting up the general reserve is to meet potential future unknown liabilities.

46.3 Available-for-sale Reserve

Opening balance	475,467	(143,969)	475,467	(143,969)
Net gains/(losses) on remeasuring available-for-sale financial investments	1,576,968	619,436	1,579,100	619,436
Re-classification of retained earnings to available-for-sale reserve	(28,967)	-	-	-
Closing balance	2,023,468	475,467	2,054,567	475,467

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

46.4 Foreign Currency Translation Reserve

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	(755,101)	(1,303,646)	(757,894)	(1,308,721)
Transfer of translation gains/(losses)	-	-	-	-
Net unrealised gains/(losses) from the translation of Financial Statements of the Foreign operation	361,343	548,545	350,969	550,827
Closing balance	(393,758)	(755,101)	(406,925)	(757,894)

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

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation and Commex - Sri Lanka S.R.L Italy, a subsidiary of the Bank were translated in to the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the date of the Statement of Financial Position 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.

46.5 Investment Fund Reserve

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Opening balance	2,846,935	1,194,328	2,846,935	1,194,328
Transfers during the year	1,991,758	1,652,607	1,991,758	1,652,607
Closing balance	4,838,693	2,846,935	4,838,693	2,846,935

Notes to the Financial Statements

Banks are required to transfer 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for the payment of income tax to a fund identified as "Investment Fund Account" (IFA) as per a proposal made in the Government Budget 2011. The guidelines have also been issued by the Central Bank of Sri Lanka on utilisation of funds in this account.

The Bank provided funds for several projects utilising funds available in Investment Fund Account (IFA). The details of loans granted under IFA are as follows:

	Granted Amount Rs. '000	Rate of Interest (%)	Tenure of Loan
Infrastructure development	2,767,945	9 - 13.57	14 - 14 1/2 Years
Factory/mills modernisation/establishment/expansion	485,588	11.54 - 12.54	5 - 5 1/2 Years
Construction of hotels and for related purposes	78,100	11.54 - 12.79	7 Years
Agriculture/livestock and fisheries	65,340	11.04	5 1/2 Years
Total	3,396,973		

47. Non-Controlling Interest

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Commercial Development Company PLC	38,778	32,141	–	–
Total	38,778	32,141	–	–

48. Contingent Liabilities and Commitments

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 Statement of Financial Position, they do contain credit risk and are therefore form part of the overall risk profile of the Bank.

48.1 Contingencies

As at December 31,	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Contingent Liabilities:				
Guarantees	26,393,171	23,997,143	26,393,171	23,997,143
Performance bonds	8,975,403	7,698,090	8,975,403	7,698,090
Documentary credits	20,795,460	19,566,782	20,795,460	19,566,782
Other contingent liabilities [Refer Note 48.1(a)]	166,957,995	166,060,094	166,957,995	166,060,094
Total contingent liabilities	223,122,029	217,322,109	223,122,029	217,322,109

Notes to the Financial Statements

48.1 (a) Other Contingent Liabilities

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Other contingent liabilities:				
Acceptances	17,682,089	16,255,563	17,682,089	16,255,563
Bills for collection	14,012,211	12,251,283	14,012,211	12,251,283
Stock travellers' cheques	258,944	766,799	258,944	766,799
Sub total	31,953,244	29,273,645	31,953,244	29,273,645
Forward exchange contracts:				
Forward exchange sales	59,482,518	68,318,546	59,482,518	68,318,546
Forward exchange purchases	75,522,233	68,467,903	75,522,233	68,467,903
Sub total	135,004,751	136,786,449	135,004,751	136,786,449
Total other contingent liabilities	166,957,995	166,060,094	166,957,995	166,060,094

48.2 Commitments**48.2.1 Direct and Indirect Advances:**

Undrawn Commitments - Direct Advances	54,249,566	51,021,034	54,249,566	51,021,034
Undrawn Commitments - Indirect Advances	16,990,485	10,853,593	16,990,485	10,853,593
Total	71,240,051	61,874,627	71,240,051	61,874,627

48.2.2 Capital Commitments

The Group has commitments for acquisition of Property, Plant & Equipment and intangible assets incidental to the ordinary course of business, as follows:

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
48.2.2 (a) Capital Expenditure Commitments in relation to Property, Plant & Equipment				
Approved and contracted for	496,260	43,986	496,260	43,986
Approved but not contracted for	525,132	312,779	525,132	312,779
Total	1,021,392	356,765	1,021,392	356,765
48.2.2 (b) Capital Expenditure Commitments in relation to Intangible Assets				
Approved and contracted for	68,483	39,611	68,483	39,611
Approved but not contracted for	-	-	-	-
Total	68,483	39,611	68,483	39,611
Total of capital commitments	1,089,875	396,376	1,089,875	396,376
Total commitments	72,329,926	62,271,003	72,329,926	62,271,003
Total contingent liabilities and commitments	295,451,955	279,593,112	295,451,955	279,593,112

Notes to the Financial Statements

48.3 Commitments of Subsidiaries and Associates**48.3 (a) Contingencies of Subsidiaries**

The Subsidiaries of the Group do not have any contingencies as at the year end.

48.3 (b) Contingencies of Associates

The Associates of the Group do not have any contingencies as at the year end.

49. 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. In respect of pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a realisable security to cover the damages are not included below as the Bank does not expect cash outflows from such claims. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome based on a reasonable estimate.

Set out below are unresolved legal claims against the Bank as at December 31, 2013 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 third party in proceedings No. 0122/2009/DLM to claim the title of a property which has been mortgaged to the Bank by the present owner for several facilities granted. The value of action is Rs. 85,000 Mn. Written submissions of all parties are due on March 3, 2014. Court granted permission to amend the plaint as per the request made by the plaintiff, subject to a cost of Rs. 10,000.00 payable to each and every defendant.
- (ii) Court action has been initiated by a customer in proceedings No. 236/2011/MR challenging the Bank for transferring a vehicle in the name of a relation of the Plaintiff upon settlement of full amount due in respect of a lease facility obtained from the Bank. The Bank has executed the transfer on the strength of a letter issued by the Plaintiff who is challenging the letter. The value of the action is Rs. 3,500 Mn. Further trial is fixed for May 05, 2014.
- (iii) Court action has been initiated by a customer in proceeding number 25831/MR to claim a refund of Overdraft Interest amounting to Rs. 2,880 Mn. The Bank lost the case in the lower courts and now has appealed (Appeal No. 133/2010) to the Supreme Court. Arguments re-fixed for March 24, 2014.
- (iv) Court action has been initiated for BDT 9,153 Mn. (Rs. 15,452 Mn. approximately) in proceedings number 149/05 against the Credit Agricole Indusuez (Commercial Bank acquired Bangladesh operations from 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 date of the case has not been fixed by the court yet.
- (v) Court action has been initiated by a third party in proceedings number 52/10 to claim a sum of BDT 35,328 Mn. (approx. Rs. 59,642 Mn.) from the Bank for illegal withdrawal of money from their account with forged signatures. The Bank is of the view that the Bank is not responsible for any losses occurring due to inadequacy of the security of cheque books. Next date of the case is fixed for March 11, 2014.
- (vi) Court action has been initiated by the plaintiff in proceedings number 571/2008/MR to prevent the Bank from exercising the right of lien and set off a deposit of the plaintiff amounting to US\$ 15,000 Mn. against a claim made by the Bank in terms of a hedging Agreement. Commercial High Court issued the judgment in favour of the Bank and dismissed plaintiff's application for an interim injunction. The parties have filed their initial pleadings and the matter is now fixed for Trial. Next trial date is February 24, 2014.
- (vii) Court action has been initiated by a customer in proceedings No. 36/96 (1) to claim a sum of Rs. 183,050 Mn. on account of a forward exchange contract. Judgment was delivered in favour of the Bank dismissing the plaintiff's action but the plaintiff has appealed against the judgment in Supreme Court. The appeal is now fixed for argument on May 26, 2014.
- (viii) Court action has been initiated by a third party in proceedings number 112/2005(1) to claim Rs. 5,584 Mn. plus Rs. 10,000 Mn. as damages for disposing of the shares owned by her which were held under lien to the Bank. Plaintiff alleges that the transaction has taken place without obtaining her consent. Judgment was delivered in favour of the Plaintiff. Bank has appealed against the judgment delivered. The plaintiff has filed an application for the issue of Writ Pending Appeal. Bank had agreed to issue a guarantee for Rs. 5,000 Mn. in favour of plaintiff, to be claimed only on the final determination of the appeal file in Supreme Court. Accordingly, terms of settlement were recorded in courts.

Notes to the Financial Statements

50. Maturity Analysis

(a) Group

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Group is detailed 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 31.12.2013 Rs. '000	Total as at 31.12.2012 Rs. '000
Interest earning assets:							
Cash and cash equivalents	135,564	–	–	–	–	135,564	5,315,236
Balances with Central Banks	734	73	–	–	–	807	3,798
Placements with banks	4,131,814	–	–	–	–	4,131,814	16,162,970
Other financial instruments held-for trading	6,044,652	–	–	–	–	6,044,652	5,718,232
Loans and receivables to banks	–	–	–	–	–	–	95,000
Loans and receivables to other customers	178,948,201	60,777,855	115,477,158	43,096,409	20,644,592	418,944,215	372,857,337
Financial investments - Available-for-sale	33,508,356	67,404,741	8,962,927	10,828,935	2,994,403	123,699,362	57,923,774
Total interest earning assets as at 31.12. 2013	222,769,321	128,182,669	124,440,085	53,925,344	23,638,995	552,956,414	
Total interest earning assets as at 31.12. 2012	206,920,007	88,774,249	108,537,815	36,238,894	17,605,382		458,076,347
Non-interest earning assets:							
Cash and cash equivalents	14,127,969	–	–	–	–	14,127,969	14,436,969
Balances with Central Banks	12,239,128	5,247,753	332,558	296,785	314,905	18,431,129	18,164,241
Derivative financial instruments	396,311	441,067	316	–	–	837,694	1,351,095
Other financial instruments held-for-trading	334,406	–	–	–	–	334,406	322,878
Loans and receivables to banks	–	–	546,270	–	–	546,270	533,760
Financial investments - Available-for-sale	–	–	–	15,898	33,030	48,928	39,418
Investments in associates	–	–	–	–	94,173	94,173	93,712
Property, plant & equipment	–	–	–	–	9,175,225	9,175,225	8,946,881
Intangible assets	–	–	–	–	477,728	477,728	506,161
Leasehold property	–	–	–	–	110,324	110,324	111,776
Deferred tax assets	28,038	29,903	127,512	87,511	242,359	515,323	458,258
Other assets	5,641,299	207,188	483,175	442,444	2,762,577	9,536,683	9,179,144
Total non-interest earning assets as at 31.12.2013	32,767,151	5,925,911	1,489,831	842,638	13,210,321	54,235,852	
Total non-interest earning assets as at 31.12.2012	34,108,979	5,368,128	1,155,285	537,400	12,974,501		54,144,293
Total assets - as at December 31, 2013	255,536,472	134,108,580	125,929,916	54,767,982	36,849,316	607,192,266	
Total assets - as at December 31, 2012	241,028,986	94,142,377	109,693,100	36,776,294	30,579,883		512,220,640
Percentage - as at December 31, 2013*	42.08	22.09	20.74	9.02	6.07	100.00	
Percentage - as at December 31, 2012*	47.05	18.38	21.42	7.18	5.97		100.00

*Total percentage of each maturity bucket out of total assets employed by the Group.

Notes to the Financial Statements

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and share holders' funds employed by the group is detailed 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 31.12.2013 Rs. '000	Total as at 31.12.2012 Rs. '000
Interest bearing liabilities:							
Due to banks	9,575,006	2,620,000	-	-	-	12,195,006	1,354,651
Due to other customers	268,750,885	124,388,355	8,158,766	6,461,491	7,568,542	415,328,039	358,505,365
Other borrowings	26,434,100	14,416,936	5,235,806	5,030,065	2,880,596	53,997,503	47,565,945
Subordinated liabilities	132,385	126,802	972,660	-	9,825,000	11,056,847	1,106,016
Total interest bearing liabilities as at 31.12.2013	304,892,376	141,552,093	14,367,232	11,491,556	20,274,138	492,577,395	
Total interest bearing liabilities as at 31.12.2012	265,924,501	108,514,627	10,299,962	11,395,522	12,397,365		408,531,977
Non-interest bearing liabilities:							
Due to banks	1,995,928	3,285	-	-	-	1,999,213	3,408,914
Derivative financial instruments	1,035,182	376,734	-	-	-	1,411,916	84,291
Due to other customers	35,770,907	-	-	-	-	35,770,907	32,063,317
Current tax liabilities	1,082,016	698,851	-	-	-	1,780,867	2,821,975
Deferred tax liabilities	-	-	-	1,673,415	605,322	2,278,737	1,889,983
Other provisions	2,409	-	-	-	-	2,409	2,409
Other liabilities	6,774,740	994,380	1,062,608	230,361	823,727	9,885,816	10,417,213
Stated capital	-	-	-	-	19,586,813	19,586,813	18,008,796
Statutory reserves	-	-	-	-	4,034,614	4,034,614	3,433,395
Retained earnings	-	-	-	-	4,359,632	4,359,632	4,172,814
Other reserves	-	-	-	-	33,465,169	33,465,169	27,353,415
Non-controlling interest	-	-	-	-	38,778	38,778	32,141
Total non-interest bearing liabilities as at December 31, 2013	46,661,182	2,073,250	1,062,608	1,903,776	62,914,055	114,614,871	
Total non-interest bearing liabilities as at December 31, 2012	44,078,882	2,889,431	1,109,164	1,743,660	53,867,526		103,688,663
Total liabilities and equity - as at 31.12.2013	351,553,558	143,625,343	15,429,840	13,395,332	83,188,193	607,192,266	
Total liabilities and equity - as at 31.12.2012	310,003,383	111,404,058	11,409,126	13,139,182	66,264,891		512,220,640
Percentage - as at December 31, 2013*	57.90	23.65	2.54	2.21	13.70	100.00	
Percentage - as at December 31, 2012*	60.51	21.75	2.23	2.57	12.94		100.00

*Total percentage of each maturity bucket out of total liabilities and share holders' funds employed by the Group

Notes to the Financial Statements

(b) Bank

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Bank is detailed 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 31.12.2013 Rs. '000	Total as at 31.12.2012 Rs. '000
Interest earning assets:							
Cash and cash equivalents	135,148	-	-	-	-	135,148	5,295,865
Balances with Central Banks	734	73	-	-	-	807	3,798
Placements with banks	4,131,814	-	-	-	-	4,131,814	16,162,970
Other financial instruments held-for-trading	6,044,652	-	-	-	-	6,044,652	5,718,232
Loans and receivables to banks	-	-	-	-	-	-	95,000
Loans and receivables to other customers	178,953,027	60,786,281	115,479,366	43,096,409	20,644,592	418,959,675	372,915,081
Financial investments - Available-for-sale	33,508,356	67,404,741	8,962,927	10,828,935	2,994,403	123,699,362	57,923,774
Total interest earning assets as at 31.12.2013	222,773,731	128,191,095	124,442,293	53,925,344	23,638,995	552,971,458	
Total interest earning assets as at 31.12.2012	206,909,722	88,798,920	108,561,802	36,238,894	17,605,382		458,114,720
Non-interest earning assets:							
Cash and cash equivalents	14,126,401	-	-	-	-	14,126,401	14,436,969
Balances with Central Banks	12,239,128	5,247,753	332,558	296,785	314,905	18,431,129	18,164,241
Derivative financial instruments	396,311	441,067	316	-	-	837,694	1,351,095
Other financial instruments held-for-trading	334,406	-	-	-	-	334,406	322,878
Loans and receivables to banks	-	-	546,270	-	-	546,270	533,760
Financial investments - Available-for-sale	-	-	-	15,898	33,030	48,928	39,418
Investments in subsidiaries	-	-	-	-	288,946	288,946	303,130
Investments in associates	-	-	-	-	44,331	44,331	44,331
Property, plant & equipment	-	-	-	-	8,387,344	8,387,344	8,221,118
Intangible assets	-	-	-	-	467,593	467,593	497,038
Leasehold property	-	-	-	-	76,362	76,362	77,304
Deferred tax assets	28,038	29,903	126,907	84,709	237,521	507,078	448,500
Other assets	5,643,781	207,188	483,175	442,444	2,762,577	9,539,165	9,188,206
Total non-interest earning assets as at 31.12.2013	32,768,065	5,925,911	1,489,226	839,836	12,612,609	53,635,647	
Total non-interest earning assets as at 31.12.2012	34,108,979	5,368,128	1,154,818	531,843	12,464,220		53,627,988
Total assets - as at December 31, 2013	255,541,796	134,117,006	125,931,519	54,765,180	36,251,604	606,607,105	
Total assets - as at December 31, 2012	241,018,701	94,167,048	109,716,620	36,770,737	30,069,602		511,742,708
Percentage - as at December 31, 2013*	42.12	22.11	20.76	9.03	5.98	100.00	
Percentage - as at December 31, 2012*	47.09	18.40	21.44	7.19	5.88		100.00

* Total percentage of each maturity bucket out of total assets employed by the Bank.

Notes to the Financial Statements

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Bank is detailed 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 31.12.2013 Rs. '000	Total as at 31.12.2012 Rs. '000
Interest bearing liabilities:							
Due to banks	9,575,006	2,620,000	-	-	-	12,195,006	1,354,651
Due to other customers	268,795,021	124,398,156	8,158,766	6,461,491	7,568,542	415,381,976	358,547,839
Other borrowings	26,594,769	14,431,939	5,235,806	5,030,065	2,880,596	54,173,175	47,713,199
Subordinated liabilities	132,385	126,802	972,660	-	9,825,000	11,056,847	1,106,016
Total interest bearing liabilities as at 31.12.2013	305,097,181	141,576,897	14,367,232	11,491,556	20,274,138	492,807,004	
Total interest bearing liabilities as at 31.12.2012	266,105,525	108,523,331	10,299,962	11,395,522	12,397,365		408,721,705
Non-interest bearing liabilities:							
Due to banks	1,995,928	3,285	-	-	-	1,999,213	3,408,914
Derivative financial instruments	1,035,182	376,734	-	-	-	1,411,916	84,291
Due to other customers	35,770,947	-	-	-	-	35,770,947	32,063,709
Current tax liabilities	1,059,723	698,851	-	-	-	1,758,574	2,801,541
Deferred tax liabilities	-	-	-	1,642,221	427,927	2,070,148	1,698,067
Other provisions	2,409	-	-	-	-	2,409	2,409
Other liabilities	6,736,452	994,380	1,060,576	228,329	807,472	9,827,209	10,362,808
Due to subsidiaries	15,686	-	-	-	-	15,686	22,264
Stated capital	-	-	-	-	19,586,813	19,586,813	18,008,796
Statutory reserves	-	-	-	-	4,034,614	4,034,614	3,433,395
Retained earnings	-	-	-	-	4,233,364	4,233,364	4,178,080
Other reserves	-	-	-	-	33,089,208	33,089,208	26,956,729
Total non-interest bearing liabilities as at 31.12.2013	46,616,327	2,073,250	1,060,576	1,870,550	62,179,398	113,800,101	
Total non-interest bearing liabilities as at 31.12.2012	44,026,699	2,889,431	1,109,164	1,713,754	53,281,955		103,021,003
Total liabilities and equity - as at 31.12.2013	351,713,508	143,650,147	15,427,808	13,362,106	82,453,536	606,607,105	
Total liabilities and equity - as at 31.12.2012	310,132,224	111,412,762	11,409,126	13,109,276	65,679,320		511,742,708
Percentage - as at 31.12.2013*	57.99	23.68	2.54	2.20	13.59	100.00	
Percentage - as at 31.12.2012*	60.61	21.77	2.23	2.56	12.83		100.00

* Total percentage of each maturity buckets out of total liabilities and shareholders' funds employed by the Bank.

51. Employee Retirement Benefits

51.1 Pension Fund - Defined Benefit Plan

An actuarial valuation of the retirement Pension Fund was carried out as at December 31, 2013 by Mr. M Poopalanathan, AIA, 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 LKAS 19 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.

51.1 (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

Staff Turnover

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 same withdrawal rates which were used in the last valuation (December 31, 2012) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation as at December 31, 2013.

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.

51.1 (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. (2012 - 11% p.a.) has been used to discount future liabilities considering anticipated long-term rate of inflation.

Salary Increases

A salary increment of 9% p.a. (2012 - 10% p.a.) 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.

	2013 Rs. '000	2012 Rs. '000
51.1 (c) Movement in the Present Value of Defined Benefit Obligations		
Opening balance	112,014	91,937
Interest cost	12,321	9,194
Current service cost	2,102	2,325
Benefits paid during the year	(8,119)	(7,000)
Actuarial loss	6,360	15,558
Closing balance	124,678	112,014

Notes to the Financial Statements

	2013 Rs. '000	2012 Rs. '000
51.1 (d) Movement in the Fair Value of Plan Assets		
Fair value as at the beginning of the year	94,899	85,845
Expected return on plan assets	10,439	8,584
Contribution paid into plan	1,411	1,704
Benefits paid by the plan	(8,119)	(7,000)
Actuarial gain on plan assets	19,270	5,766
Fair value as at the end of the year	117,900	94,899

51.1 (e) Liability Recognised in the Statement of Financial Position

Present value of defined benefit obligations as at the end of the year	124,678	112,014
Fair value of plan assets as at the end of the year	(117,900)	(94,899)
Unrecognised actuarial gains/(losses)	-	-
Net liability recognised in the Statement of Financial Position	6,778	17,115

51.1 (f) Plan Assets Consist of the Following:

Government Treasury Bills	42,512	38,632
Deposits held with the Bank	75,388	56,267
Total	117,900	94,899

52. Operating Segments

The group has the following strategic divisions which are reportable segments. These divisions offer different products and services and are managed separately based on the group's management and internal reporting structure.

The following table presents the income, profit and asset and liability information on the Group's business segments for the year ended December 31, 2013 and comparative figures for the year ended December 31, 2012.

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/Consolidated	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
External operating income:										
Net interest income	22,240,114	21,385,560	944,807	911,261	1,648,811	111,621	488,525	443,217	25,322,257	22,851,659
Foreign exchange profit	3,715,933	2,091,074	-	-	(1,720,316)	2,595,937	-	-	1,995,617	4,687,011
Net fees and commission income	4,244,029	3,590,315	-	-	8,829	8,003	-	-	4,252,858	3,598,318
Other income	2,539,281	1,360,254	121,122	58,940	214,756	131,168	42,955	60,369	2,918,114	1,610,731
Operating income by segment	32,739,357	28,427,203	1,065,929	970,201	152,080	2,846,729	531,480	503,586	34,488,846	32,747,719
Eliminations/unallocated									1,130,093	266,169
Total operating income									35,618,939	33,013,888
Credit loss expenses	(4,274,451)	(3,083,820)	(325,881)	(74,471)	-	-	-	-	(4,600,332)	(3,158,291)
Net operating income	28,464,906	25,343,383	740,048	895,730	152,080	2,846,729	531,480	503,586	31,018,607	29,855,597
Segment result	16,069,622	15,702,646	740,048	895,730	1,751,483	1,617,091	474,559	449,652	19,035,712	18,665,119
Unallocated operating expenses									(4,350,079)	(4,364,565)
Operating profit									14,685,633	14,300,554
Share of profit of associates - (before tax)									7,118	12,360
Income tax expense									(4,119,294)	(4,231,747)
Non-controlling interest									(10,079)	(1,338)
Net profit for the year, attributable to equity holders of the Parent									10,563,378	10,079,829

Notes to the Financial Statements

52. Operating Segments (Contd...)

As at December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/Consolidated	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Other information										
Segment assets	335,270,625	291,972,329	21,778,745	25,043,149	192,541,792	132,898,416	4,996,180	3,836,916	554,587,342	453,750,810
Investments in associates	-	-	-	-	-	-	94,173	93,712	94,173	93,712
Unallocated assets	-	-	-	-	-	-	-	-	52,510,751	58,376,118
Total assets	335,270,625	291,972,329	21,778,745	25,043,149	192,541,792	132,898,416	5,090,353	3,930,628	607,192,266	512,220,640
Segment liabilities	322,236,766	292,636,055	21,778,745	25,043,149	192,541,792	132,898,416	5,090,353	3,930,628	541,647,656	454,508,248
Unallocated liabilities	-	-	-	-	-	-	-	-	4,059,604	4,711,831
Total liabilities	322,236,766	292,636,055	21,778,745	25,043,149	192,541,792	132,898,416	5,090,353	3,930,628	545,707,260	459,220,079
For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Information on cash flows										
Cash flows from operating activities	51,449,579	10,402,702	3,409,503	(3,660,659)	805,457	(301,398)	(64,543,946)	3,976,690	(8,879,407)	10,417,335
Cash flows from investing activities	-	-	-	-	-	-	(1,025,995)	471,849	(1,025,995)	471,849
Cash flows from financing activities	9,464,350	-	-	-	(132,645)	(132,429)	-	-	9,331,705	(132,429)
Capital expenditure-										
Property, plant & equipment	-	-	-	-	-	-	-	-	(925,721)	(1,157,138)
Intangible assets	-	-	-	-	-	-	-	-	(119,903)	(202,433)
Eliminations/unallocated	-	-	-	-	-	-	-	-	(3,869,351)	(2,579,974)
Net cash flow generated during the year									(5,488,672)	6,817,210

Notes to the Financial Statements

52. Operating Segments (Contd...)

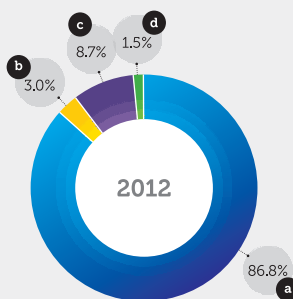
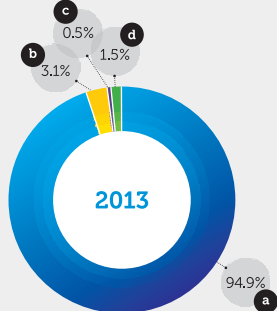
Geographical Segments

The following table presents the distribution of total assets, income, profit before tax and profit after tax of the Group/Bank by geographical segment, allocated based on the location in which the transaction assets and liabilities are recorded for the year ended December 31, 2013 together with comparative figures for the year ended December 31, 2012.

	GROUP				BANK			
	2013 Rs. '000	%	2012 Rs. '000	%	2013 Rs. '000	%	2012 Rs. '000	%
Assets								
Sri Lankan operations	561,016,955	92.40	471,153,270	91.98	560,465,291	92.39	470,726,049	91.98
International operations	46,175,311	7.60	41,067,370	8.02	46,141,814	7.61	41,016,659	8.02
Total	607,192,266	100.00	512,220,640	100.00	606,607,105	100.00	511,742,708	100.00
Income								
Sri Lankan operations	67,430,397	92.24	58,574,030	92.43	67,492,236	92.25	58,595,750	92.43
International operations	5,670,981	7.76	4,799,723	7.57	5,667,344	7.75	4,799,297	7.57
Total	73,101,378	100.00	63,373,753	100.00	73,159,580	100.00	63,395,047	100.00
Profit before tax								
Sri Lankan operations	12,437,041	84.65	12,416,243	86.75	12,229,347	84.28	12,358,802	86.45
International operations	2,255,710	15.35	1,896,671	13.25	2,281,172	15.72	1,936,531	13.55
Total	14,692,751	100.00	14,312,914	100.00	14,510,519	100.00	14,295,333	100.00
Profit after tax								
Sri Lankan operations	9,212,231	87.13	9,061,030	89.88	9,058,823	86.72	9,038,332	89.50
International operations	1,361,226	12.87	1,020,137	10.12	1,386,688	13.28	1,059,997	10.50
Total	10,573,457	100.00	10,081,167	100.00	10,445,511	100.00	10,098,329	100.00

Information Based on Operating Segments - Group

Total Operating Income

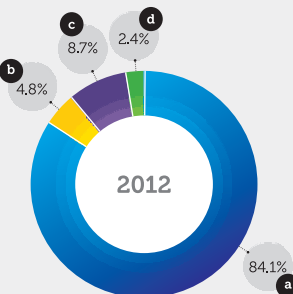
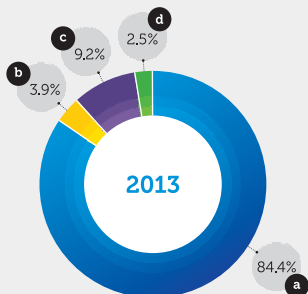


5.32% Growth

2013
34,489
Rs. Mn.

2012
32,748
Rs. Mn.

Segment Result

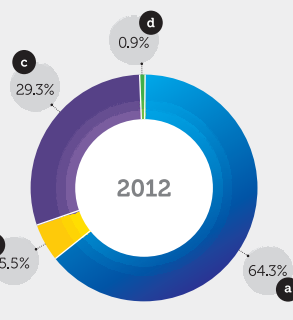
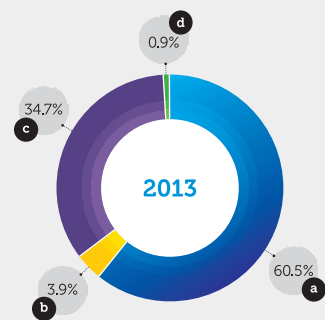


1.99% Growth

2013
19,036
Rs. Mn.

2012
18,665
Rs. Mn.

Assets

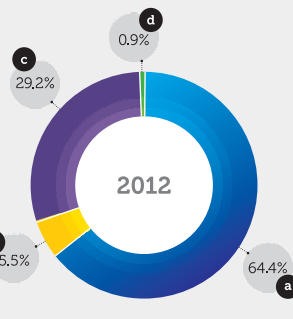
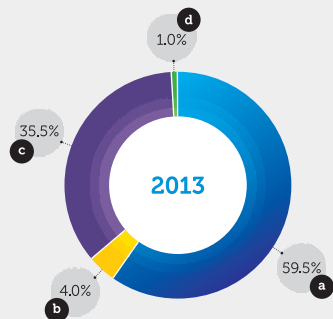


22.22% Growth

2013
554,587
Rs. Mn.

2012
453,751
Rs. Mn.

Liabilities



19.17% Growth

2013
541,648
Rs. Mn.

2012
454,508
Rs. Mn.

a. Banking b. Leasing c. Dealing/Treasury d. Investments

Notes to the Financial Statements

53. Related Party Disclosures

The Bank carried 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 as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

53.1 Parent and Ultimate Controlling Party

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

53.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly.

Accordingly the Bank's KMPs include the Board of Directors (including Executive and Non-Executive Directors) and selected key employees who meet the criteria above.

Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependants of the KMP or the KMPs domestic partner.

As the Bank is the ultimate parent of the Subsidiaries listed out in page 405, the Board of Directors of the Bank have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly the Board of Directors of the Bank (Including Executive and Non-Executive) are also KMPs of the Group.

53.2.1.1 Compensation of Directors - Bank

	2013 Rs. '000	2012 Rs. '000
Short term employment benefits	91,590	92,869
Post-employment benefits	5,463	6,459
Total	97,053	99,328

53.2.1.2 Compensation of other KMPs - Bank

Short term employment benefits	170,457	161,328
Post-employment benefits	18,073	16,960
Total	188,530	178,288

53.2.1.3 Compensation of KMPs - Group

Short term employment benefits	91,912	93,169
Post-employment benefits	5,463	6,459
Total	97,375	99,628

In addition to the above the Bank/Group provide non-cash benefits to the KMPs.

Notes to the Financial Statements

53.2.2 Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner.

53.2.2.1 Statement of Financial Position - Bank

	Year-end Balance		Average Balance	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Assets				
Loans and advances	89,564	87,789	90,286	86,625
Credit cards	722	1,774	1,704	194
Total	90,286	89,563	91,990	86,819
Liabilities				
Deposits	176,362	154,173	163,139	175,844
Securities sold under re-purchase agreements	32,120	34,014	33,920	118,872
Debentures	200	200	200	200
Total	208,682	188,387	197,259	294,916

53.2.2.2 Commitments and Contingencies - Bank

Letters of credit	–	–	–	359
Undrawn facilities	21,255	26,488	30,227	28,757
Total	21,255	26,488	30,227	29,116

53.2.2.3 Direct and Indirect Accommodation - Bank

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.17%	0.24%
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No impairment losses have been recorded against balances outstanding during the period with KMP, and no specific provision has been made for impairment losses on balances with KMP and their CFMs.

53.2.2.4 Income Statement

	For the Year Ended	
	2013 Rs. '000	2012 Rs. '000
Interest income	8,715	8,186
Interest expenses	20,870	26,175
Other income	177	111
Compensation to KMPs [Refer Notes 53.2.1.1 and 53.2.1.2]	285,583	277,616

Notes to the Financial Statements

53.2.2.5 Share-Based Benefits to KMPs

	As at the Year End	
	2013	2012
Number of ordinary shares held	3,848,833	4,030,871
Dividends paid (In Rs. '000)	28,144	34,158
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008 - Tranche I	532,196	817,581
Tranche II	324,719	387,828
Tranche III	422,500	–

53.3 Transactions with Group Entities

The Group entities include the Subsidiaries and Associates of the Bank.

53.3.1 Transactions with Subsidiaries

53.3.1.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Assets				
Loans and advances	–	343	1,478	1,503
Lease receivable	16,965	57,401	32,736	89,051
Other	34,504	37,859	36,181	52,120
Total	51,469	95,603	70,395	142,674
Liabilities				
Deposits	53,937	42,866	60,395	61,786
Securities sold under re-purchase agreements	175,672	142,721	174,998	113,053
Other	15,686	22,264	18,975	18,632
Total	245,295	207,851	254,368	193,471

53.3.1.2 Commitments and Contingencies

Undrawn facilities	–	25,000	15,638	20,833
Total	–	25,000	15,638	20,833

53.3.1.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.03%	0.17%
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Notes to the Financial Statements

53.3.1.4 Income Statement

	For the Year Ended	
	2013 Rs. '000	2012 Rs. '000
Interest income	7,244	20,189
Interest expenses	23,550	19,092
Other income	70,465	70,437
Expenses paid	345,007	246,574

53.3.1.5 Other Transactions

Payments made to ONEzero Company Ltd. in relation to purchase of computer hardware, software and maintenance agreements	99,877	168,691
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53.3.2 Transactions with Associates

53.3.2.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Assets				
Loans and advances	11	11,570	22	12,232
Lease receivables	1,010	2,600	3,988	4,962
Total	1,021	14,170	4,010	17,194
Liabilities				
Deposits	78,600	52,707	43,087	83,048
Securities sold under re-purchase agreements	6,840	4,096	14,300	17,393
Total	85,440	56,803	57,387	100,441

53.3.2.2 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.00%	0.03%
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53.3.2.3 Income Statement

	For the Year Ended	
	2013 Rs. '000	2012 Rs. '000
Interest income	615	2,773
Interest expenses	6,112	11,507
Other income	28,885	55,971

53.3.2.4 Other Transactions

Number of ordinary shares held as at the year end	4,408	4,246
Dividend paid (Rs. '000)	28	21

Notes to the Financial Statements

53.4 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.

53.4.1 Transactions with the Post-Employment Benefit Plans for the Employees of the Bank**53.4.1.1 Statement of Financial Position**

	Year-end Balance		Average Balance	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Assets				
Loans and Advances	-	-	-	-
Total	-	-	-	-
Liabilities				
Deposits	2,296,724	1,592,507	1,512,629	1,198,568
Securities sold under repurchase agreements	60,042	141,160	11,906	75,644
Total	2,356,766	1,733,667	1,524,535	1,274,212

53.4.1.2 Income Statement

	For the Year Ended	
	2013 Rs. '000	2012 Rs. '000
Interest income	-	-
Interest expenses	197,602	136,174
Contribution made/taxes paid by the Bank	795,675	782,339

54. Events After the Reporting Period

No circumstances have arisen since the reporting date which would require adjustments to or disclosure in the Financial Statements other than those disclosed below:

54.1 Second Interim Dividend - 2013

The Bank declared and paid a second interim dividend of Rs. 1.00 per share on January 27, 2014 to both the voting and non-voting ordinary shareholders of the Bank.

54.2 Final Dividend - 2013

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. Rs. 2.00 per share and the balance entitlement of Rs. 2.00 per share that will be satisfied in the form of issue and allotment of new shares for both the voting and non-voting ordinary shareholders of the Bank for the year ended December 31, 2013. (Further, this dividend is to be approved at the Annual General Meeting to be held on March 31, 2014). In accordance with the Sri Lanka Accounting Standard 10 on 'Events after the Reporting Period'. The above second interim dividend and the proposed final dividend for 2013 have not been recognised as a liabilities as at December 31, 2013. Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

Compliance with Sections 56 and 57 of Companies Act No. 07 of 2007

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Bank satisfied the solvency test in accordance with Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on February 25, 2014 has been audited by KPMG Sri Lanka.

Notes to the Financial Statements

55. Net Assets Value Per Ordinary Share

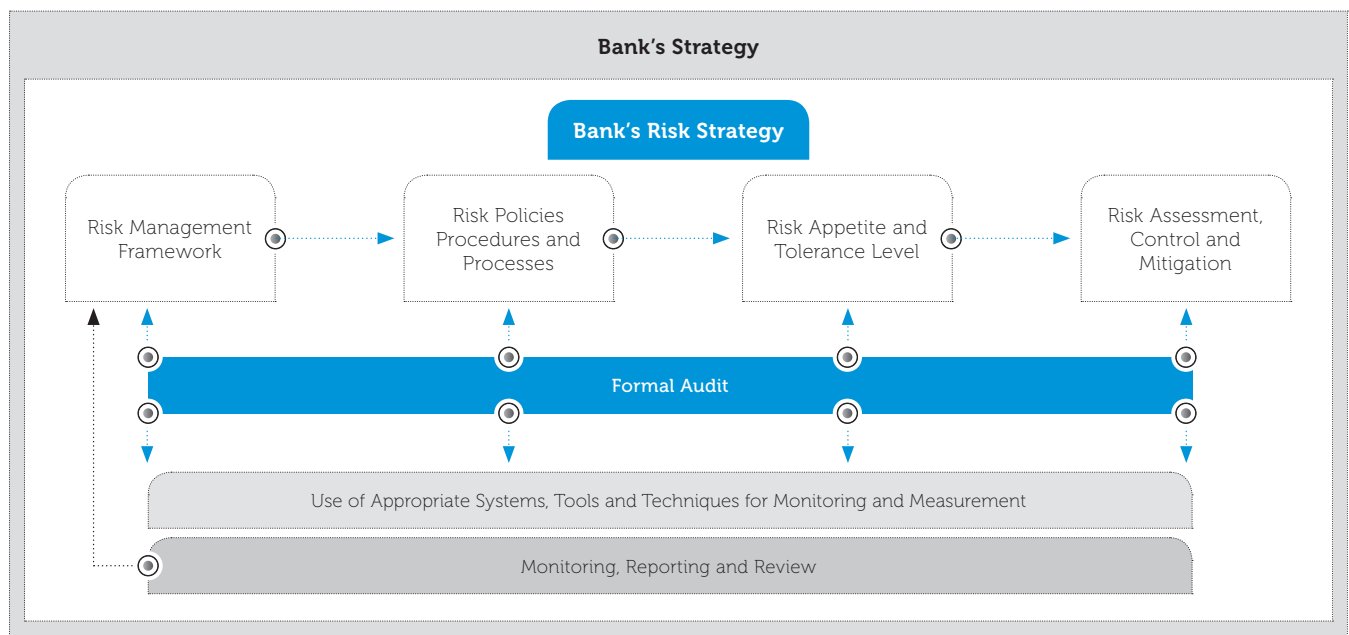
	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Amounts used as the numerator:				
Total equity attributable to equity holders of the Bank	61,446,228	52,968,420	60,943,999	52,577,000
Number of ordinary shares used as the denominator:				
Total number of shares	849,079,041	833,487,980	849,079,041	833,487,980
Net assets value per share	72.37	63.55	71.78	63.08

56. Financial Risk Management

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.

	Page
Credit risk:	
(A) Analysis of credit quality	366
(B) Credit concentration risk	367
(C) Collateral held and their financial effect	369
(D) Impaired loans and receivables	370
Market risk	370
Liquidity risk	373
Capital management	373

Bank's Financial Risk Management Framework



Notes to the Financial Statements

The Risk Management Framework of the Bank has been optimised through the application and the embedment of the risk management processes including risk identification, risk assessment/risk measurement, risk monitoring, risk mitigation and risk control.

By using appropriate systems, tools and procedures, all the components of the risk framework are subject to continuous monitoring and review, including formal audits to ensure integrity of the overall risk management function.

The Bank identifies the following key financial risks in its business operations:

1. Credit Risk
2. Market Risk
3. Liquidity Risk
4. Capital Management

Key Risk Area	Risk Management Process
<p>Credit Risk</p>	<p>Apart from the risk identification, risk evaluation and risk mitigations adopted by the Lending Officers as the 'risk owners', Credit Risk is managed at the Bank in two fronts. Pre disbursement evaluation of credit proposals above a certain threshold level is employed to provide an independent insight to the credit proposals. Risk approval is being provided with independent assessment on the proposal to facilitate approving authority to have a broader understanding of the credit proposal prior to sanctioning.</p> <p>Post disbursement Credit Risk Reviews are being carried out to ensure adherence to Credit Policy and Lending Guidelines of the Bank in general and to ascertain adoption of uniform practices throughout the Bank with a view to maintain and preserve the quality of credit portfolios while inculcating a sound credit culture.</p>
<p>Market Risk/Liquidity Risk</p>	<p>Middle Office and Market Risk Management Unit of the Bank is entrusted with independently identifying risk factors associated with the market volatilities in addition to the roles played by the Treasury Front Office as the primary 'risk owners'. The management process includes monitoring and reporting in addition to carrying out scenario analysis/stress testing on market factors to facilitate proactive decision making. Liquidity risk too is managed by the Bank under the supervision of the ALCO, by using threshold levels and Management Action Triggers through policy framework supported by a robust MIS.</p>
<p>Capital Management</p>	<p>The Bank realises the importance of managing capital as it restricts the business growth unlike any other commercial organisation. All large credit proposals are evaluated with the capital charge and lending decisions are taken on the basis of sufficient return on capital. Even the expansion projects in terms of new buildings and software purchases are evaluated against sufficient return on capital. The Bank always maintains a relatively higher level of free capital which will be utilised for lending activities thereby improving the net interest income of the Bank. Further, the Bank also maintains an effective balance between dividend payment and retention of profits ensuring sufficient plough back of profits.</p>

Notes to the Financial Statements

Credit Risk:

The Bank strives to optimise a well structured credit risk management process through assessing, evaluating, pricing, mitigating, monitoring and managing credit risk in a consistent manner. Bank's general policy is to assume credit exposures with short to medium-term maturities. This reduces the overall credit risk in the portfolios to a great extent.

(A) Analysis of Credit Quality:**(i) Loans and Receivables**

The table below sets out the information about the credit quality of financial assets and the allowance for impairment held by the Bank against those assets.

Credit Quality Analysis	Internal Risk Grade	Loans and Receivables to Other Customers		Loans and Receivables to Banks	
		2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Maximum exposure to credit risk					
Carrying amount		418,959,675	372,915,081	546,270	628,760
Amount committed/guaranteed		418,959,675	372,915,081	546,270	628,760
At amortised cost					
Risk grading:					
Very Good - Average	0-6 & G	414,550,983	370,794,319	546,270	628,760
Special mention	S	2,251,920	3,149,428	-	-
Substandard	7	3,208,215	1,738,362	-	-
Doubtful	8	2,192,363	1,043,926	-	-
Loss	9	12,543,359	9,690,273	-	-
Total gross amount		434,746,840	386,416,308	546,270	628,760
Allowance for impairment		15,787,165	13,501,227	-	-
Net carrying amount		418,959,675	372,915,081	546,270	628,760

(ii) Held-for-Trading Financial Instruments

The trading portfolio of the Bank's Sri Lankan operations mainly consists of Government Securities (Rs. 4.06 Bn.), selective trading being carried out on other marketable securities such as Debentures and shares. Distribution of such trading portfolio based on Fitch Rating or equivalent ratings as at December 31, 2013 is given below:

Fitch Rating Nomenclature or Equivalent	Trading Portfolio - Shares as at December 31, 2013 Rs. '000
A	35,656
AA-	4,310
AAA	73,312
Unrated	221,129
Total	334,407

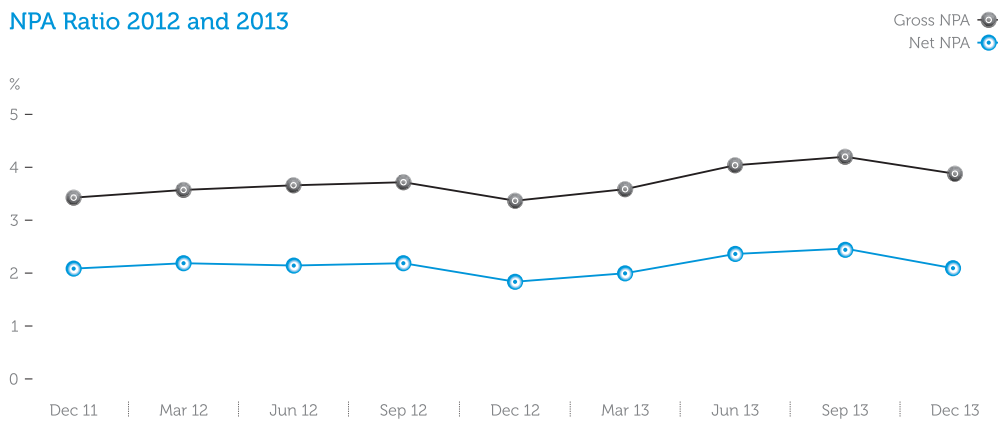
The Bank does not have any counterparty credit exposure arising from derivative transactions.

Notes to the Financial Statements

(iii) Non-Performing Asset Ratio

The distribution of the credit portfolio based on the internal rating system adopted by the Bank indicates that as of December 31, 2013, 96% of the loans and receivables are rated 0-6 (i.e. Average/Generally Accepted) or above, indicating a healthy Loans and Receivables portfolio.

NPA percentage movement which depicts the quality of credit portfolio of the Bank over the past 2-year period is given below:

NPA Ratio 2012 and 2013

NPA ratios are calculated on gross and net basis. Gross NPA advances including interest receivable on NPA and net of interest in suspense forms the numerator (considering the loans and receivables rated risk gradings 7,8,9) of the gross NPA ratio. Net NPA is arrived after discounting the specific provision from the gross NPA as calculated above to form the numerator of the Net NPA ratio.

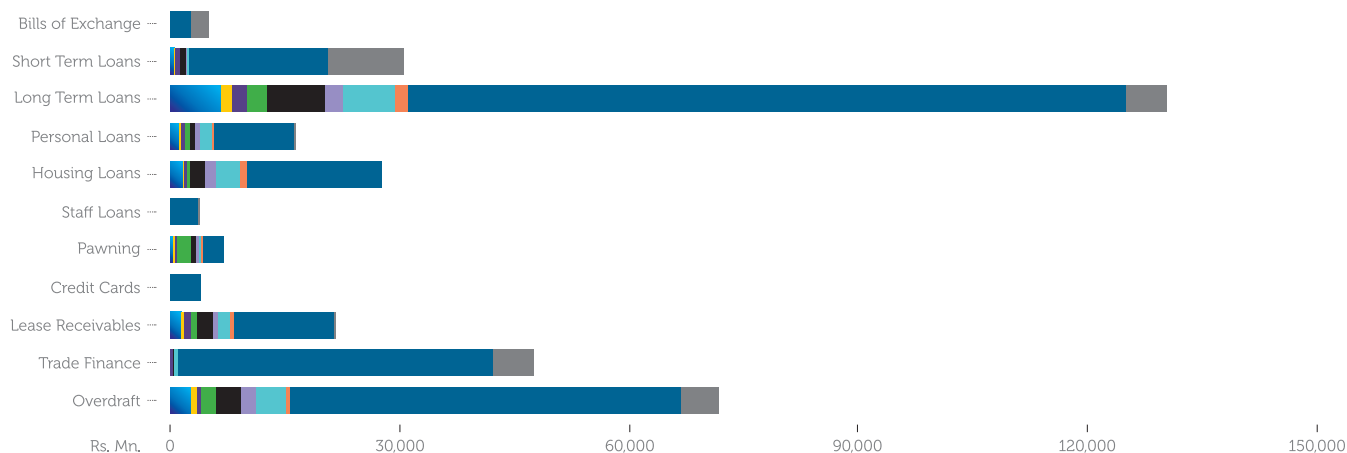
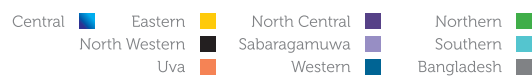
Denominator of both ratios consists of total advances including the interest receivable net of interest in suspense.

(B) Credit Concentration Risk:

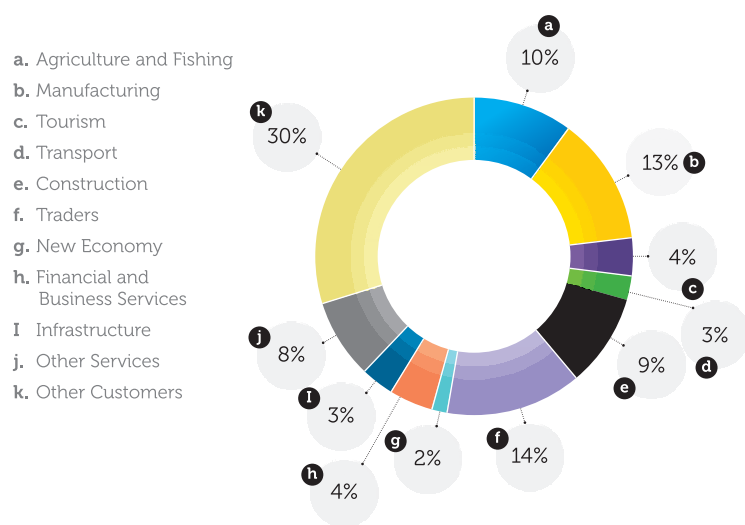
The Bank considers maintaining credit concentration risk at appropriate levels as a key component of its overall credit risk management process.

The Bank's loan portfolio spreads over a well diversified range of products with different risk profiles. Even though the long-term loans (loans having remaining term to maturity periods over 12 months) appear to be the major part of the portfolio, these loans are granted to a diversified pool of borrowers across different industry segments thus reducing potential concentration risks. The majority of such loans have remaining term to maturity periods less than 5 years. Although Western Province is vested with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the Branches and Corporate Banking Division situated in the Western Province thus reflecting a fairly diversified geographical concentration on such borrowers.

Geographical Distribution of Loans and Receivables Portfolio (Net of Individual Impairment) by Product Type-Wise Breakdown as at December 31, 2013



Distribution of Loans and Receivables by Industry

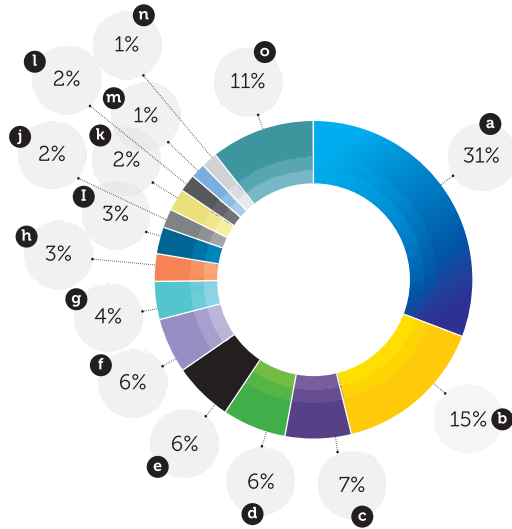


Notes to the Financial Statements

Country-wise Exposure

Concentration of Cross-Border Exposure*
Country-wise break down as at December 31, 2013
 (Sri Lanka and Bangladesh Operations)

- a. Maldives **
- b. USA
- c. India
- d. UK
- e. Bangladesh
- f. Singapore
- g. France
- h. UAE
- i. Japan
- j. Uganda
- k. Germany
- l. Kenya
- m. Russia
- n. Australia
- o. Others



*Excluding the investment in Bangladesh Operations
 **Maldives includes direct lending

(C) Collateral Held and Their Financial Effect

As a general principle, the Bank endeavours to obtain adequate collateral to secure its credit portfolios. The Bank focuses on quality and realisability of such collateral to mitigate potential credit losses. A reasonable margin of safety is maintained in collateral values which are reviewed at frequent intervals.

Cash, marketable securities and property mortgages (residential and commercial) account for a major portion of the collateral portfolios. Out of these collaterals, eligible financial collateral and mitigants in computing Basel II related credit risk exposures are given below:

Eligible Financial Collaterals/Mitigants	Value of Collateral (Rs. Bn.)
Cash	34.4
Gold	6.5
Government Securities	1.6
Residential Properties	31.6
Shares (Rated)	9.1
Guarantees (Rated) - Corporate/Bank/Government	5.4
Provident Fund Balances	0.1
Total	88.7

The Bank always strives to adopt prudential norms in deciding the Loan to Value (LTV) ratio when collaterals are considered as a means of credit risk mitigatory measure to safeguard the interest of the Bank in an eventuality.

Forced Sale Value (FSV) of the assets obtained by the Bank by taking possession of collateral held as security against loans and advances and held in possession as at December 31, 2013 is Rs. 579.7 Mn. Out of these, properties having FSV of Rs. 91.6 Mn. are readily available for disposal free of legal encumbrances.

Notes to the Financial Statements

(D) Impaired Loans and Receivables

The table below sets out reconciliation of changes in the carrying amount of individually impaired loans and receivables to customers.

	2013 Rs. '000	2012 Rs. '000
Impaired loans and advances to other customers at January 1,	2,569,121	2,108,544
Classified as impaired during the year	2,238,689	1,649,436
Change in provision for impairment	(3,021,394)	(1,296,697)
Net payment, write-off and recoveries and other movement during the year	811,958	107,837
Impaired loans and advances to other customers at December 31,	2,598,374	2,569,121

For details of impairment for loans and receivables to customers, see Note 26.2 on page 318.

Set out below is an analysis of the gross (Net of provision for impairment) amounts of individually impaired loans and receivables by risk grade.

	Internal Risk Grade	Loans and Receivables to Customers	
		Gross Rs. '000	Net Rs. '000
December 31, 2013			
Risk grading:			
Very Good - Average	0-6 & G	653,836	297,306
Special mention	S	215,859	125,664
Substandard	7	1,032,094	752,983
Doubtful	8	618,735	425,823
Loss	9	4,282,500	996,597
Total		6,803,024	2,598,374
December 31, 2012			
Risk grading:			
Very Good - Average	0-6 & G	1,860,856	1,011,367
Special mention	S	369,610	166,913
Substandard	7	168,638	94,934
Doubtful	8	212,308	142,694
Loss	9	3,359,873	1,153,213
Total		5,971,285	2,569,121

Market Risk:

Market risk encompasses Interest Rate Risk, Foreign Exchange Risk, Commodity Risk and Equity Risk that may arise as a result of change in the financial market conditions such as change in interest rates, change in Foreign Exchange rates, change in commodity prices or change in share prices.

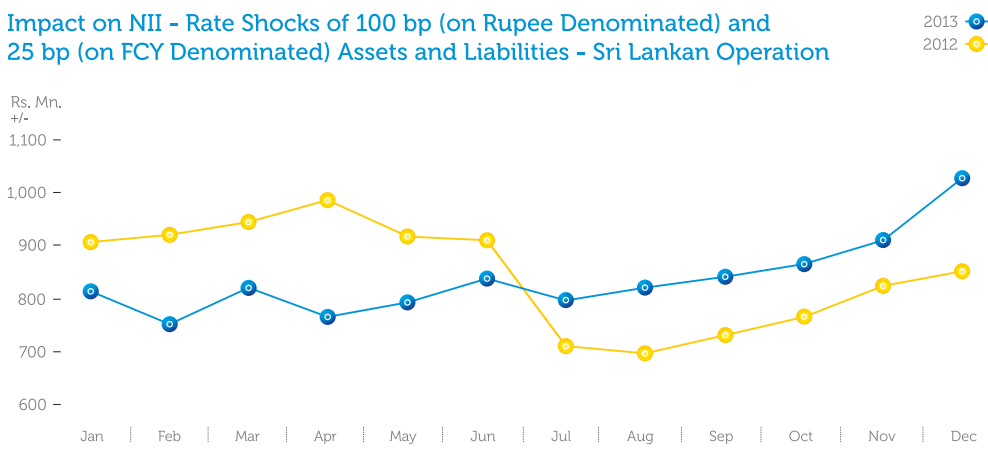
Out of the risks listed above under market risk, Interest Rate Risk is considered as the major risk in this category followed by the Foreign Exchange Risk due to the inherent nature of the Statement of Financial Position of the Bank. As the Bank's equity portfolio is nominal compared to the total market risk exposures and due to the fact that the Bank refrains from trading in commodities, these two risk types do not significantly expose the Bank to uncertainties in its earnings and/or capital.

Notes to the Financial Statements

The Bank carries a trading book mainly consisting of Government Securities and therefore volatilities in interest rates could impact the profitability of the Bank. However, processes are in place to independently mark to market these portfolios on a daily basis to make timely decisions to minimise any large adverse impact.

(A) Sensitivity Analysis

The graph below depicts the sensitivity analysis carried out on the Statement of Financial Position of the Sri Lankan Operation of the Bank (including Trading Book) on the change of interest rate right across the market in a hypothetical situation. The Bank could withstand this kind of impact arising out of sudden interest rate movement due to the availability of large Current Account and Savings (CASA) base and having a healthy asset and liability mix which could be re-priced. The sensitivity analysis factors in re-pricing terms on floating rate assets and liabilities to ensure rate shock reflects the correct moment in time that the relevant instrument will get impacted. The time horizon of the study is restricted to a 12 month period. The Bank undertakes varying degrees of such rate shocks and evaluates with the established limit structures to ensure that the risk exposures are within the risk appetite of the Bank as compared to the anticipated market rate movements.

Impact on NII - Rate Shocks of 100 bp (on Rupee Denominated) and 25 bp (on FCY Denominated) Assets and Liabilities - Sri Lankan Operation


Sensitivity to Projected Net Interest Income	100 bp Parallel Increase/ Decrease (*)	
	2013 Rs. Mn.	2012 Rs. Mn.
As at December 31,	+/- 1,027.93	+/- 850.98
Average for the year	+/- 836.99	+/- 840.30
Maximum for the year	+/- 1,027.93	+/- 945.46
Minimum for the year	+/- 751.33	+/- 687.95

(*) Parallel increase in rates would have a positive impact on the earnings while a parallel decrease negatively affecting the earnings.

In arriving at the above results, the Bank considered items such as capital, reserves, bills payable, inter branch adjustments, staff loans, provisions and interest in suspense as rate non-sensitive. Similarly cash, current accounts, fixed assets too are considered to be non-rate sensitive.

Notes to the Financial Statements

(B) Exposure to Interest Rate Risk - Non-Trading Portfolio

Interest rate gap position of the non-trading portfolio of the Bank is given below:

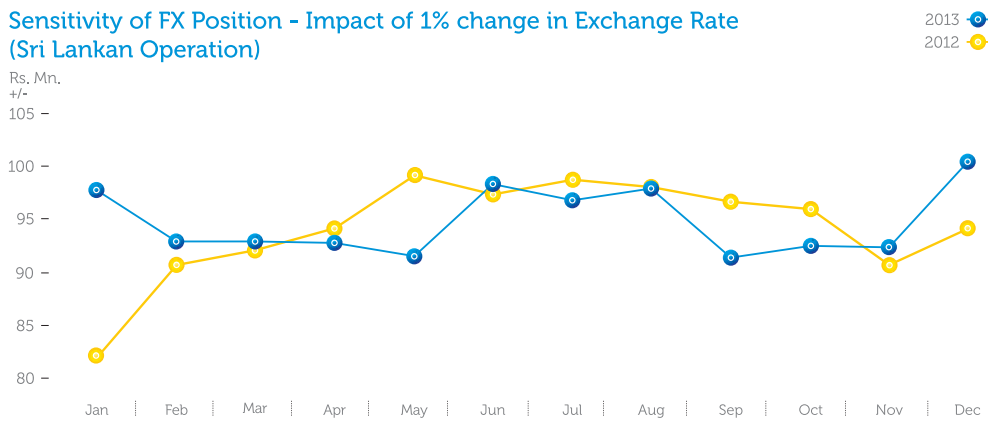
Bank

<i>As at December 31,</i>	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 31.12.2013 Rs. '000
Assets						
Interest earning assets:						
Cash and cash equivalents	135,148	–	–	–	–	135,148
Loans and receivables to banks	–	–	–	–	–	–
Loans and receivables to other customers	178,953,027	60,786,281	115,479,366	43,096,409	20,644,592	418,959,675
Financial investments - Available-for-sale	33,508,356	67,404,741	8,962,927	10,828,935	2,994,403	123,699,362
Total interest earning assets as at December 31, 2013	212,596,531	128,191,022	124,442,293	53,925,344	23,638,995	542,794,185
Liabilities						
Interest bearing liabilities:						
Due to banks	9,575,006	2,620,000	–	–	–	12,195,006
Due to other customers	268,795,021	124,398,156	8,158,766	6,461,491	7,568,542	415,381,976
Debt securities issued	–	–	–	–	–	–
Subordinated liabilities	132,385	126,802	972,660	–	9,825,000	11,056,847
Total Interest bearing liabilities as at December 31, 2013	278,502,412	127,144,958	9,131,426	6,461,491	17,393,542	438,633,829
	(65,905,881)	1,046,064	115,310,867	47,463,853	6,245,453	104,160,356
As at December 31,						
	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 31.12.2012 Rs. '000
Assets						
Interest earning assets:						
Cash and cash equivalents	5,169,379	126,486	–	–	–	5,295,865
Loans and receivables to banks	–	95,000	–	–	–	95,000
Loans and receivables to other customers	156,622,403	67,596,689	98,596,707	33,821,496	16,277,786	372,915,081
Financial investments - Available-for-sale	23,233,313	20,980,372	9,965,095	2,417,398	1,327,596	57,923,774
Total interest earning assets as at December 31, 2012	185,025,095	88,798,547	108,561,802	36,238,894	17,605,382	436,229,720
Liabilities						
Interest bearing liabilities:						
Due to banks	1,354,651	–	–	–	–	1,354,651
Due to other customers	240,404,347	99,316,446	5,906,406	5,837,521	7,083,119	358,547,839
Debt securities issued	–	–	–	–	–	–
Subordinated liabilities	132,806	550	–	972,660	–	1,106,016
Total Interest bearing liabilities as at December 31, 2012	241,891,804	99,316,996	5,906,406	6,810,181	7,083,119	361,008,506
	(56,866,709)	(10,518,449)	102,655,396	29,428,713	10,522,263	75,221,214

Notes to the Financial Statements

(C) Foreign Exchange Risk

Foreign Exchange Risk of the Bank arising out of Net Open Position (NOP) of foreign currency denominated assets and liabilities is evaluated against thresholds established according to the risk appetite of the Bank after carrying out sensitivity analysis of change in 1% of US \$ rate as depicted below:



The Bank is in the process of embracing VaR computations for Fixed Income, Foreign Exchange Position and Equities with the implementation of the market risk software solution to embed more robust risk assessment in quantifying and predicting with the ultimate objective of estimating Economic Capital required for absorbing unexpected losses over a certain time horizon at a given confidence interval.

Liquidity Risk

As a financial intermediary, it is important for the Bank to manage liquidity risk on a day-to-day basis through a robust reporting and limit monitoring framework. In addition to the daily limit monitoring and Management Information System supported decision-making process, the Bank makes use of rigorous stress testing to evaluate its resilience to potential liquidity stress scenarios to facilitate proactive decision-making with a view to avoiding unforeseen adverse surprises in relation to liquidity. Contingency funding plans are in place to facilitate smooth functioning of the banking operation even in an unlikely event of a severe liquidity constraint.

Maturity Analysis of the Bank (Please refer Note 50 on Maturity Analysis given on page 350).

Capital Management

Capital is a scarce resource for any organisation. For a bank, it has a more broad meaning as capital restricts the expansion of the business unlike any other commercial organisation. The worldwide accepted parameter for measurement of capital is the Capital Adequacy Ratio (CAR) calculated based on Guidelines issued by the Basel Committee.

Historically the Bank has been maintaining a relatively higher CAR when compared to other commercial banks. The unhindered growth of the Bank partly would have contributed to the higher level of capital maintained by the Bank. Further, the Bank deliberately maintains part of the capital in US \$ to mitigate the adverse impact of depreciation of the local currency as well as to facilitate the overseas expansion plans.

The Bank has a well structured Corporate Planning and Budgeting procedure. Large capital budgeting decisions are arrived at after evaluating the impact of such decisions on the capital position of the Bank.

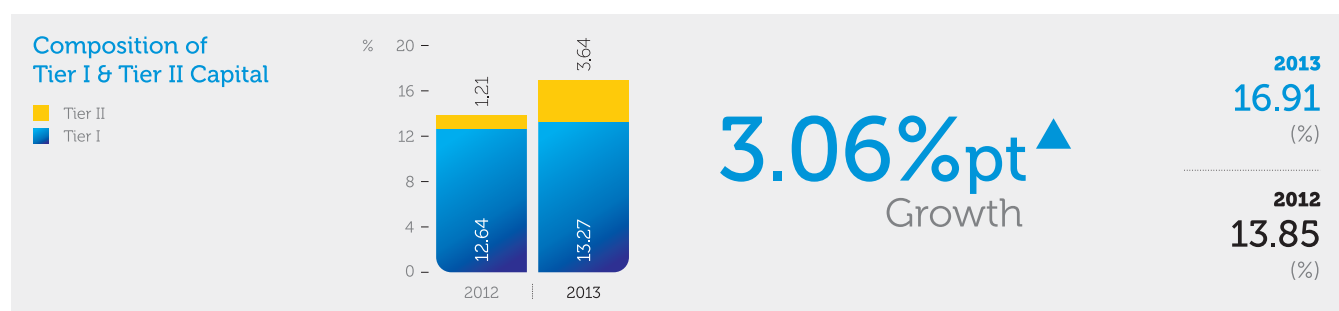
Notes to the Financial Statements

The Bank always strives to achieve an optimum balance between Tier I and Tier II capital. In 2013, the Bank raised a subordinated liability of US \$ 75.0 Mn. from IFC which would qualify to be treated under Tier II capital of the Bank. Due to the above mentioned efforts, the Bank was able to maintain a CAR of approximately 17%, one of the highest in the banking industry in Sri Lanka today.

	BANK	
	2013 Rs. '000	2012 Rs. '000
Computation of Capital Base		
Tier I: Core Capital		
Paid-up ordinary shares/common stock/assigned capital	19,586,813	18,008,797
Statutory reserve fund	3,768,094	3,245,819
General and other reserves/published retained profits/(accumulated losses)	28,595,196	24,311,605
Less:		
Other intangible assets	(467,594)	(497,038)
Advances granted to employees of the Bank for the purchase of shares of the Bank	(1,122)	(1,548)
50% investments in the capital of other banks and financial institutions	(402)	(402)
Total eligible core capital (Tier I Capital)	51,480,986	45,067,233
Tier II: Supplementary capital		
Revaluation reserves (as approved by CBSL)	2,034,231	2,034,231
General provisions	1,656,465	1,500,098
Approved subordinated term debt	10,408,596	778,238
Less:		
50% investments in the capital of other banks and financial institutions	(402)	(402)
Eligible supplementary capital (Tier II capital)	14,098,890	4,312,165
Total capital base	65,579,876	49,379,398
Computation of Ratios		
Total risk-weighted assets (RWA)		
Total risk-weighted assets for credit risk	341,584,473	318,906,288
Total risk-weighted assets market risk	5,312,861	3,082,784
Total risk-weighted assets operational risk	40,989,114	34,629,967
Sub total	387,886,447	356,619,039
Minimum Capital Charge		
Minimum capital charge for credit risk	34,158,447	31,890,629
Minimum capital charge for market risk	531,286	308,278
Minimum capital charge for operational risk	4,098,911	3,462,997
Sub total	38,788,645	35,661,904
Total Capital Available to Meet the Capital Charge for Credit Risk		
Total eligible core capital (Tier I capital)	51,480,986	45,067,233
Total eligible supplementary capital (Tier II capital)	14,098,890	4,312,165
Total capital base	65,579,876	49,379,398

Notes to the Financial Statements

	BANK	
	2013 Rs. '000	2012 Rs. '000
Core Capital Ratio (minimum requirement 5%)		
Total eligible core capital (Tier I capital)	51,480,986	45,067,233
Total risk-weighted assets	387,886,447	356,619,038
	13.27%	12.64%
Total Capital Ratio (minimum requirement 10%)		
Total capital base	65,579,876	49,379,398
Total risk-weighted assets	387,886,447	356,619,039
	16.91%	13.85%

**Fair values of Financial Assets not carried at fair value**

Treatment for fair value of financial assets not carried at fair value is given in the Note 19.1 on page 309.

57. Non-Cash Items Included in Profit Before Tax

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Depreciation of property, plant & equipment	717,583	942,765	786,024	859,675
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	149,347	174,104	149,291	174,055
Impairment losses on loans and advances	4,600,332	3,158,291	4,600,332	3,158,291
Other impairment	-	-	26,993	38,469
Contributions to defined benefit plans - Unfunded schemes	165,791	228,793	160,113	224,390
Exchange rate variances on property, plant & equipment	(9,091)	(26,675)	(7,607)	(23,939)
Exchange rate variances on intangible assets	(1,011)	(2,794)	(397)	(1,646)
Exchange rate variances on defined benefit plans	7,294	9,509	7,294	9,509
Exchange rate variances on associates	-	(23)	-	-
Total	5,631,697	4,485,422	5,722,985	4,439,746

Notes to the Financial Statements

58. Change in Operating Assets

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Net (increase)/decrease in derivative financial instruments	(513,401)	1,311,483	(513,401)	1,311,483
Net (increase)/decrease in balances with Central Banks	263,897	825,080	263,897	825,080
Net (increase)/decrease in placements with banks	(12,031,156)	4,488,607	(12,031,156)	4,488,607
Net (increase)/decrease in other financial assets held-for-trading	337,948	(376,900)	337,948	(376,900)
Net (increase)/decrease in loans and receivables to banks	(82,490)	48,602	(82,490)	48,602
Net (increase)/decrease in loans and receivables to customers	49,661,215	62,160,479	49,618,931	62,059,254
Net (increase)/decrease in financial investments available-for-sale	64,205,998	(4,071,639)	64,205,998	(4,071,639)
Net (increase)/decrease in other assets	357,539	1,888,846	363,768	1,903,219
Total	102,199,550	66,274,558	102,163,495	66,187,706

59. Change in Operating Liabilities

	GROUP		BANK	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Net increase/(decrease) in due to banks	9,300,274	(6,810,540)	9,300,274	(6,810,540)
Net increase/(decrease) in derivative financial instruments	1,327,625	(350,880)	1,327,625	(350,880)
Net increase/(decrease) in deposits from banks, customers and debt securities issued	60,530,264	66,871,054	60,541,375	66,856,800
Net increase/(decrease) in other borrowings	6,561,938	(1,889,060)	6,590,356	(1,889,943)
Net increase/(decrease) in other provisions	-	1,874	-	1,874
Net increase/(decrease) in other liabilities	(685,678)	2,000,842	(685,564)	1,999,373
Net increase/(decrease) in due to subsidiaries	-	-	(6,578)	(7,470)
Total	77,034,423	59,823,290	77,067,488	59,799,214

Annexes

SCAN to view
the HTML web version of Annexes
<http://combank2013.annualreports.lk/ip/annexes.html>



Independent Assurance Report to Commercial Bank of Ceylon PLC	378
Key Sustainability Reporting Indicators ('KPI')	379
Independent Assurance Statement on Non-Financial Reporting	380
GRI Content Index: 'In Accordance' - Core	383
Group Structure	390
Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks	391
Income Statement (US \$)	396
Statement of Financial Position (US \$)	397
Decade at a Glance	398
Events - 2013	402
Awards and Accolades	404
Historical Landmarks	405
Correspondent Banks	406
Glossary of Financial and Banking Terms	408
Alphabetical Index	410
Notice of Meeting	411
Circular to the Shareholders	413
Form of Proxy (Voting Shareholders)	Enclosed
Form of Proxy (Non-Voting Shareholders)	
Investor Feedback Form	
Corporate Information	IBC

Independent Assurance Report to Commercial Bank of Ceylon PLC



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Introduction

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ('the Bank') to provide assurance on the following elements of the Sustainability Reporting incorporated in this Integrated Annual Report 2013 ('Report') for the year ended December 31, 2013:

- Reasonable assurance on the data on financial performance, as reported on pages 48 to 51 of this Report.
- Limited assurance on Key Sustainability Reporting Indicators ('KPI') specified on page 379 of this Report.

Managements' Responsibilities and the Criteria Applied

Management is responsible for the preparation and presentation of the Report in accordance with this GRI Sustainability Reporting Guidelines as described in pages 28 to 29 of this Report and the information and assertions contained within it: for determining the Bank's objectives in respect of sustainable development performance and reporting, including the identification of stakeholder and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Our Responsibilities and Compliance with SLSAE 3000

Our responsibility is to carry out a reasonable and limited assurance engagement and

to express a conclusion based on the work performed. We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by The Institute of Chartered Accountants of Sri Lanka.

This Standard requires amongst others that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable and limited assurance about whether the Report is free of material misstatement.

Summary of Work Performed

Data on financial performance

A reasonable assurance engagement on financial performance reported on pages 48 to 51 of this Report involves verification that they were properly derived from the Audited Financial Statements of the Bank for the year ended December 31, 2013.

Key Sustainability Reporting Indicators

A limited assurance engagement on Key Sustainability Reporting Indicators in this Report consists of making inquiries, primarily of persons responsible for the preparation of information presented in this Report, and applying analytical and other

evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of the Bank's processes for determining the material issues for the Bank's key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in this Report.
- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in this Report.
- Comparing the information presented in this Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in this Report.
- Reading the information presented in this Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of the Bank.
- Visits to selected project sites and branches to review systems and data.

Our Conclusion

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

- The data on financial performance, as reported on pages 48 to 51 of this Report 2013 are properly derived from the Financial Statements of the Bank for the year ended December 31, 2013 for which the Independent Auditors have issued an unqualified audit opinion dated February 24, 2014 on page 262 of this Report.
- Nothing has come to our attention that causes us to believe that the Key Sustainability Reporting Indicators presented in this Report are not fairly presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines as described in pages 28 to 29 of this Report.

Our assurance report is made solely to Commercial Bank of Ceylon PLC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Bank those matters we have been engaged to state in this assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than Commercial Bank of Ceylon PLC for our work, for this assurance report, or for the conclusions we have reached.

Chartered Accountants
Colombo
February 24, 2014

Key Sustainability Reporting Indicators ('KPI')

Key Sustainability Areas	Key Performance Indicators Verified	Page No.	
Economic	Direct economic value generated and distributed	54	
	Economic Value Added (EVA)	122	
	Key financial ratios	52-53	
	Strengthened the Tier II capital base by 10-year subordinated term debt of US \$ 75 Mn. from the International Finance Corporation	53	
	Taxes paid to Department of Inland Revenue	72	
	Notional tax credit claimed on investment in Government Treasury Bills and Bonds	73	
Environment	Number of ATMs purchases during the year conforming to RoHS (Restriction of Hazardous Substances) - 57	113	
	Number of energy efficient equipment replaces during the year (612 Personal computers, 208 validators and 85 Laser Printers)	113	
	Reduction of energy consumption	112	
Labour Practice and Decent Work	Full time part time and outsource staff analysis	60	
	Total number of employees by employment contract and gender	61	
	Total workforce by region and gender	62	
	Composition of Main Board and Board Sub Committees as at end 2013	145	
	Composition of the Board and employees by employee category	65	
	Total number and rates of new employee hires and employee turnover by age group and gender - Sri Lanka	63	
	Age analysis of employees by gender	62	
	Service analysis of employees as at December 31	61	
	Return to work and retention rate after maternity leave	119	
	Employee related expenses.	67	
Average hours of training per year, per employee by gender, and category	116, 117		
Society	Number of new branches opened during the year - 9	57	
	Number of ATMs established during the year - 32	57	
	Access points in low-populated or economically disadvantaged areas by type	76-77	
	Bank's contribution to CSR trust during the year - Rs. 50 Mn.	78	
	Number of CSR projects completed during the year:	78	
	Project Name	No. of Projects Completed	} 107-109
	IT Labs	52	
	English Language Education	02	
	Health Care	11	
	Regional Projects	19	
Community	06		
Heritage and Cultural	01		
Undergraduate Scholarship Scheme	01		
Number of scholarships granted for university students during the year - 50			
Product Responsibility	Products designed to benefit society	77	
	Amount disbursed to two wind power projects. (Renewable energy generation projects) - Rs. 634.92 Mn.	111	
	Number of customer satisfaction surveys conducted during the year - 01	94	
	Growth in number of deposits and advances	7	

Independent Assurance Statement on Non-Financial Reporting



INDEPENDENT ASSURANCE STATEMENT ON NON-FINANCIAL REPORTING

Introduction

DNV GL represented by DNV Business Assurance Lanka (Private) Limited has been commissioned by the management of Commercial Bank of Ceylon PLC ('Commercial Bank' or 'the Bank') to carry out an independent assurance engagement (Type 2, Moderate level) for the non-financial - qualitative and quantitative information (sustainability performance) prepared 'in accordance - Core' option based on GRI G4 guidelines and reported in Commercial Bank's printed Annual Report - 2013 ('the Report'). This engagement focused on verification of non-financial - qualitative and quantitative information (sustainability performance) disclosed in the Report, and underlying management system and reporting processes. The engagement was carried out against AccountAbility's AA 1000 Assurance Standard 2008 (AA 1000AS), the DNV GL Protocol for Verification of Sustainability Reporting ('VeriSustain' - www.dnvg.com/cr; available on request) including confirmation of 'in accordance - Core' reporting requirements and adherence to reporting principles and standard disclosures of the Global Reporting Initiative G4 Sustainability Reporting Guidelines (GRI G4).

The intended users of this assurance statement are the management and readers of the non-financial - qualitative and quantitative information (sustainability performance) reported in Commercial Bank's printed Annual Report - 2013. The Management of Commercial Bank is responsible for all information provided in the Report as well as the

processes for collecting, analyzing and reporting the information presented in the Report. Our responsibility in performing this work is regarding the verification of the non-financial - qualitative and quantitative information (sustainability performance) reported in Commercial Bank's printed Annual Report - 2013 only, in accordance with the scope of work agreed with the management of the Commercial Bank. The assurance engagement is based on the assumption that the data and information provided to us is complete, sufficient and authentic. We disclaim any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this assurance statement. Our assurance engagement was planned and carried out in January - February - 2014.

Scope, Boundary and Limitations of Assurance

The scope of assurance included the review of Economic, Environment and Social information in the Report. In particular the assurance engagement included:

- The verification of the qualitative and quantitative sustainability performance reported in the Annual Report prepared by the Commercial Bank based on the GRI G4 guidelines, covering economic, environmental and social performance for the activities undertaken by Commercial Bank over the reporting period January 1, 2013 to December 31, 2013 and reported in this Annual Report;
- Review of the policies, initiatives, practices and performance described in the non-financial - qualitative and quantitative information (sustainability performance) reported in Commercial Bank's printed Annual Report - 2013 as well as references made in the Report;
- Evaluation of the disclosed information in the Report, both general and specific standard disclosures 'in accordance - Core' reporting requirements covering the systems and the processes the Commercial Bank has in place for adherence to reporting principles set out in the Global Reporting Initiative Sustainability Reporting Guidelines 2013 (GRI G4);
- Evaluation with respect to the AccountAbility principles and specified performance information, for a Type 2, moderate level of assurance, in accordance with the requirements of AA1000AS (2008):
 - information relating to the issues, responses, performance data, case studies and underlying systems for the management of such information and data;
 - information relating to materiality assessment and stakeholder engagement processes;
- The sustainability disclosures fulfils the criterion related to GRI G4 - 'in accordance - Core' as declared by the Commercial Bank.

The reporting aspect boundary is based on the internal and external materiality assessment covering the banking and associated operations in Sri Lanka and Bangladesh,

including the selected supply chain activities as set out in the Report. During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement. The Report does not include performance data and information related to the activities of Commercial Bank's three subsidiaries - Commercial Development Co. PLC, ONEzero Co. Ltd. and Commex Sri Lanka SRL - and the operations of its two associates, Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt.) Ltd. as the results of their operations are not significant (<1% revenue) compared to the overall results of the group. No external stakeholders were interviewed as part of this Assurance engagement.

Verification Methodology

This assurance engagement was planned and carried out in accordance with the AA1000AS (2008) i.e. Type 2, Moderate and the DNV-GL Protocol for Verification of Sustainability Reporting ('VeriSustain'). The Report has been evaluated against the following criteria:

- Adherence to the principles of Inclusivity, Materiality and Responsiveness, as well as Reliability of specified sustainability performance information, as set out in the AA1000AS (2008);
- Application of the principle of materiality as per GRI G4;
- Adherence to additional principles of Completeness and Neutrality, as set out in DNV-GL's Protocol;
- The GRI G4 requirements - "in accordance - Core".

Independent Assurance Statement on Non-Financial Reporting



DNV·GL

During the assurance engagement, we have taken a risk-based approach, meaning that we concentrated our verification efforts more on the issues of high material relevance to Commercial Bank's business and its stakeholders. We have verified the statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls. In doing so, we have:

- Reviewed the approach to stakeholder engagement and its materiality determination process;
- Verified the sustainability-related statements and claims made in the Report and assessed the robustness of the data management system, information flow and controls;
- Examined and reviewed documents, data and other information made available by the Commercial Bank and visited the Head office at Colombo and two branch offices - City office and Ward Place at Colombo;
- Conducted interviews with key representatives including data owners and decision-makers from different functions of the Commercial Bank;
- Performed sample-based reviews of the mechanisms for implementing the sustainability related policies, as described in the Report;
- Performed sample-based checks of the processes for generating, gathering and managing the quantitative data and qualitative information included in the Report.

Conclusions

In our opinion, based on the scope of this assurance engagement, the non-financial - qualitative and quantitative information (sustainability performance) reported in Commercial Bank's printed Annual Report - 2013 and referenced information provides a fair representation of the sustainability related strategies, management system and performance and meets the general content and quality requirements of the GRI G4 i.e.,

- **General Standard Disclosure:** We reviewed the general standard disclosures reported in this Report and we are of the opinion that the reported information generally meets the reporting requirement for 'in accordance - Core' based on GRI G4.
- **Specific Standard Disclosure:** We reviewed the specific standard disclosures reported in this Report and we are of the opinion that the reported information generally meets the reporting requirement for 'in accordance - Core' based on GRI G4 and financial sector guidance covering generic DMA and performance indicator for identified material aspects as below:

ECONOMIC

- Economic Performance - G4-EC1;
- Market Presence - G4-EC5, G4-EC6;
- Indirect Economic Impact - G4-EC7;

ENVIRONMENT

- Energy - G4-EN6;
- Effluents and Waste - G4-EN23;
- Products and Services - G4-EN27;
- Supplier Environment Assessment - G4-EN32;

SOCIAL

LABOUR PRACTICE AND DECENT WORK

- Employment - G4-LA1, G4-LA2, G4-LA3;
- Labour/Management Relations - G4-LA4;
- Occupational Health and Safety - G4-LA8;
- Training and Education - G4-LA9, G4-LA11;
- Diversity and Equal Opportunity - G4-LA12;
- Equal Remuneration for Women and Men - G4-LA13;
- Supplier Assessment for Labour Practices - G4-LA14;
- Labour Practices and Grievance Mechanisms - G4-LA16;

HUMAN RIGHTS

- Non-Discrimination - G4-HR3;
- Freedom of Association and Collective Bargaining - G4-HR4;
- Child Labour - G4-HR5;
- Forced or Compulsory Labour - G4-HR6;
- Security Practices - G4-HR7;
- Assessment - G4-HR9;
- Supplier Human Rights Assessment - G4-HR10;

- Human Rights Grievance Mechanisms - G4-HR12;

SOCIETY

- Local Communities - G4-SO1, G4-SO2, G4-FS13, G4-FS14;
- Anti-Corruption - G4-SO3, G4-SO4, G4-SO5;
- Compliance - G4-SO8;
- Supplier Assessment for Impacts on Society - G4-SO9, G4-SO11;

PRODUCT RESPONSIBILITY

- Product and Service Labelling - G4-PR3, G4-PR4, G4-PR5;
- Marketing Communications - G4-PR6, G4-PR7;
- Customer Privacy - G4-PR8;
- Compliance - G4-PR9
- Product Portfolio - G4-FS6, G4-FS7, G4-FS8;

We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

AA1000AS (2008) Principles

Inclusivity: The stakeholder identification and engagement process includes engagement with key stakeholders to identify sustainability challenges and concerns through different channels. The material issues emerging from the stakeholder engagement were collected and prioritized, and the results are fairly reflected in the Report. In our view, the level at which the Report adheres to this principle is "Good".

Independent Assurance Statement on Non-Financial Reporting



DNV·GL

Materiality: The process of materiality assessment has been carried out based on requirements of GRI G4 and financial sector guidance. The process considered the aspects that are internal and external to the organization and prioritized the aspects for sustainability management. The materiality of the aspects is explained in the Report along with the management and monitoring systems. However, the topics related to IFC, Green banking, and other charters to which it subscribes in the geo locations of operations and supply chain are not fully explained. In our view, the level at which the Report adheres to this principles is "Acceptable".

Responsiveness: We consider that the response to key stakeholder concerns, through its policies and management systems including governance are fairly reflected in the Report. In our view, the level at which the Report adheres to this principle is "Acceptable".

Reliability: The majority of data and information verified at Head Office and at two branch sites at Colombo were found to be fairly accurate. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and the errors have been corrected; Hence in accordance with the AA1000AS (2008) requirements for a Type 2, moderate level assurance engagement, we conclude that the specified sustainability data and information presented in the Report is reliable and acceptable. In our view, the level at which the Report adheres to this principle is "Good".

Specific Evaluation of the Information on Sustainability Performances

We consider the methodology and process for gathering information developed by the Commercial Bank, for its sustainability performance reporting is appropriate and the qualitative and quantitative data included in the Report, was found to be identifiable and traceable; the personnel responsible was able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities for the reporting period.

Additional Principles as per DNV's Protocol

Completeness: The Report has fairly attempted to disclose the general and specific standard disclosures including the disclosure on Management approach covering the sustainability strategy, management approach, monitoring systems and sustainability performances indicators against the GRI G4 - 'in accordance - Core'. However, certain performance indicators -internal and external to the Commercial Bank like energy, waste, occupational health and safety etc. - are partially reported/responded due to absence of data aggregation system; In our view, the level at which the Report adheres to this principle is "Acceptable".

Neutrality: The disclosures related to sustainability issues and performances are reported in a neutral tone, in terms of content and presentation. In our view, the level at which the Report adheres to the principle of Neutrality is "Good".

Opportunities for Improvement

The following is an excerpt from the observations and further opportunities for improvement reported to the management of Commercial Bank and are not considered for drawing our conclusion on the Report; however, they are generally consistent with the Management's objectives:

- The disclosure on supply chain may evaluate and disclose the strategic risks in supply chain in the geo locations of operations and articulate the strategy, management approach and monitoring mechanisms to manage the frontier risks.
- To further strengthen the materiality i.e., identify the topics considering the national and international charters to which the Commercial Bank subscribes in the geo locations of its operations.

Our Competence and Independence

We are a global provider of sustainability services, with qualified environmental and social assurance specialists working in over 100 countries. We were not involved in the preparation of any statements

or data included in the Report except for this Assurance Statement. DNV GL maintains complete impartiality toward any people interviewed.

For DNV GL



Vadakepathth Nandkumar
Project Manager,
Head - Sustainability and
Climate Change
DNV Business Assurance India
Private Limited, India.



**Balasubramoniam,
Sivasubramaniam**
Assurance Reviewer,
DNV Business Assurance India
Private Limited, India.

February 24, 2014,
Bangalore, India



AA1000
Licensed Assurance Provider
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GRI Content Index: 'In Accordance' - Core

GENERAL STANDARD DISCLOSURES

	Description	Page Number (or Link)	External Assurance
STRATEGY AND ANALYSIS			
G4-1	Statement from the Chairman	8	Yes
ORGANISATION PROFILE			
G4-3	Name of the Organisation	3 (About our Bank)	Yes
G4-4	Primary Brands, Products and/or Services	27	Yes
G4-5	Location of Organisation's Head Quarters	3 (About our Bank)	Yes
G4-6	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	23	Yes
G4-7	Nature of ownership and legal form	23	Yes
G4-8	Markets served	23	Yes
G4-9	Scale of the Reporting Organisation	6 and 7 (Financial and Operating Highlights)	Yes
G4-10	Total workforce by employment type, employment contract, and region, broken down by gender	61 and 62	Yes
G4-11	Percentage of employees covered by collective bargaining agreements	66	Yes
G4-12	Organisation's supply chain	75	Yes
G4-13	Significant changes during the reporting period regarding size, structure, ownership or supply chain	23 (Organisational Profile)	Yes
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	100	Yes
G4-15	Externally developed economic, environmental and social charters and principles, or other initiatives to which the organisation subscribes or endorses	100 and 101	Yes
G4-16	Memberships in associations and/or national/international advocacy organisations	101	Yes
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	Organisation's entities covered by the Report and entities not covered by the Report	29	Yes
G4-18	Process for Defining Report Content and the Aspect Boundaries	30	Yes
G4-19	Material Aspects identified for Report Content	31 and 32	Yes
G4-20	Aspect Boundary for identified Material Aspects within the organisation	31 and 32	Yes
G4-21	Aspect Boundary for identified Material Aspects outside the organisation	31 and 32	Yes
G4-22	Explanation of the effect of any re-statement of information provided in earlier reports and the reason for such re-statement	29	Yes
G4-23	Significant changes from previous reporting periods in the Scope, Aspect boundaries in the Report	29	Yes
STAKEHOLDER ENGAGEMENT			
G4-24	List of stakeholder groups engaged by the Organisation	33	Yes
G4-25	Basis for identification and selection of stakeholders with whom to engage	33	Yes
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	34 to 36	Yes
G4-27	Key topics and concerns raised through stakeholders engagement and how the Organisation responded to them	34 to 36	Yes

GRI Content Index: 'In Accordance' - Core

GENERAL STANDARD DISCLOSURES

	Description	Page Number (or Link)	External Assurance
REPORT PROFILE			
G4-28	Reporting period	28 and 29	Yes
G4-29	Date of most recent previous report	28	Yes
G4-30	Reporting cycle	29	Yes
G4-31	Contact point for questions regarding the Report or its Contents	Inner Back Cover (Corporate Information)	Yes
G4-32	Compliance with GRI G4 Guidelines, GRI Content Index and the External Assurance Report	Compliance - 29 Index - This table serves the purpose of this requirement External Assurance Report - 380 to 282	Yes
G4-33	Policy and current practice with regard to seeking external assurance for the Report	29	Yes
GOVERNANCE			
G4-34	Governance Structure of the Organisation, including committees under the highest governance body responsible for decision-making on economic, environment and social impacts	98 and 99 (Governance structure of the Bank)	Yes
ETHICS AND INTEGRITY			
G4-56	The values, principles, standards and norms of behaviour	101	Yes

SPECIFIC STANDARD DISCLOSURES

DMA and Indicators	Material Aspects	Page Number (or link)	Identified Omission(s)	Reason(s) for Omission(s)	Explanation for Omission(s)	External Assurance
CATEGORY: ECONOMIC						
MATERIAL ASPECT: ECONOMIC PERFORMANCE						
G4-DMA		41				Yes
G4-EC1	Direct economic value generated, distributed and retained	54 and 55				Yes
G4-EC3	Coverage of the organisation's defined benefit plan obligations	291, 302, 340 and 354 Item 3.13.1 of the "Significant Accounting Policies", Note Nos. 13, 40.2, & 51 to the Financial Statements)				Yes
G4-EC4	Financial assistance received from Government	73				Yes
MATERIAL ASPECT: MARKET PRESENCE						
G4-DMA		114				Yes
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	114				Yes
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	115				Yes
MATERIAL ASPECT: INDIRECT ECONOMIC IMPACT						
G4-DMA		41 and 42				Yes
G4-EC7	Development and impact of infrastructure investments and services supported	110				Yes

GRI Content Index: 'In Accordance' - Core

SPECIFIC STANDARD DISCLOSURES

DMA and Indicators	Material Aspects	Page Number (or link)	Identified Omission(s)	Reason(s) for Omission(s)	Explanation for Omission(s)	External Assurance
CATEGORY: ENVIRONMENT						
MATERIAL ASPECT:	ENERGY					
G4-DMA		41 and 42				Yes
G4-EN6	Reduction of energy consumption	112				Yes
MATERIAL ASPECT:	EFFLUENTS AND WASTE					
G4-DMA		41 and 42				Yes
G4-EN23	Total weight of waste by type and disposal method	23				Yes
MATERIAL ASPECT:	PRODUCTS AND SERVICES					
G4-DMA		42 and 43				Yes
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	27				Yes
MATERIAL ASPECT:	SUPPLIER ENVIRONMENT ASSESSMENT					
G4-DMA		43				Yes
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	32				Yes
CATEGORY: SOCIAL						
SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK						
MATERIAL ASPECT:	EMPLOYMENT					
G4-DMA		43				Yes
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender, and region	63 and 64				Yes
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	114				Yes
G4-LA3	Return to work and retention rates after parental leave, by gender.	119				Yes
MATERIAL ASPECT:	LABOUR/MANAGEMENT RELATIONS					
G4-DMA		43				Yes
G4-LA4	Minimum notice periods regarding operational changes, including whether it is specified in collective agreements	118				Yes
MATERIAL ASPECT:	OCCUPATIONAL HEALTH AND SAFETY					
G4-DMA		44				Yes
G4-LA5	Percentage of total workforce represented in formal joint management - worker health and safety committees	118				Yes
G4-LA8	Health and safety topics covered in formal agreements with trade unions	119				Yes
MATERIAL ASPECT:	TRAINING AND EDUCATION					
G4-DMA		44				Yes
G4-LA9	Average hours of training per year per employee by gender, and by employee category	116				Yes
G4-LA11	Percentage of employees receiving regular performance and career development reviews by gender and employee category	118				Yes

GRI Content Index: 'In Accordance' - Core

SPECIFIC STANDARD DISCLOSURES

DMA and Indicators	Material Aspects	Page Number (or link)	Identified Omission(s)	Reason(s) for Omission(s)	Explanation for Omission(s)	External Assurance
MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITY						
G4-DMA		44				Yes
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	65				Yes
MATERIAL ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN						
G4-DMA		44				Yes
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	66				Yes
MATERIAL ASPECT: SUPPLIER ASSESSMENT FOR LABOUR PRACTICES						
G4-DMA		45				Yes
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	45				Yes
MATERIAL ASPECT: LABOUR PRACTICES AND GRIEVANCE MECHANISMS						
G4-DMA		44				Yes
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	119				Yes
SUB-CATEGORY: HUMAN RIGHTS						
MATERIAL ASPECT: NON-DISCRIMINATION						
G4-DMA		45				Yes
G4-HR3	Total number of incidents of discrimination and corrective actions taken	119				Yes
MATERIAL ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING						
G4-DMA		44 and 45				Yes
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	119				Yes
MATERIAL ASPECT: CHILD LABOUR						
G4-DMA		45				Yes
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour	119				Yes
MATERIAL ASPECT: FORCED OR COMPULSORY LABOUR						
G4-DMA		45				Yes
G4-HR6	Operations and significant suppliers identified as having significant risk of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	119				Yes
MATERIAL ASPECT: SECURITY PRACTICES						
G4-DMA		118				Yes
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	118				Yes

GRI Content Index: 'In Accordance' - Core

SPECIFIC STANDARD DISCLOSURES

DMA and Indicators	Material Aspects	Page Number (or link)	Identified Omission(s)	Reason(s) for Omission(s)	Explanation for Omission(s)	External Assurance
MATERIAL ASPECT: ASSESSMENT						
G4-DMA		119				Yes
G4-HR9	Percentage and total number of operations that have been subject to human rights reviews or impact assessments	119				Yes
MATERIAL ASPECT: SUPPLIER HUMAN RIGHTS ASSESSMENT						
G4-DMA		45				Yes
G4-HR10	Percentage of new suppliers that were screened using human rights criteria.	45				Yes
MATERIAL ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS						
G4-DMA		44				Yes
G4-HR12	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	119				Yes
SUB-CATEGORY: SOCIETY						
MATERIAL ASPECT: LOCAL COMMUNITIES						
G4-DMA		45 and 46				Yes
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	105				Yes
G4-SO2	Operations with significant actual and potential negative impacts on local communities	110				Yes
G4-FS13	Access points in low-populated or economically disadvantage areas by type	75 and 76				Yes
G4-FS14	Initiatives to improved access to financial services for disadvantaged people	110				Yes
MATERIAL ASPECT: ANTI-CORRUPTION						
G4-DMA		46 and 102				Yes
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	101				Yes
G4-SO4	Communication and training on anti-corruption policies and procedures	102				Yes
G4-SO5	Confirmed incidents of corruption and actions taken	102				Yes
MATERIAL ASPECT: COMPLIANCE						
G4-DMA		46				Yes
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	102				Yes
MATERIAL ASPECT: SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY						
G4-DMA		45				Yes
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	110				Yes
MATERIAL ASPECT: GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY						
G4-DMA		46				Yes
G4-SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms	110				Yes

GRI Content Index: 'In Accordance' - Core

SPECIFIC STANDARD DISCLOSURES

DMA and Indicators	Material Aspects	Page Number (or link)	Identified Omission(s)	Reason(s) for Omission(s)	Explanation for Omission(s)	External Assurance
SUB-CATEGORY: PRODUCT RESPONSIBILITY						
MATERIAL ASPECT: PRODUCT AND SERVICE LABELLING						
G4-DMA		46				Yes
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	102				Yes
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes	102				Yes
G4-PR5	Results of surveys measuring customer satisfaction	94 and 95				Yes
MATERIAL ASPECT: MARKETING COMMUNICATIONS						
G4-DMA		46				Yes
G4-PR6	Sale of banned or disputed products	102				Yes
G4-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	102				Yes
MATERIAL ASPECT: CUSTOMER PRIVACY						
G4-DMA		47				Yes
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	102				Yes
MATERIAL ASPECT: COMPLIANCE						
G4-DMA		47				Yes
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	102				Yes
MATERIAL ASPECT: PRODUCT PORTFOLIO						
G4-DMA		42 and 43				Yes
G4-FS6	Percentage of the portfolio for business lines by specific region, size and by sector	317, 318 and 339				Yes
G4-FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	76				Yes
G4-FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	111				Yes

Independent Assurance Reports from KPMG and DNV-GL are given on pages 378 and 380 to 382 respectively.

GRI Content Index: 'In Accordance' - Core

UNGC Principles - GRI Indicators Cross Reference

Issue Areas	GC Principles	Relevant GRI G4 Indicators
Human Rights	<p><i>Principle 1</i> Businesses should support and respect the protection of internationally-proclaimed human rights</p>	EC 5, LA 4, LA 6-LA9, LA 14, HR 3-HR 9, SO 5, PR 1-PR 2
	<p><i>Principle 2</i> Businesses should make sure that they are not complicit in human rights abuses</p>	HR 3-HR 8, SO 5
Labour	<p><i>Principle 3</i> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining</p>	LA 4, LA 5, HR 3, HR 5, SO 5
	<p><i>Principle 4</i> Businesses should uphold the elimination of all forms of forced and compulsory labour</p>	HR 3, HR 7, SO 5
	<p><i>Principle 5</i> Businesses should uphold the effective abolition of child labour</p>	HR 3, HR 6, SO 5
	<p><i>Principle 6</i> Businesses should uphold the elimination of discrimination in respect of employment and occupation</p>	EC 7, LA 2, LA 14, HR 3, HR 4, SO 5
Environment	<p><i>Principle 7</i> Businesses should support a precautionary approach to environmental challenges</p>	EC 2, SO 5
	<p><i>Principle 8</i> Businesses should undertake initiatives to promote greater environmental responsibility</p>	EN 22, EN 28, SO 5
	<p><i>Principle 9</i> Businesses should encourage the development and diffusion of environmentally-friendly technologies</p>	EN 22, SO 5
Anti-Corruption	<p><i>Principle 10</i> Businesses should work against corruption in all its forms, including extortion and bribery</p>	SO 2, SO 4

Group Structure

	Commercial Development Co. PLC	ONEzero Co. Ltd.	Commex Sri Lanka S.R.L - Italy	Equity Investments Lanka Ltd.	Commercial Insurance Brokers (Pvt) Ltd.
Company Profile					
Relationship to Bank	Subsidiary	Subsidiary	Subsidiary	Associate	Associate
Incorporation in Sri Lanka	March 14, 1980	February 17, 2003	December 02, 2008 in Italy	August 08, 1990	August 17, 1987
Bank's Holding	94.55%	100%	100%	22.92%	18.91%
Principal Business Activity	Property Development	Provision of IT Related Services	Money Transfer & Money Exchange	Venture Capital Financing	Insurance Brokering
Business Address	'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01.	'Commercial House', No. 21, Sir Razik Fareed Mawatha, Colombo 01.	Via Venti Settembre , 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	+39 06 48905707	5373745, 2507605-6	2447297, 2447299

Board of Directors

Chairman	B.R.L. Fernando	Prof. U.P. Liyanage	K.G.D.D. Deerasinghe	M.J.C. Amarasuriya	B.R.L. Fernando
Director	W.M.R.S. Dias	K.D.N. Buddhipala	M.E.P. Perera	Deshamanya S.E. Captain	M.P. Jayawardena
Director	A.L. Gooneratne	A.R.M. Muttiah	S.M.R. Rodrigo	J.D. Peiris	D.M.D.K. Thilakaratne
Director	A.T.P. Edirisinghe	S. Renganathan		J.B. Adu Baker	R.A.M. Senevirathne
Director	L.D.A. Jayasinghe	M.E.C. Abeywardena		W. Indika Arambage	P.D.J. Fernando
Director	U.I.S. Tillakawardana	M.E.P. Perera		L.A. Rajapakse	
Director		K.S.A. Gamage		H.A. Pieris	
Company Secretary	L.W.P. Indrajith	M.P. Dharmasiri	Anthonia Capolla (Commercerlista)	Mrs. R.R. Dunuwille	Mrs. Y.A. Kularathna

Summary of Financial Information

	2013 Rs. Mn.	2012 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.	2013 Rs. Mn.	2012 Rs. Mn.
Total assets	1,606,863	1,513,245	79,543	85,235	33,497	50,711	272,809	280,575	256,878	215,312
Total liabilities	304,697	314,597	24,915	23,488	64,980	55,200	8,028	5,861	78,687	51,366
Net assets	1,302,166	1,198,648	54,628	61,747	(31,483)	(4,489)	264,781	274,714	178,191	163,946
Total revenue	256,716	199,979	99,943	165,184	3,637	0.426	26,252	52,378	188,635	172,734
Profit before tax	203,126	334,878	23,506	29,200	(25,462)	(39,860)	8,193	33,974	27,639	25,166
Profit after tax	151,397	234,360	17,134	20,744	(25,462)	(39,860)	8,339	33,897	17,772	19,604
Dividend (per share) (Rs.)	4.00	4.00	50.00	50.00	-	-	-	0.70	6.00	6.00

Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosure Requirements	Description	Page No.
1. Information about the Significance of Financial Instruments for Financial Position and Performance		
1.1 Statement of Financial Position		
1.1.1	Disclosures on categories of financial assets and financial liabilities.	Note 18.2 to the Financial Statements - Measurement of Financial Instruments. 307
1.1.2 Other Disclosures		
(i)	Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Significant Accounting Policies: Note 3.3.3.1.2 - Financial assets designated at fair value through profit or loss 281 Note 3.3.4.1 - Financial liabilities at fair value through profit or loss 282
(ii)	Reclassifications of financial instruments from one category to another.	Significant Accounting Policies: Note 3.3.5 - Reclassification of Financial Instruments 283
(iii)	Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Not disclosed.
(iv)	Reconciliation of the provision for credit losses by class of financial assets.	Notes to the Financial Statements: Note 26.2 - Movement in provision for Individual and Collective Impairment 318
(v)	Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have compound financial instruments with multiple embedded derivatives.
(vi)	Breaches of terms of loan agreements.	None
1.2 Statement of Comprehensive Income		
1.2.1	Disclosures on items of income, expense, gains and losses.	Notes 07 - 14 to the Financial Statements: 299 - 302
1.2.2 Other Disclosures		
(i)	Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Notes to the Financial Statements: • Note 07 - Interest income 299
(ii)	Fee income and expense.	Note to the Financial Statements: Net 08 - Net fees and commission income 300
(iii)	Amount of impairment losses by class of financial assets.	Notes to the Financial Statements: Note 12 - Impairment charges for loans and other losses 302
(iv)	Interest income on impaired financial assets.	Notes to the Financial Statements: Note 7.3 - Interest income on Impaired Financial Assets 300

Other Disclosure Requirements Under
the Prescribed Format Issued by the Central Bank
of Sri Lanka for Preparation of Annual Financial
Statements of Licensed Commercial Banks

Disclosure Requirements	Description	Page No.
1.3 Other Disclosures		
1.3.1 Accounting policies for financial instruments.	Significant Accounting Policies: Note 3.3 - Financial instruments - initial recognition, classification and subsequent measurement.	279
1.3.2 Information on hedge accounting	The Bank does not have hedging instruments.	
1.3.3 Information about the fair values of each class of financial asset and financial liability, along with:		
(i) Comparable carrying amounts.	Notes to the Financial Statements: Note 23 - Derivative financial instruments Note 24 - Other financial instruments held for trading Note 27 - Financial investments - Available-for-sale Note 36 - Derivative financial instruments	310 311 322 338
(ii) Description of how fair value was determined.	Significant Accounting Policies: Note 3.3.9 - Determination of fair value	284
(iii) The level of inputs used in determining fair value.	Significant Accounting Policies: Note 3.3.9 - Determination of fair value	284
(iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy. (b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were no movements between levels of fair value hierarchy during the period under review. Significant Accounting Policies: Note 3.3.2.1 - 'Day 1' profit or loss	280
(v) Information if fair value cannot be reliably measured.	Notes to the Financial Statements: Note 27 - Financial Investments - Available-for-Sale Note 26.6 - (a) Debenture	322 321
2. Information about the Nature and Extent of Risks Arising from Financial Instruments		
2.1 Qualitative Disclosures		
2.1.1 Risk exposures for each type of financial instrument.	Loans and advances portfolio of the Bank generates the highest risk exposure whilst FX and equity assets bring comparatively low risk. The Bank does not have a commodity risk exposure at present.	
2.1.2 Management's objectives, policies, and processes for managing those risks.	Please refer the section relating to 'Managing Risk at Commercial Bank' for comprehensive disclosure of Management's objectives, policies and processes.	210 to 240
2.1.3 Changes from the prior period.	There was no major policy change carried out during the period under review.	
2.2 Quantitative Disclosures		
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.	Please refer the computation on 'Capital Adequacy' given in the section on 'Managing Risk at Commercial Bank'.	210 to 240

**Other Disclosure Requirements Under
the Prescribed Format Issued by the Central Bank
of Sri Lanka for Preparation of Annual Financial
Statements of Licensed Commercial Banks**

Disclosure Requirements	Description	Page No.																		
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240																		
(i) Credit Risk																				
(a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	<p>The gross credit risk exposure on loans and advances that are neither past due nor impaired as at December 31, 2013, broken down by the credit quality is as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #0070C0; color: white;"> <th>Risk Grade</th> <th>Description</th> <th>Value (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>A0</td> <td>Cash & Gold</td> <td>33,466.09</td> </tr> <tr> <td>A1-A2</td> <td>Very Good</td> <td>18,435.25</td> </tr> <tr> <td>A3-A5</td> <td>Good</td> <td>272,680.45</td> </tr> <tr> <td>A6</td> <td>Average</td> <td>24,762.22</td> </tr> <tr> <td>S</td> <td>Special mention</td> <td>2,208.20</td> </tr> </tbody> </table> <p>The above exposures are adequately collateralised by way of cash, gold, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets as comprehensively discussed in the section relating to 'Managing Risk at Commercial Bank'.</p>	Risk Grade	Description	Value (Rs. Mn.)	A0	Cash & Gold	33,466.09	A1-A2	Very Good	18,435.25	A3-A5	Good	272,680.45	A6	Average	24,762.22	S	Special mention	2,208.20	210 to 240
Risk Grade	Description	Value (Rs. Mn.)																		
A0	Cash & Gold	33,466.09																		
A1-A2	Very Good	18,435.25																		
A3-A5	Good	272,680.45																		
A6	Average	24,762.22																		
S	Special mention	2,208.20																		
(b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	<p>The gross credit risk exposure on loans and advances that are past due or impaired as at December 31, 2013, broken down by the credit quality is as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #0070C0; color: white;"> <th>Risk Grade</th> <th>Description</th> <th>Value (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>A5-B9</td> <td>Individually impaired loans</td> <td>6,803.02</td> </tr> <tr> <td>B7-B9</td> <td>Non-performing</td> <td>11,951.16</td> </tr> </tbody> </table> <p>Factors considered in determining as impaired are discussed under Note 3.3.10 - Impairment of Financial Assets.</p>	Risk Grade	Description	Value (Rs. Mn.)	A5-B9	Individually impaired loans	6,803.02	B7-B9	Non-performing	11,951.16	285									
Risk Grade	Description	Value (Rs. Mn.)																		
A5-B9	Individually impaired loans	6,803.02																		
B7-B9	Non-performing	11,951.16																		
(c) Information about collateral or other credit enhancements obtained or called.	Not disclosed.																			
(d) For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240																		
(ii) Liquidity Risk																				
(a) A maturity analysis of financial liabilities.	Notes to the Financial Statements: Note 50 - Maturity Analysis	350																		
(b) Description of approach to risk management.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240																		
(c) For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240																		
(iii) Market Risk																				
(a) A sensitivity analysis of each type of market risk to which the entity is exposed.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240																		

Other Disclosure Requirements Under
the Prescribed Format Issued by the Central Bank
of Sri Lanka for Preparation of Annual Financial
Statements of Licensed Commercial Banks

Disclosure Requirements	Description	Page No.
(b) Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	None	
(c) For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240
(iv) Operational Risk Please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240
(v) Equity Risk in the Banking Book		
(a) Qualitative Disclosures		
<ul style="list-style-type: none"> Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. 	Significant Accounting Policies: Note 3.3.3.4 - Available-for-sale financial investments Note 3.3.3.5 - Held to maturity financial investments	281 282
(b) Quantitative Disclosures		
<ul style="list-style-type: none"> Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. The types and nature of investments. The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period. 	Notes to the Financial Statements: Note 27 - Financial investments - Available-for-sale Note 28 - Investments in Subsidiaries Note 29 - Investments in Associates Note 10 - Net gains/(losses) from Financial Investments	322 325 326 301
(vi) Interest Rate Risk in the Banking Book		
(a) Qualitative Disclosures		
<ul style="list-style-type: none"> Nature of interest rate risk in the banking book (IRRBB) and key assumptions. 	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240
(b) Quantitative Disclosures		
<ul style="list-style-type: none"> The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant). 	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240
2.2.3 Information on concentrations of risk.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240

Other Disclosure Requirements Under
the Prescribed Format Issued by the Central Bank
of Sri Lanka for Preparation of Annual Financial
Statements of Licensed Commercial Banks

Disclosure Requirements	Description	Page No.
3. Other Disclosures		
3.1 Capital		
3.1.1 Capital Structure		
(i) Qualitative Disclosures		
Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	210 to 240
(ii) Quantitative Disclosure		
(a) The amount of Tier 1 capital, with separate disclosure of: <ul style="list-style-type: none"> • Paid-up share capital/common stock • Reserves • Non-controlling interests in the equity of subsidiaries • Innovative instruments • Other capital instruments • Deductions from Tier 1 capital 	Notes to the Financial Statements: Note 57 - Financial Risk Management	364 to 375
(b) The total amount of Tier 2 and Tier 3 capital		
(c) Other deductions from capital		
(d) Total eligible capital		
3.1.2 Capital adequacy		
(i) Qualitative Disclosures		
A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Please refer the section relating to 'Managing Risk at Commercial Bank'	210 to 240
(ii) Quantitative Disclosures		
(a) Capital requirements for credit risk, market risk and operational risk	Notes to the Financial Statements: Note 57 - Financial Risk Management	364 to 375
(b) Total and Tier 1 capital ratio		

Income Statement (US \$)

For the year ended December 31,	GROUP			BANK		
	2013 US \$ '000	2012 US \$ '000	Change %	2013 US \$ '000	2012 US \$ '000	Change %
Gross income	558,026	495,107	12.71	558,470	495,274	12.76
Interest income	474,637	411,429	15.36	474,710	411,605	15.33
Less: interest expenses	281,337	232,901	20.80	281,517	233,050	20.80
Net interest income	193,300	178,528	8.27	193,193	178,555	8.20
Fees and commission income	37,253	32,397	14.99	37,225	32,395	14.91
Less: fees and commission expenses	4,788	4,286	11.71	4,788	4,286	11.71
Net fees and commission income	32,465	28,111	15.49	32,437	28,109	15.40
Net gain/(loss) from trading	(12,412)	19,487	(163.69)	(12,412)	19,487	(163.69)
Net gain/(loss) from financial instruments designated at fair value through profit or loss	-	-	-	-	-	-
Net gain/(loss) from financial investments	10,302	246	4,087.80	10,302	246	4,087.80
Other income (net)	48,246	31,548	52.93	48,645	31,541	54.23
Total operating income	271,901	257,920	5.42	272,165	257,938	5.52
Impairment charges for loans and other losses	35,117	24,674	42.32	35,323	24,975	41.43
Net operating income	236,784	233,246	1.52	236,842	232,963	1.67
Less: Expenses						
Personnel expenses	63,099	61,228	3.06	62,490	60,701	2.95
Other expenses	46,550	44,770	3.98	48,554	45,054	7.77
Operating profit before value added tax (VAT)	127,135	127,248	(0.09)	125,798	127,208	(1.11)
Less: Value added tax (VAT) on financial services	15,030	15,526	(3.19)	15,030	15,526	(3.19)
Operating profit after value added tax (VAT)	112,105	111,722	0.34	110,768	111,682	(0.82)
Share of profits/(losses) of associates	54	97	(44.33)	-	-	-
Profit before income tax	112,159	111,819	0.30	110,768	111,682	(0.82)
Less: Income tax expense	31,445	33,061	(4.89)	31,031	32,789	(5.36)
Profit for the year	80,714	78,758	2.48	79,737	78,893	1.07
Profit attributable to:						
Equity holders of the Bank	80,637	78,748	2.40	79,737	78,893	1.07
Non-controlling interest	77	10	670.00	-	-	-
	80,714	78,758	2.48	79,737	78,893	1.07
Basic earnings per share (US \$)	0.10	0.09	11.11	0.09	0.09	-
Diluted earnings per share (US \$)	0.09	0.09	-	0.09	0.09	-
Dividend per ordinary share (US \$)	-	-	-	0.05	0.05	-

US \$ Accounts

The Income Statement and the Statement of Financial Position given on pages 396 and 397 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the Financial Statements.

Statement of Financial Position (US \$)

As at December 31,	GROUP			BANK		
	2013 US \$ '000	2012 US \$ '000	Change %	2013 US \$ '000	2012 US \$ '000	Change %
Assets						
Cash and cash equivalents	108,882	154,314	(29.44)	108,867	154,163	(29.38)
Balances with central banks	140,702	141,938	(0.87)	140,702	141,938	(0.87)
Placements with banks	31,541	126,273	(75.02)	31,541	126,273	(75.02)
Derivative financial instruments	6,395	10,555	(39.41)	6,395	10,555	(39.41)
Other financial instruments held-for-trading	48,695	47,196	3.18	48,695	47,196	3.18
Loans and receivables to banks	4,170	4,912	(15.11)	4,170	4,912	(15.11)
Loans and receivables to other customers	3,198,047	2,912,948	9.79	3,198,165	2,913,399	9.77
Financial investments - Available-for-sale	944,643	452,837	108.61	944,643	452,837	108.61
Financial investments - Held-to-maturity	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	2,206	2,368	(6.84)
Investments in associates	719	732	(1.78)	338	346	(2.31)
Property, plant & equipment	70,040	69,898	0.20	64,026	64,227	(0.31)
Intangible assets	3,647	3,954	(7.76)	3,569	3,883	(8.09)
Leasehold property	842	873	(3.55)	583	604	(3.48)
Deferred tax assets	3,934	3,580	9.89	3,871	3,504	10.47
Other assets	72,801	71,714	1.52	72,818	71,783	1.44
Total assets	4,635,058	4,001,724	15.83	4,630,589	3,997,988	15.82
Liabilities						
Due to Banks	108,353	37,215	183.39	108,353	37,215	183.39
Derivative financial instruments	10,778	659	1,535.51	10,778	659	1,535.51
Other financial liabilities held for trading	-	-	-	-	-	-
Due to other customers	3,443,503	3,051,318	12.85	3,443,915	3,051,653	12.85
Other borrowings	412,195	371,609	11.23	413,536	372,759	11.24
Debt securities issued	-	-	-	-	-	-
Current tax liabilities	13,594	22,047	(38.34)	13,424	21,887	(38.67)
Deferred tax liabilities	17,395	14,765	17.81	15,803	13,266	19.12
Other provisions	18	19	(5.26)	18	19	(5.26)
Other liabilities	75,467	81,383	(7.27)	75,017	80,957	(7.34)
Due to subsidiaries	-	-	-	120	174	(31.03)
Subordinated liabilities	84,403	8,641	876.77	84,403	8,641	876.77
Total liabilities	4,165,706	3,587,656	16.11	4,165,367	3,587,231	16.12
Equity						
Stated capital	149,518	140,694	6.27	149,518	140,694	6.27
Statutory reserves	30,799	26,823	14.82	30,799	26,823	14.82
Retained earnings	33,280	32,600	2.09	32,316	32,641	(1.00)
Other reserves	255,459	213,699	19.54	252,589	210,599	19.94
Total equity to attributable equity holders of the Bank	469,056	413,816	(5.19)	465,222	410,757	13.26
Non-controlling interest	296	251	17.93	-	-	-
Total equity	469,352	414,067	13.35	465,222	410,757	13.26
Total liabilities and equity	4,635,058	4,001,724	15.83	4,630,589	3,997,988	15.82
Contingent liabilities and commitments	2,255,358	2,184,321	3.25	2,134,299	1,832,431	1.16
Net assets value per share (US \$)	0.55	0.50	10.00	0.55	0.49	12.24

Exchange Rate of 1 US \$ was Rs. 131.00 as at December 31, 2013 (Rs. 128.00 as at December 31, 2012)

Decade at a Glance

Bank - Based on Financial Statements Prepared Under SLAS

Year ended December 31, Rs. Mn.	2004	2005	2006	2007	2008	2009	2010
Operating Results							
Income	12,290	16,100	24,470	35,223	44,115	43,741	41,522
Interest income	9,584	13,034	19,532	30,503	37,188	35,925	34,740
Interest expenses	(4,878)	(7,226)	(11,955)	(18,951)	(24,336)	(23,515)	(18,328)
Foreign exchange profit	874	587	1,439	1,545	2,633	2,962	1,741
Commission and other income	1,832	2,479	3,499	3,175	4,294	4,854	5,041
Operating expenses and provisions	(4,908)	(5,232)	(8,301)	(9,567)	(12,259)	(13,035)	(13,876)
Profit before income tax	2,504	3,642	4,214	6,705	7,520	7,191	9,318
Income tax on profit	(819)	(1,278)	(2,201)	(2,601)	(3,252)	(2,887)	(3,794)
Net profit for the year	1,685	2,364	2,013	4,104	4,268	4,304	5,524
As at December 31,							
Assets							
Cash and short-term funds	12,136	18,663	13,739	16,208	24,115	24,057	10,557
Balances with Central Banks	6,320	9,045	12,574	11,576	10,322	11,795	12,189
Government Treasury Bills, Bonds and Other Securities	19,900	21,218	32,065	49,863	51,633	96,671	114,541
Commercial paper	560	408	423	-	-	-	-
Securities purchased under re-sale agreements	399	808	4,593	3,804	3,400	5,203	68
Dealing securities	110	182	145	207	58	81	283
Investments held-for-sale	-	-	218	205	-	-	-
Investments held-to-maturity	2,340	3,091	1,394	1,756	1,197	1,025	2,366
Bills of exchange	2,799	2,790	3,204	3,195	3,059	2,847	5,291
Lease receivable	5,317	7,088	9,482	10,945	9,484	7,794	11,019
Loans and advances	82,605	108,884	137,846	160,184	167,858	161,329	200,729
	132,486	172,177	215,683	257,943	271,126	310,802	357,043
Investments in associate companies	109	107	44	44	44	44	44
Investments in subsidiary companies	429	434	434	434	434	279	354
Other assets	2,553	4,177	4,336	5,751	5,512	6,808	6,191
Property, Plant & Equipment and Intangible Assets	2,896	3,182	3,477	3,768	4,098	4,382	6,428
Total Assets	138,473	180,077	223,974	267,940	281,214	322,315	370,060
Liabilities							
Deposits from customers	98,730	127,601	157,496	183,110	199,881	234,745	259,779
Dividends payable	230	230	113	113	-	-	-
Borrowings	9,090	13,387	18,944	18,752	13,620	11,639	14,371
Securities sold under re-purchase agreements	9,050	11,389	14,330	23,342	25,075	29,905	45,774
Other liabilities	3,735	6,331	9,122	10,308	10,646	12,888	12,259
Tax payable	483	818	1,446	1,698	1,665	1,203	2,448
Debentures	3,244	4,553	6,680	6,680	4,436	3,436	2,127
	124,562	164,309	208,131	244,003	255,323	293,816	336,758

CAGR - Compounded Annual Growth Rate

Bank - Based on Financial Statements Prepared Under LKAS/SLFRS

Year ended December 31, Rs. Mn.	2011	2012	2013	CAGR %
Operating Results				
Income	45,860	63,395	73,160	16.85
Interest income	38,356	52,685	62,187	-
Interest expenses	(19,650)	(29,830)	(36,879)	-
Foreign exchange profit	2,322	4,687	1,996	-
Commission and other income	5,182	6,023	8,977	-
Operating expenses and provisions	(15,313)	(19,270)	(21,770)	-
Profit before income tax	10,897	14,295	14,511	10.02
Income tax on profit	(3,014)	(4,197)	(4,065)	-
Net profit for the year	7,883	10,098	10,446	9.84
As at December 31,				
Assets				
Cash and cash equivalents	12,911	19,733	14,262	-
Balances with central banks	17,343	18,168	18,432	-
Placements with banks	11,674	16,163	4,132	-
Derivative financial instruments	40	1,351	838	-
Other financial assets held-for-trading	6,418	6,041	6,379	-
Loans and receivables to banks	580	629	546	} 17.18
Loans and receivables to other customers	314,486	372,915	418,960	
Financial investments - Available-for-sale	61,415	57,963	123,748	-
Financial investments - Held-to-maturity	-	-	-	-
	424,867	492,963	587,297	-
Investments in subsidiaries	315	303	289	-
Investments in associates	44	44	44	-
Property, plant & equipment	7,907	8,221	8,387	-
Intangible assets	467	497	468	-
Leasehold property	78	77	76	-
Deferred tax assets	360	449	507	-
Other assets	7,291	9,189	9,539	-
Total Assets	441,329	511,743	606,607	11.19
Liabilities				
Due to Banks	11,574	4,894	14,194	-
Derivative financial instruments	435	84	1,412	-
Other financial liabilities held-for-trading	-	-	-	-
Due to other customers	323,755	390,612	451,153	11.70
Other borrowings	49,603	47,583	54,173	-
Debt securities issued	-	-	-	-
Current tax liabilities	1,305	2,802	1,759	-
Deferred tax liabilities	1,594	1,698	2,070	-
Other provisions	1	2	2	-
Other liabilities	8,162	10,363	9,827	-
Due to subsidiaries	30	22	16	-
Subordinated term debts	1,106	1,106	11,057	-
Total Liabilities	397,565	459,166	545,663	-

CAGR - Compounded Annual Growth Rate

Decade at a Glance

Bank - Based on Financial Statements Prepared Under SLAS

Year ended December 31, Rs. Mn.	2004	2005	2006	2007	2008	2009	2010
Shareholders' Funds							
Share capital	2,603	3,327	2,428	10,515	10,548	10,608	10,811
Statutory Reserve Fund	1,009	1,421	1,429	1,634	1,896	2,164	2,472
Reserves	10,299	11,020	11,986	11,788	13,447	15,727	20,019
Total Liabilities and Shareholders' Funds	138,473	180,077	223,974	267,940	281,214	322,315	370,060
Commitments and contingencies	43,942	47,154	56,418	116,212	115,809	146,072	196,617
Ratios							
Return on average shareholders' funds (%)	13.16	15.93	12.73	20.63	17.13	15.83	17.87
Income growth (%)	22.17	31.00	51.99	43.95	25.25	(0.85)	(5.07)
Return on average assets (%)	1.35	1.48	1.00	1.67	1.55	1.43	1.60
Rate of dividend (%)	60.00	45.00	50.00	-	-	-	-
Dividend per share (Rs.)	-	-	-	7.00	7.00	7.00	7.00
Ordinary share dividend cover (times)	3.48	3.34	2.54	2.29	2.42	2.46	2.09
Gross dividends to ordinary shareholders (Rs. Mn.)	420.00	639.36	714.00	1,743.13	1,745.81	1,751.47	2,642.25
Advances to deposits and refinance (%)	89.52	90.64	92.49	91.75	87.12	70.88	80.97
Property, Plant & Equipment to shareholders' funds (%)	20.81	20.75	21.33	15.74	15.83	15.38	19.30
Total assets to shareholders' funds (times)	9.95	11.42	14.14	11.19	10.86	11.31	11.11
Capital funds to liabilities including contingent liabilities (%)	8.26	7.46	6.05	7.87	6.98	6.48	6.26
Cost/Income Ratio (%)	56.78	54.28	61.10	47.87	50.46	56.86	54.69
Liquid assets to liabilities (%)	23.17	24.51	22.64	24.24	24.83	38.80	29.74
(As specified in the Banking Act No. 30 of 1988)							
Group Capital Adequacy (%) Tier I	10.78	9.68	7.62	10.60	10.55	11.92	10.86
Tier I & II	13.16	12.08	11.58	13.71	13.13	13.93	12.26
Share Information							
Market value of a share (Rs.)	159.75	135.50	190.00	147.00	67.00	189.50	259.90
Earnings per share (Rs.)	2	3	3	5	6	6	7
Price earnings ratio (times)	8	9	15	9	4	11	18
Net assets value per share (Rs.)	19	22	24	30	34	38	44
Earnings yield (%)	13	11	5	11	25	9	6
Dividend payout ratio (%) - Cash	29	30	39	44	41	41	34
Total dividend payout ratio (%)	-	-	-	-	-	-	48
Other Information							
Number of employees	2,863	3,168	3,415	3,745	4,041	4,071	4,321
Number of delivery points - Sri Lanka	125	134	150	163	170	172	187
Number of delivery points - Bangladesh	4	5	7	9	11	15	17
Number of automated teller machines	188	223	278	301	346	368	414

Bank - Based on Financial Statements Prepared Under LKAS/SLFRS

Year ended December 31, Rs. Mn.	2011	2012	2013	CAGR %
Shareholders' Funds				
Stated capital	16,474	18,009	19,587	-
Statutory reserves	2,890	3,433	4,035	-
Retained earnings	2,547	4,178	4,233	-
Other reserves	21,853	26,957	33,089	
Total Liabilities and Shareholders' Funds	441,329	511,743	606,607	11.19
Commitments and contingencies	234,551	279,593	295,452	-
Ratios				
Return on average shareholders' funds (%)	20.28	20.96	18.40	
Income growth (%)	10.45	38.24	15.41	
Return on average assets (%)	1.94	2.12	1.87	
Rate of dividend (%)	-	-	-	
Dividend per share (Rs.)	6.00	6.50	6.50	
Ordinary share dividend cover (times)	1.61	1.86	1.89	
Gross dividends to ordinary shareholders (Rs. Mn.)	4,904.70	5,421.42	5,519.24	
Advances to deposits and refinance (%)	83.30	82.01	77.48	
Property, plant & equipment to shareholders' funds (%)	19.31	16.73	14.65	
Total assets to shareholders' funds (times)	9.92	9.73	9.95	
Capital funds to liabilities including contingent liabilities (%)	6.92	7.12	7.25	
Cost/income ratio (%)	50.70	47.02	46.32	
Liquid assets to liabilities (%)	26.35	25.79	34.05	
(As specified in the Banking Act No. 30 of 1988)				
Group Capital Adequacy (%) Tier I	12.11	12.63	13.27	
Tier I & II	13.01	13.84	16.91	
Share Information				
Market value of a share (Rs.)	100.00	103.00	120.40	
Earnings per share (Rs.)	9	12	12	
Price earnings ratio (times)	11	9	10	
Net assets value per share (Rs.)	54	63	72	
Earnings yield (%)	9	12	10	
Dividend payout ratio (%) - Cash	42	37	37	
Total dividend payout ratio (%)	62	54	53	
Other Information				
Number of employees	4,524	4,602	4,730	
Number of delivery points - Sri Lanka	213	227	235	} 15.32
Number of delivery points - Bangladesh	17	17	18	
Number of automated teller machines	514	572	604	1.63

Events - 2013

January

Commercial Bank commissions drive-through ATM at Reid Avenue **1**



Commercial Bank unveils new look corporate website www.combank.lk **2**



Commercial Bank unveiled a revamped corporate website to enhance the experience of visitors as well as on-line customers.

February

Commercial Bank donates its 75th IT Lab **3**



D.S. Senanayake Central College Uhumeeya beneficiary of Bank's 75th IT Lab, donated by the CSR Trust.

Commercial Bank and IFC sign US \$ 75 Mn., 10 year Subordinated Debt Agreement **4**



IFC, a member of the World Bank Group, invested US \$ 75 Mn. in Commercial Bank, through a fund managed by its Asset Management Company (AMC), to expand Commercial Bank's operations and increase access to finance for small and medium enterprises (SMEs).

March

Commercial Bank wins the 'Best Bank in Sri Lanka' Award for the 15th consecutive time from 'Global Finance', one of the world's most respected financial publications. **5**



Commercial Bank ranked Sri Lanka's 'most desired' employer **6**



Commercial Bank has been ranked number one in a survey of 'Employers of Choice' in Sri Lanka, published in the March 2013 issue of LMD magazine.

Commercial Bank presents scholarships & laptops to 50 more undergraduates **7**



This is the sixth such programme by the Bank's CSR Trust's 'Sarasaviyaya Nawa Saviyak' community initiative.

CBC's 228th & 229th Service Points were opened at Kalutara Arpico & Ja-Ela K-Zone. **8**

April

Commercial Bank Empowers 260 Rural Students Under Its English Education Programme **9**



The four-month course completed at Kriellea Madya Maha Vidyalaya in Ratnapura will be repeated at schools across the country under a national scale community initiative by Commercial Bank CSR Trust to take English language education to children in rural areas.

CBC's 230th, 231st & 232nd Service Points were opened at Pottuvil, Medawachchiya & Mattegoda Laughs Super. **10**



Pottuvil opening

May

Commercial Bank adjudged 'Most Productive Network' in South Asia by MoneyGram the global funds transfer company for the second successive year. **11**



Commercial Bank funds coral replanting in unique CSR project **12**



A groundbreaking project to replant coral in the Hikkaduwa Marine National Park has been launched by the Department of Wildlife Conservation with funding from the CSR Trust of Commercial Bank of Ceylon.

June

Commercial Bank went festive in June for country-wide 'Savings Fiesta' **13**



Branches and service points of the Commercial Bank country-wide went festive on an unprecedented scale in June 2013, when Sri Lanka's largest private bank launched a month-long 'Savings Fiesta', which was a great success.

July

Commercial Bank the only Sri Lankan Bank in Top 1000 Global Banks for 3rd successive year **14**



The prestigious ranking published annually by 'The Banker' of the UK, has ranked Commercial Bank at No. 983 in 2013, with Tier 1 capital of US \$ 355 Mn. at the end of 2012.

August

Commercial Bank adjudged Sri Lanka's 'Best Trade Bank' for 4th time **15**



Commercial Bank was adjudged the 'Best Trade Bank' in Sri Lanka by Trade Finance magazine of the UK, following an independent poll of services provided by banks.

Commercial Bank No 02 in "Most Respected" corporate in the country **16**

The Commercial Bank of Ceylon retained its position as the second 'Most Respected' corporate entity in Sri Lanka in 2013 in the annual LMD rankings. Significantly, the Bank was ranked top in Sri Lanka for 'Honesty' and 'Financial Performance', two of the most important aspects for entities in the financial services sector.

Commercial Bank steps up efforts to support SMEs 17



Commercial Bank, the largest lender to Sri Lanka's Small and Medium Enterprise (SME) sector in 2012, has announced the establishment of a dedicated centre exclusively for the processing of loan applications from SMEs.

Commercial Bank opens its 10th Agriculture & Micro Finance Unit in Vavuniya 18



The Commercial Bank CSR Trust funded the reconstruction of the Kilinochchi Railway Station which is an important station on the Northern Railway line. His Excellency the President was the Chief Guest at the historic occasion of reopening of the Railway Station. The President also opened Commercial Bank's 575th ATM at the Kilinochchi Railway Station.

September

Commercial Bank Funded the reconstruction of Kilinochchi Railway Station. 19



The Commercial Bank CSR Trust funded the reconstruction of the Kilinochchi Railway Station which is an important station on the Northern Railway line. His Excellency the President was the Chief Guest at the historic occasion of reopening of the Railway Station. The President also opened Commercial Bank's 575th ATM at the Kilinochchi Railway Station.

Commercial Bank's CSR Trust Donates Landmark 100th IT Lab To Mirihanegama Vidyalyaya. 20



Commercial Bank introduced a new current account named 'Achiever' exclusively for young Sri Lankan entrepreneurs and executives to manage their financial transactions.

Commercial Bank Introduce Agri Loans For Professionals 21

Commercial Agri Loans for Professionals is the latest credit scheme from Commercial Bank to empower professionals to invest in the field of agriculture to revolutionise the agriculture industry in Sri Lanka.

October

Commercial Bank's Chief Risk Officer honored with top global award 22



Mr. Sanath Manatunge, the Chief Risk Officer (CRO) of Commercial Bank was honoured with the prestigious 'Chief Information Security Officer of the Year' Award at the International Council of E-Commerce Consultants (EC-Council) Global CISO Forum in Atlanta, USA.

Commercial Bank adjudged 'Emerging Islamic Finance Entity' of the Year 23



Commercial Bank was presented with the Gold award for 'Emerging Islamic Finance Entity' of the Year at the annual Sri Lanka Islamic Banking and Finance Industry (SLIBFI) awards in Colombo recently.

Commercial Bank No. 02 in Business Today Top 25 24

Commercial Bank has been accorded second place in the Business Today 'Top 25' ranking of Sri Lanka's top performing public listed corporate entities in 2012-13.

Commercial Bank launches 'Achiever' Current Account 25



Commercial Bank introduced a new current account named 'Achiever' exclusively for young Sri Lankan entrepreneurs and executives to manage their financial transactions.

Commercial Bank launches On-line Banking in Bangladesh 26



Commercial Bank launched its sophisticated Internet Banking service in Bangladesh, where the Bank operates a network of 18 branches and service points.

November

Commercial Bank wins 4 Awards at Best Corporate Citizen Awards presented by the Ceylon Chamber of Commerce 27



The Bank received the Gold award for 'Governance' in the Category Awards, the Gold award for 'Education' in the awards for Long Term Projects and a merit award for 'Infrastructure' and was adjudged one of Sri Lanka's 10 best corporate citizens at this prestigious event.

Commercial Bank extends support to Commonwealth Business Forum 28



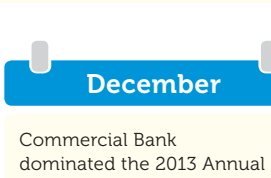
Commercial Bank sponsored The Commonwealth Business Forum (CBF) session on Banking & Finance, which was a spectacular success with full attendance by Commonwealth delegates, regulators, bankers and business leaders, and a vibrant question and answer session.

Commercial Bank Opens '24-Hour Automated Banking Centre' at Ward Place 29



The '24-Hour Automated Banking Centre', located at Ward Place branch, offers opening of savings accounts and fixed deposits, access to online banking, settlement of credit card dues, and withdrawals via an ATM, as well as cash and cheque deposits.

CBC's 233rd Service Point was opened at Kadawatha Arpico 30



Overall Excellence in Financial Reporting Best Annual Report - Banking Sector Gold award for Management Commentary Silver award for Corporate Governance Disclosure

December

Commercial Bank dominated the 2013 Annual Report Awards of the Institute of Chartered Accountants of Sri Lanka, winning the topmost award for the Best Annual Report across all sectors and three category awards 31



Overall Excellence in Financial Reporting Best Annual Report - Banking Sector Gold award for Management Commentary Silver award for Corporate Governance Disclosure

CBC's 234th & 235th Service Points were opened at Rajagiriyaya Keells Super & Attidiya. The Bank also opened its 11th Agriculture & Micro Finance Unit at Ratnapura 32



Attidiya Opening

Awards and Accolades

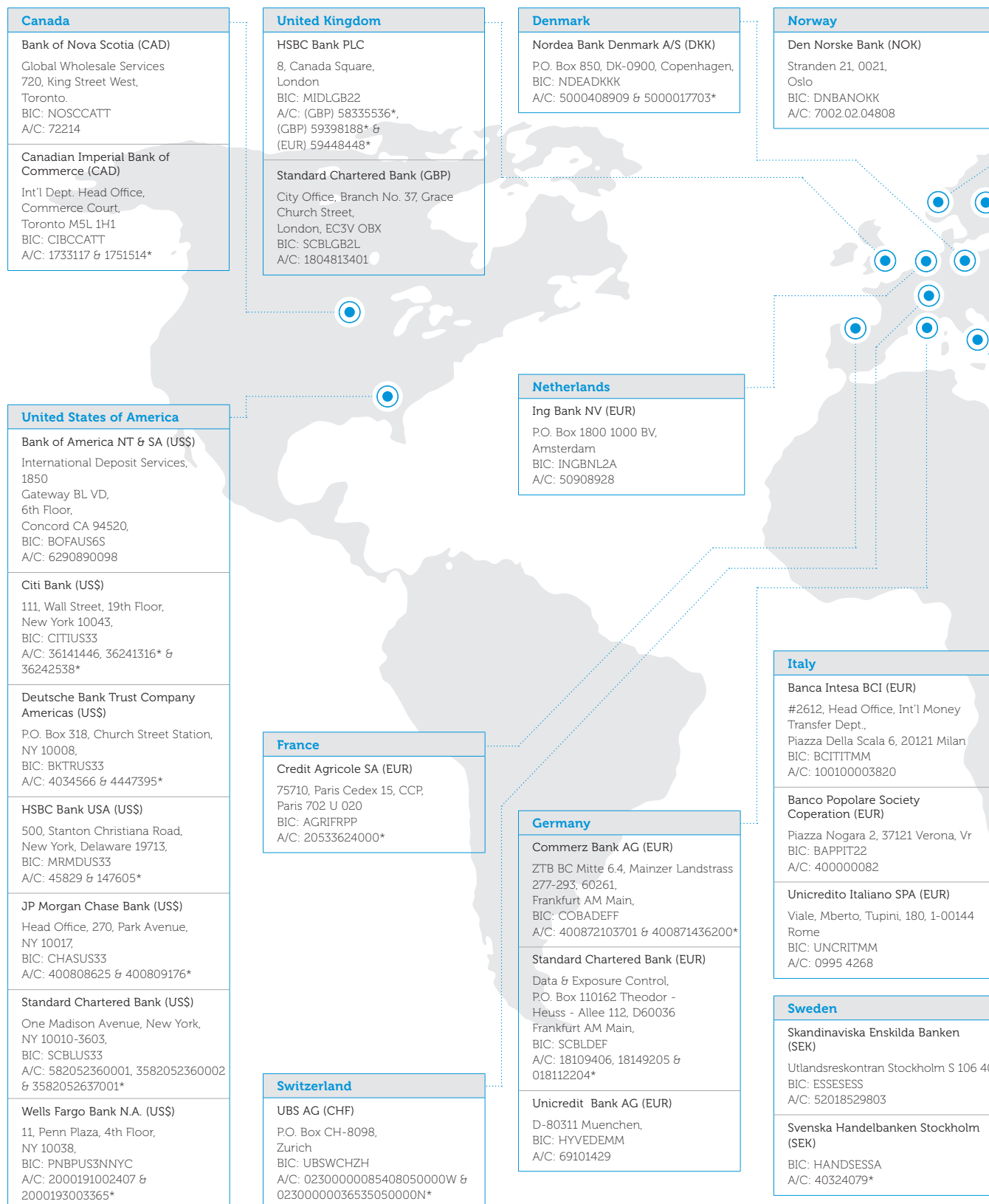
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
In Sri Lanka										
• Ratings by Fitch Ratings Lanka Ltd. - National Long term Rating	AA (lka)	AA (lka)	AA (lka)	AA (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (sri)	AA+ (sri)
• Ratings by RAM Ratings (Lanka) Ltd. - Long term Financial Institution Ratings	AA+	AA+	AA+							
• Ratings by RAM Ratings (Lanka) Ltd. - Short term Financial Institution Ratings	P1	P1	P1							
• Sri Lankan Bank amongst the Top 1000 Banks of the World - The Banker, UK	Entrant	Entrant	Entrant			Entrant				
• 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
• Award for Excellence by Euro Money Magazine (UK) - Best Bank Sri Lanka (1st Bank in Sri Lanka to win this award)		Winner	Winner				Winner			
• Award for Excellence by Trade Finance Magazine (UK) - Best Local Trade Bank	Winner	Winner	Winner		Winner					
• Awards by Finance Asia - Best Bank in Sri Lanka		Winner	Winner	Winner	Winner					
• 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	Winner	Joint 2nd R-up	Winner	Joint 1st R-up		Joint Winner	1st R-up	Winner	Winner	Winner
Banking Sector	Winner	Winner	Winner	1st R-up	Joint 1st R-up	Winner	Winner	Winner	Winner	Winner
Corporate Governance Disclosure	1st R-up	1st R-up	1st R-up	2nd R-up	Joint 1st R-up				Winner	Joint 1st R-up
Corporate Social Responsibility				2nd R-up						Joint 1st R-up
Management Commentary	Winner		2nd R-up	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			1st R-up	Joint 2nd R-up	Joint 1st R-up	Winner	Winner	Winner	Winner	Winner
Corporate Governance Disclosure		1st R-up	1st R-up	2nd R-up				Winner		
In Bangladesh										
• Credit Ratings by Credit Rating Information Services Ltd.	AAA	AAA	AAA	AA+	AA+	AA+	AA	AA	AA	AA
• 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				Winner			Winner
• Institute of Cost and Management Accountants of Bangladesh - National Best Corporate Award		2nd R-up	2nd R-up		2nd R-up		2nd R-up			
• Desher Kagoj Business Award - Best Foreign Bank							Winner			
• Banker's Forum CSR Awards by Banker's Forum				Winner						

Historical Landmarks

- 1920** The Eastern Bank Ltd. (EBL) opened a branch in Chatham Street.
- 1957** The share capital of EBL was acquired by the Chartered Bank.
- 1969** The Commercial Bank of Ceylon Ltd. was incorporated with EBL holding 40% of its equity.
- 1971** The business of the EBL was taken over by the Chartered Bank.
- 1973** The Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. were acquired by the Bank.
- 1979** The Foreign Currency Banking Unit (FCBU) was formed.
- 1980** Commercial Development Company Ltd. was incorporated to construct a Headquarters for the Bank with a 40% equity participation.
- 1984** The Headquarters of the Bank was shifted to 'Commercial House', No. 21, Bristol Street (now known as Sir Razik Fareed Mawatha), Colombo 01.
- 1987** EBL changed its name to Standard Chartered (UK) Holdings Ltd.
- 1988** An associate company, Commercial Leasing Company Ltd. was formed.
- 1990** Introduced ATM facilities to its customers.
- 1993** Introduced the Core Banking Software - International Comprehensive Banking System (ICBS).
- 1994** Bank celebrated its 25th Anniversary.
- 1996** Shareholdings in Commercial Development Company Ltd. increased to 94.55% through a share swap.
- 1997** Standard Chartered Bank sold its 40% stake in the Bank.
- 1998** 365-day branch at Colombo 07 was opened. All branches except Jaffna were linked to the ICBS.
- 1999** Banking and supermarketing were combined by opening the first 'MiniCom'.
- 2000** Internet Banking was 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 was taken over.

- 2004** Commercial Bank Social Responsibility Trust was set up.
- 2005** Raised 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.
Introduced 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.
Opened 150th branch at Mahiyanganaya.
- 2008** Sold 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** Became the first and only Bank in Sri Lanka to be CMMi certified.
Bank installed its 350th ATM at the Piliyandala branch.
- 2010** Installed its 400th ATM at the Ruwanwella branch adding 50 ATMs during the year.
- 2011** Became the only Sri Lankan bank to be ranked among the 'Top 1000 Banks in the World' for the 2nd time.
Opened the 200th delivery point at Kataragama and installed the 500th ATM.
Set up Islamic Banking Unit and Elite Branch for high networth customers.
- 2012** Became the only Sri Lankan bank to be ranked among the 'Top 1000 Banks in the World' for the 3rd time and for the 2nd consecutive year.
Raised as US \$ 65 Mn. from the International Financial Corporation (IFC).
- 2013** Became the only Sri Lankan bank to be ranked among the 'Top 1000 Banks in the world' for the 4th time and for the third consecutive year.
Adjudged as Sri Lanka's 'Best Bank' for the 15th consecutive year by one of the world's most respected financial publications, 'Global Finance (USA)'.
Adjudged as the 'Best Local Trade Bank in Sri Lanka' by 'Trade Finance Magazine (UK)' for the 4th time and 3rd consecutive year.
Raised US \$ 75 Mn. from the IFC as a ten year Subordinated Term Debt that qualifies for Tier II Capital.
Bank's Annual Report 2012, was adjudged as the Overall Winner at the Annual Reports Competition conducted in 2013 by the ICASL. The Report won two other Gold Awards and a Silver Award.

Correspondent Banks



Correspondent Banks

Country	Bank Name	Details
Pakistan	Standard Chartered Bank (ACS)	1.1, Chundrigar Road, Karachi 75600 BIC: SCBLPKK A/C: 15000297601USD & 15000288701USD*
Bangladesh	Commercial Bank of Ceylon PLC (ACS)	Corporate Branch and Head Office Hadi Mansion, 2 Dilkusha C/A Dhaka 1000. BIC: CCEYBDDH A/C: 2802000017
China	Standard Chartered Bank (CNY)	22nd Floor, Standard Chartered Tower, 201, Century Avenue, Pudong, Shanghai. BIC: SCBLCNSX A/C: 501510533540
Korea	Hana Bank (US\$)	No 101-1, 1KA, EULJIRO, Chung-ku, Seoul 100-191. BIC: HNBKRSSE A/C: 06091000119831
	Kookmin Bank (US\$)	9-1, 2GA, Namdaemun - RO, Jung - GU, Seoul 100-703. BIC: CZNBKRSSE A/C: 7598USD010 & 7618USD013*
	Woori Bank (US\$)	No. 203, Hoehyeon-dong 1-gaJung- gu, Seoul. BIC: HVBKRSSE A/C: W1027001US
Japan	Bank of Tokyo Mitsubishi Ltd. (JPY)	P.O. Box 191, Nihonbashi, Tokyo. BIC: BOTKJPJT A/C: 653-0461318*
	Standard Chartered Bank (JPY)	P.O. Box 9997, 21st Floor, Sanno Park, Tower 2-11-1, Nagata-cho, Chiyoda- ku, Tokyo 100-6155 BIC: SCBLJPJT A/C: 2168531110
	Sumitomo Mitsui Banking Corporation (JPY)	International Business Operations Dept.1-5-3, Kudanminami, Chiyoda-ku, Tokyo,102-0074 BIC: SMBCJPJT A/C: 4395
Hong Kong	Standard Chartered Bank	P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road, BIC: SCBLHKHH A/C: (HKD) 41109468048, (HKD) 44709419107* & (CNY) 44709448344
Singapore	Citibank NA (US\$)	3, Temasek Avenue, # 14-00, Sennial Tower BIC: CITISGSG A/C: 851122001
	Standard Chartered Bank (SGD)	P.O. Box 1901, 6, Battery Road, 7th Storey BIC: SCBLSGSG A/C: 109344561 & 102318735*
India	Axis Bank Limited (US\$)	4th Floor, Axis House, Bombay Dyeing Mills Compound, Pandurang Budhkar Marg, Mumbai - 400 025 BIC: AXISINBB A/C: 910020049396568*
	Bank of Ceylon, Chennai (ACE)	1090, Poonamallee High Road, Chennai 600 084 BIC: BCEYINSM A/C: 1-119
	ICICI Bank Ltd. (ACS)	ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051 BIC: ICICINBB A/C: 406000181 & 000406000220*
	Standard Chartered Bank	23-25, Mahathma Gandhi Road, P.O. Box 558, Mumbai 400 001 BIC: SCBLINBB A/C: 22205031885 (ACS) & 22205394120 (ACE)
New Zealand	Bank of New Zealand (NZD)	P.O. Box 2392, 1, Willis Street, Wellington BIC: BKNZLN22985 A/C: 2659680000 & 2690700000*
Australia	Bank of America NA (AUD)	Level 37, Governor Philip Tower 1 Farrer Place, Sydney NSW 2000 BIC: BOFAAU333 A/C: :16421015*
	HSBC Bank Australia Ltd. (AUD)	580, George Street, Sydney NSW BIC: HKBAU2S A/C: :011-796323-041*
	National Australia Bank (AUD)	500, Bourke Street, Melbourne VIC 3000 BIC: NATAAU33 A/C: 1803020052500
Sri Lanka	Commercial Bank of Ceylon PLC (ACS)	Commercial House, 21, Sir Razik Fareed Mawatha, P.O. Box 856, Colombo 1 BIC: CCEYLKX A/C: 1420825031*
Saudi Arabia	The National Commercial Bank (US\$)	International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah 21481, BIC: NCBKSAJE A/C: 55535150090301
United Arab Emirates	Blom Bank France (AED)	P.O. Box 4370, Al Maktoum Street, Deira, Dubai BIC: BLOMAEAD A/C: 510035395784101000
	Mashreq Bank (AED)	P.O. Box 1250, Dubai BIC: BOMLAEAD A/C: AE270330000010195511268

* Accounts of Bangladesh operations

Glossary of Financial and Banking Terms

A

Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the word 'accepted' above his signature and a designated payment date.

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Associate

An entity in which the investor has significant influence and which is neither a subsidiary nor an interest in a joint venture.

Available-for-sale

All assets not in the any of the three categories, namely, Held-to-Maturity, Fair Value through profit or loss and Loans & receivables.

B

Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

C

Capital Adequacy Ratio

The ratio 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.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Commitments

Credit facilities approved but not yet utilised by the clients as at the date of the Statement of Financial Position.

Contingencies

A condition or situation existing at date of the Statement of Financial Position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost/Income Ratio

Total Operating expenses as a percentage of net income.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Credit Risk

Risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Currency 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.

D

Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g., an interest rate).

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

Dividend Yield

Dividend per share as a percentage of its market value.

Documentary Credits

A document from one bank to another, authorising the payment of a specified sum to the person named in the documents on certain specified conditions.

E

Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Tax Rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

F

Fair Value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Through Profit or Loss

A financial asset/ liability: Acquired/ incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

Finance Lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under leased.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

Group

A group is a parent and all its subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfill the obligations of a person owing a debt if that person fails to perform.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest rate, Prices and Commodities, etc.).

Glossary of Financial and Banking Terms

Held-to-Maturity

Debt assets acquired by the entity with positive intention to be held to maturity.

I**Impaired Loans**

Loans where identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Provisions

Impairment provisions are a provision held as a result of the raising of a charge against profit for the incurred loss. An impairment provisions may either be identified or unidentified and individual (specific) or collective (portfolio).

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

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.

K**Key Management Personnel (KMP)**

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.

Loans and Receivables

Conventional loan assets that are unquoted (originated or acquired).

M**Market Capitalisation**

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N**Net 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 Controlling Interest

Equity in a subsidiary not attributable, directly or indirectly, to a parent.

O**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**Parent**

A Parent is an entity that has one or more subsidiaries.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

Provision Cover

Total provisions for loan losses expressed as a percentage of net non-performing loans and advances before discounting for provisions on non-performing loans and advances.

R**Related Parties**

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 expressed as a percentage of the average assets.

Risk-Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Return on Average Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

S**Segment Reporting**

Disclosure of Bank's assets, income and other information, broken down by activity and geographical area.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Bank.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Subsidiary

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity (known as the Parent).

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.

Y**Yield to Maturity**

Discount rate at which the present value of future cash flows would equal the security's current price.

Alphabetical Index

	Page		Page		Page		Page
About Our Bank	3	Directors' Statement on Internal Control	258	Interest Cover	253	Other Liabilities	340
Accounting Policies	273	Distribution & Composition of Shareholders	69	Interest Expense	299	Other Reserves	345
Annual Report of the Board of Directors	198	Dividends	6	Interest Income	299	Personnel Costs	302
Assurance Report on Internal Control	260	Dividend Cover	6	Interest Yield on Debentures	253	Price Earnings Ratio	06
Auditors' Report	262	Dividend Per Share	6	Investments in Associates	326	Principal Activities and Nature of Operations	273
Awards and Accolades	404	Donations	7	Investments in Subsidiaries	325	Property, Plant & Equipment	327
Balances with Central Banks	310	Due to Customers	339	Investor Relations Supplement	241	Provision Cover	52
Bangladesh Branch & ATM Network	26	Earnings Per Share	6	Leasehold Properties	335	Provision for Gratuity	340
Board Audit Committee Report	192	Economic Value Added	121	Lease Receivable	318	Provisions for Collective Impairment	318
Board Human Resources & Remuneration Committee Report	187	Effective Tax Rate	303	Letter from the Chairman	8	Provisions for Individual Impairment	318
Board Integrated Risk Management Committee Report	189	Employee Share Option Plan	343	Liquid Assets Ratio	6	Quarterly Performance	245
Board Nomination Committee Report	191	Events 2013	402	Litigation Against the Bank	349	Related Party Disclosures	359
Board of Directors	130	Events After the Reporting Period	363	Loans & Receivables to Banks	315	Return on Assets	52
Board of Directors' Profiles	132	Financial Calendar	255	Loans & Receivables to Other Customers	316	Return on Average Shareholders' Funds	400
Board Sub-Committees	159	Financial Goals	6	Macro Economic Environment	17	Senior Management Team	138
Capital Adequacy Computation	213	Financial Highlights	6	Management Committee - Bangladesh	140	Sources and Distribution of Income	55
Capital Commitment	348	Financial Instruments Held for Trading	311	Management Discussion and Analysis	15	Stated Capital	342
Cash and Cash Equivalents	309	Financial Investments - Available for Sale	322	Managing Director's and Chief Financial Officer's Responsibility Statement	261	Statement of Cash Flows	298
Contingent Liabilities and Commitments	347	Financial Reports	255	Managing Director's Review	10	Statement of Changes in Equity	268
Corporate Governance	142	Financial Review	48	Managing Risk at Commercial Bank	210	Statement of Comprehensive Income	266
Corporate Information	Inner Back Cover	Foreign Exchange Profit	54	Market Capitalisation	71	Statement of Directors' Responsibility	256
Corporate Management Team	134	Form of Proxy	Enclosed	Market Prices of Shares	253	Statement of Financial Position	267
Correspondent Banks	407	Free Capital	53	Maturity Analysis	350	Statutory Reserves Fund	344
Cost-Income Ratio	86	General Reserve	346	Mission	2	Subordinated Liabilities	341
Decade at a Glance	398	Government Treasury Bills, Bonds & Other Securities	398	Net Assets Value Per Share	6	The Banking Industry	123
Deferred Tax	336	GRI Content Index	383	Network of Delivery Points - Sri Lanka	81	Total Equity	267
Derivative Financial Instruments	338	Group Structure	405	Notes to the Financial Statements	273	Twenty Largest Shareholders	248
Direct Economic Value Generated and Distributed	54	Historical Landmarks	406	Notice of Meeting	411	US Dollar Accounts	396
Directors' Interests in Contracts with the Company	208	Impaired Loans	322	Operating Highlights	7	Vision	02
		Income Statement	265	Operating Segments	355	Yield to Maturity of Debentures	253
		Income Tax Expense	303	Other Assets	337		
		Independent Assurance Statement - DNV	380	Other Borrowings	339		
		Independent Assurance Statement - KPMG	378	Other Expenses	302		
		Information on Movement in Stated Capital	342				
		Intangible Assets	334				

Notice of Meeting

Notice is hereby given that the Forty Fifth Annual General Meeting (AGM) of the Commercial Bank of Ceylon PLC (the 'Company') will be held at the Galadari Hotel, 'Grand Ballroom', No. 64, Lotus Road, Colombo 01, on March 31, 2014, at 2.00 p.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, 2013, with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Board of 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. 3,397,131,144/- based on the issued ordinary (voting) and (non-voting) shares as at February 24, 2014 (subject however to necessary amendments being made to such numbers to include the dividends on the options that may be exercised by employees under the Company's ESOP schemes) constituting a dividend of Rs. 4/- per issued and fully-paid ordinary (voting) and (non-voting) share, for the financial year ended December 31, 2013, be hereby declared.

THAT such dividend so declared be paid out of exempt dividends received (if any), dividends received on which Withholding Tax has already been paid by the paying companies (if any), and the balance out of the profits of the Company, which balance would be liable to a Withholding Tax of ten percent (10%).

THAT the Shareholders entitled to such dividend would be those Shareholders [both ordinary (voting) and (non-voting)], whose names would be on the Shareholders' Register maintained by the Registrars of the Company (SSP Corporate Services (Pvt) Ltd. No. 101, Inner Flower Road, Colombo 03) and also those Shareholders whose names appear on the Central Depository System (Pvt) Ltd. ("CDS") as at end of trading on the date on which the requisite resolution of the Shareholders (the "entitled shareholders") in this regard is passed.

THAT the declared final dividend, at the rate of Rs. 4/- per issued and fully paid ordinary (voting) and (non-voting) share, be distributed partly by the payment of cash and partly by the allotment and issue of new ordinary (voting) and (non-voting) shares (the 'distribution scheme') based on the share prices of ordinary (voting) and (non-voting) shares as at February 24, 2014, such being the

market date on which the Board formally resolved to recommend the dividend to the Shareholders, as follows:

- The payment in cash of Rs. 2/- per issued and fully-paid ordinary (voting) and (non-voting) share (less any Withholding Tax); and
- The allotment and issue of new ordinary (voting) and (non-voting) shares in satisfaction of the balance Rs. 2/- dividend entitlement. (less any Withholding Tax)

THAT the implementation of the said distribution scheme be as follows:

(i) By way of a cash distribution:

A cash distribution of a sum of Rs. 1,589,479,128/-, subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by the employees under the Company's ESOP schemes, shall be made to the Shareholders holding ordinary (voting) shares; and a sum of Rs. 109,086,444/- shall be made to the Shareholders holding ordinary (non-voting) shares, on the basis as aforesaid of Rs. 2/- per ordinary (voting) and (non-voting) share respectively (less any Withholding Tax), 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 also those Shareholders whose

names appear on the CDS as at end of trading on the said date.

And

(ii) By way of the allotment and issue of new shares:

The balance sum of:

- Rs. 1,589,479,128/-, subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes, to which the ordinary (voting) Shareholders are entitled (less any Withholding Tax); and
- Rs. 109,086,444/-, to which the ordinary (non-voting) Shareholders are entitled (less any Withholding Tax),

shall be satisfied by the allotment and issue of new ordinary (voting) and (non-voting) shares to the ordinary (voting) and (non-voting) Shareholders 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 also those Shareholders whose names appear on the CDS as at end of trading on the said date.

Such new shares shall be issued on the basis of the following ratios:

- (a) 01 new fully-paid ordinary (voting) share for every 63.611111 existing issued and fully-paid ordinary (voting) shares

Notice of Meeting

calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 24, 2014, being the market date on which the Board formally resolved to recommend the dividend to the Shareholders; and

- (b) 01 new fully-paid ordinary (non-voting) share for every 52.611111 existing issued and fully-paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 24, 2014, being the market date on which the Board formally resolved to recommend the dividend to the Shareholders.

THAT the ordinary (voting) and (non-voting) share fractions, respectively, arising in pursuance of the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares, be aggregated, and the ordinary (voting) and (non-voting) shares, respectively, arising consequent to such aggregation be allotted to a Trustee to be nominated by the Board of Directors of the Company, and that the Trustee so nominated be permitted to hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the Colombo Stock Exchange ('CSE'),

and that the net sale proceeds thereof be donated to a charity or charities approved by the Board of Directors of the Company.

THAT the new shares to be issued in pursuance of the said distribution scheme constituting a total issue of 12,493,722 new ordinary (voting) shares, based on issued ordinary voting shares as at 24 February 2014, subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes, and 1,036,724 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 respectively,

THAT the new ordinary (voting) and (non-voting) shares to be so allotted and issued shall not be eligible for the payment of the cash dividend declared hereby and which cash dividend shall accordingly be payable to the Shareholders whose names will be registered in the books of the

Company and CDS, as at end of trading on the date on which the requisite resolution is passed by the Shareholders.

3. To re-elect Directors in place of those retiring by rotation or otherwise, as given below:
 - (a) Mr. Dinesh Stephen Weerakkody
 - (b) Mr. Mahinda Preethiraj Jayawardena
4. (a) To appoint Messrs KPMG as recommended by the Board of Directors, as Auditors to the Company for the ensuing year and
 - (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 2014.

By Order of the Board,



Mrs. R.R. Dunuwille
Company Secretary

March 06, 2014
Colombo

Notes

- i. A Shareholder entitled to attend, speak and vote at the AGM 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 AGM 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, Sir Razik Fared Mawatha (formerly known as Bristol Street), Colombo 01, not less than 48 hours before the time appointed for the holding of the AGM.

Circular to the Shareholders



Dear Shareholder/s,

Final Dividend for the Year Ended December 31, 2013 to be Satisfied Partly by the Distribution of Cash and Partly by the Allotment and Issue of New Shares

The Board of Directors of Commercial Bank of Ceylon PLC (the 'Company'), is pleased to inform its Shareholders that a final dividend distribution of Rs. 4/- per issued and fully-paid ordinary (voting) and (non-voting) share is recommended for approval by the Shareholders at the Annual General Meeting ('AGM') to be held on March 31, 2014. The Board of Directors is confident 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 will be satisfied in accordance with a distribution scheme whereby a cash distribution will be made in part satisfaction of such dividend, constituting a total cash distribution of Rs. 1,698,565,572/-, based on the issued ordinary shares as at February 24, 2014. The aforesaid amount is subject however to necessary amendments being made to accommodate the dividend payable on the options

that may be exercised by employees under the Company's ESOP schemes. New ordinary (voting) and (non-voting) shares will be allotted and issued, in satisfaction of the remaining dividend entitlement, constituting a total sum of Rs. 1,698,565,572/-, based on the issued ordinary shares as at February 24, 2014. The aforesaid amount is subject however to necessary amendments being made to accommodate the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes.

Accordingly, and in pursuance of the aforesaid distribution scheme, the Company will issue such number of new ordinary (voting) shares, based on issued ordinary (voting) shares as at February 24, 2014, 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, calculated on the basis of the market value of the ordinary (voting) shares (closing price) as at the end of trading on February 24, 2014, (such being the market date on which the Board formally resolved to recommend the dividend

to the Shareholders) and such number of new ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares (closing price) as at the end of trading on February 24, 2014 (such being the market date on which the Board formally resolved to recommend the dividend to the Shareholders), to those ordinary (voting) and (non-voting) Shareholders registered in the Company's books and Central Depository Systems (Pvt) Ltd. ('CDS') as at the end of trading on the date on which the requisite resolution of the Shareholders (the 'entitled Shareholders') in this regard is passed.

The said shares shall be issued in the following ratios to the entitled Shareholders:

- (a) One new fully-paid ordinary (voting) share for every 63.611111 existing issued and fully-paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at the end of trading on February 24, 2014, such being the market date on which the Board formally resolved to recommend the dividend to the Shareholders; and

- (b) One new fully-paid ordinary (non-voting) share for every 52.611111 existing issued and fully-paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at the end of trading on February 24, 2014, such being the market date on which the Board formally resolved to recommend the dividend to the Shareholders.

The Board is satisfied that the consideration for which the new shares are to be allotted and issued is fair and reasonable to the Company and to all its existing Shareholders.

The new ordinary (voting) and (non-voting) shares to be so issued, immediately consequent to due allotment thereof to the entitled Shareholders, shall rank equal and pari passu in all respects with the existing issued and fully-paid ordinary (voting) and (non-voting) shares, respectively, of the Company.

The Company's profit for the year 2013 will be utilised for the issue and allotment of new shares, in the event the Shareholders' approval is obtained for the aforesaid distribution scheme.

Notice of Meeting

The residual fractions arising from the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares respectively, 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 of Directors. The Trustee so nominated, will hold the said shares in trust until such shares are sold by the Trustee on the trading floor of the Colombo Stock Exchange ('CSE'). The net sale proceeds arising therefrom, subject to receiving the approval of the Shareholders therefor, shall be distributed to a charity/charities approved by the Board of Directors.

In calculating the number of shares held by a Shareholder as at the relevant date for the proposed allotment and issue of new shares, the shareholding of the Shareholder as appearing in the CDS and the Shareholders' Register maintained by the Registrars of the Company (SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03) will not be aggregated. However, if a Shareholder holds shares with multiple stock brokers, the shares held with multiple stock brokers will be aggregated for calculation purposes, and the shares arising as a result of the proposed issue and allotment of new shares will be uploaded proportionately to the respective CDS accounts held with each

broker. The Company has obtained the approval in principle of the CSE for the proposed allotment and issue of new shares.

The Board of Directors hereby confirm that the allotment and issue of new shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the Companies Act No. 07 of 2007.

The Board of Directors emphasises that the aforementioned allotment and issue of new shares is in part satisfaction of the final dividend for the year ended December 31, 2013 and shall be dependent on and subject to the Shareholders passing the requisite resolution approving the aforementioned distribution scheme.

In the event that the requisite resolution approving the dividend (including the part satisfaction thereof by way of the issue and allotment of new shares) is passed by the Shareholders, the accounts of the Shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares within 07 market days from and excluding the date on which the resolution was passed.

Pursuant to a Direction issued by the Securities and Exchange Commission ('SEC') pertaining to the de-materialisation of listed securities, the Shareholders who hold shares in scrip form (i.e. Share Certificates)

as per the Register maintained by the Registrars of the Company, will not be issued Share Certificates for the new shares allotted and issued in their favour. Such Shareholders are requested to deposit their Share Certificates in the CDS prior to the date of the AGM of the Company. This will enable the Company to deposit the new shares directly into the Shareholder's CDS Account.

New shares pertaining to Shareholders who fail to deposit their shares in the CDS prior to the date of the AGM will be deposited after such Shareholders open a CDS Account, if necessary, deposit their existing Share Certificates at the CDS and inform the Registrars to the Company in writing of their CDS Account numbers. Direct uploads pertaining to written requests received from Shareholders to deposit such shares will be done on a weekly basis.

Attached hereto is the Annual Report comprising the Notice convening the AGM for March 31, 2014 and setting out in item 2 thereof, the relevant resolution to be passed by the Shareholders on the above regard.

Shareholders who are unable to attend the AGM in person are entitled to appoint a proxy to attend and speak and also vote on their behalf, depending on their voting rights. 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 AGM.

Yours faithfully,
By Order of the Board
Commercial Bank of
Ceylon PLC

(Sgd.)
Mrs. R.R. Dunuwille
Company Secretary

March 06, 2014

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. Dinesh Stephen Weerakkody	whom failing
Mr. Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Prof. Uditha Pilane Liyanage	whom failing
Mr. Wadugamudalige Marius Ravindra Srilal Dias	whom failing
Mr. Lakshman Hulugalle	whom failing
Mr. Mahinda Preethiraj Jayawardena	whom failing
Mr. Jegatheesan Durairatnam	whom failing
Mr. Sembakuttige Swarnajothi	

as my/our Proxyholder to represent me/us and/or 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 Fifth Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC to be held on March 31, 2014 and at any adjournment thereof and at every poll which may be taken in consequence thereof. (Please indicate your preference with an 'X' in the relevant box)

	Against	For
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, 2013 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the requisite resolution. (A separate circular is attached)	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those retiring by rotation as given below:	<input type="checkbox"/>	<input type="checkbox"/>
(a) Mr. Dinesh Stephen Weerakkody	<input type="checkbox"/>	<input type="checkbox"/>
(b) Mr. Mahinda Preethiraj Jayawardena	<input type="checkbox"/>	<input type="checkbox"/>
4. (a) To appoint Messrs KPMG 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 for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2014.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this day of Two Thousand and Fourteen.

..... Folio Number Signature/s of Shareholder/s NIC/PP/Co. Reg. No. of Shareholder/s
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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/she 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 in the event 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.
- (v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Instructions as to Completion of Form of Proxy

(a) Article 68 of the Articles of Association of the Company provides that:

"An instrument appointing a proxy shall be in writing, and

(i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so 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.

(ii) A proxy need not be a Member of the Company."

(b) In terms of Article 63 of the Articles of Association of the Company:

"In the case of joint-holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint-holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding."

(c) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.

(d) The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, Sir Razik Fareed Mawatha (formerly known as Bristol Street), Colombo 01, not less than 48 hours before the time appointed for the holding of the Meeting.

(e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of Shareholders.

"57. 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 five persons present in person or by attorney or representative or by proxy and entitled to vote; or

(iii) A Member or Members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the Members having the right to vote at the Meeting.

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.

58. How a Poll is 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 the 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.

59. Chairman's Casting Vote

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

60. 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 CONTAINING 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. Dinesh Stephen Weerakkody	whom failing
Mr. Kankanam Gamage Don Dharmasena Dheerasinghe	whom failing
Prof. Uditha Pilane Liyanage	whom failing
Mr. Wadugamudalige Marius Ravindra Srilal Dias	whom failing
Mr. Lakshman Hulugalle	whom failing
Mr. Mahinda Preethiraj Jayawardena	whom failing
Mr. Jegatheesan Durairatnam	whom failing
Mr. Sembakuttige Swarnajothi	

as my/our Proxyholder to represent me/us, and/or to speak on my/our behalf at the Forty Fifth Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on March 31, 2014 and at any adjournment thereof.

Signed on this day of Two Thousand and Fourteen.

.....
 Folio Number

.....
 Signature/s of Shareholder/s

.....
 NIC/PP/Co. Reg. No. of Shareholder/s

Notes

- (i) Instructions as to completion of this Form of Proxy are given overleaf.
- (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 in the event 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.
- (v) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Instructions as to Completion of Form of Proxy

- (a) Article 68 of the Articles of Association of the Company provides that:

"An instrument appointing a Proxy shall be in writing, and

 - (i) In the case of an individual, shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so 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.
 - (ii) A proxy need not be a Member of the Company."
- (b) The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.
- (c) The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, Sir Razik Fareed Mawatha (formerly known as Bristol Street), Colombo 01, not less than 48 hours before the time appointed 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 CONTAINING 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.

Investor Feedback Form

To request information or submit a comment/query to the Company, please provide the following details and return this page to -

The Company Secretary
Commercial Bank of Ceylon PLC
'Commercial House'
21, Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 01
Sri Lanka.

Name :

Permanent Mailing Address :

Contact Number/s :

- Tel :

- Fax :

- E-Mail :

Name of Company (If Applicable) :

Designation (If Applicable) :

Company Address (If Applicable) :

.....

Queries/Comments

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Please tick (x) the appropriate box

Would you like to receive soft copies of the Commercial Bank's Interim Financial Reports via e-mail?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

Would you like to receive news and press releases of Commercial Bank via e-mail?

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

Would you like to receive any news on our products/services?

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

General

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. Commercial Bank of Ceylon PLC is a Licensed Commercial Bank under the Banking Act No. 30 of 1988.

Company Registration Number

PQ 116

Accounting Year-end

December 31

Stock Exchange Listing

The Ordinary Shares and the Unsecured Subordinated Redeemable Debentures of December 2006/December 2016 series, both fixed and floating interest rates of the Bank are listed on the Colombo Stock Exchange.

Registered Office

'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856,
Colombo 01, Sri Lanka.
Telephone (General):
2486000-3 (4 lines), 4486000,
7486000, 5486000, 2430420,
2336700, 2445010-15 (6 lines),
Tele-Banking: 2336633-5 (3 lines)
Facsimile: 2449889
SWIFT Code -
Sri Lanka: CCEYLKX
SWIFT Code -
Bangladesh: CCEYBDDH
E-mail: email@combank.net
Web: <http://www.combank.net>,
www.combank.lk

Head Office

'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856,
Colombo 01, Sri Lanka.

Information Centre

Telephone: 2353333, 7353333

Tax Payer Identification Number (TIN)

124006007

Credit Ratings

Sri Lanka Operation

- AA(lka) was re-affirmed by Fitch Ratings Lanka Ltd. in 2013
- AA+ was affirmed by RAM Ratings Lanka Ltd. in 2013

Bangladesh Operation

- AAA was re-affirmed by Credit Rating Information Services Ltd. in 2013

Compliance Officer

Mr. S.M. Richard Rodrigo

Lawyers

Messrs Julius & Creasy,
No. 41, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.

Auditors

KPMG
Chartered Accountants,
No. 32 A, Sir Mohammed Macan
Markar Mawatha,
Colombo 03, Sri Lanka.

Secretaries

S S P Corporate Services (Pvt) Ltd.,
No. 101, Inner Flower Road,
Colombo 03, Sri Lanka.
Telephone: 2573894, 2576871
Facsimile: 2573609
E-mail: sspsec@sltnet.lk
(Kindly direct any queries about the administration of the shareholding to the above Company)

Board of Directors and Sub-Committees

Board of Directors

Mr. D.S. Weerakkody - *Chairman*
Mr. K.G.D.D. Dheerasinghe -
Deputy Chairman
Mr. W.M.R.S. Dias -
Managing Director/CEO
Prof. U.P. Liyanage
Mr. L. Hulugalle
Mr. M.P. Jayawardena
Mr. S. Swarnajothi
Mr. J. Durairatnam

Company Secretary

Mrs. R.R. Dunuwille

Board Sub-Committees

Board Human Resources & Remuneration Committee

Mr. D.S. Weerakkody - *Chairman*
Mr. K.G.D.D. Dheerasinghe
Prof. U.P. Liyanage
Mr. W.M.R.S. Dias (*By Invitation*)

Board Integrated Risk Management Committee

Mr. K.G.D.D. Dheerasinghe -
Chairman
Mr. W.M.R.S. Dias
Prof. U.P. Liyanage
Mr. M.P. Jayawardena
Mr. L. Hulugalle
Mr. S. Swarnajothi
Mr. J. Durairatnam
Mr. K.D.N. Buddhipala -
Chief Financial Officer/Secretary
Mr. S.C.U. Manatunge -
Chief Risk Officer

Board Nomination Committee

Mr. D.S. Weerakkody - *Chairman*
Mr. K.G.D.D. Dheerasinghe
Prof. U.P. Liyanage
Mr. W.M.R.S. Dias (*By Invitation*)

Board Audit Committee

Mr. S. Swarnajothi - *Chairman*
Mr. L. Hulugalle
Mr. M.P. Jayawardena
Prof. U.P. Liyanage
Mr. W.M.R.S. Dias (*By Invitation*)

Board Credit Committee

Mr. K.G.D.D. Dheerasinghe -
Chairman
Mr. M.P. Jayawardena
Mr. W. M. R. S. Dias

Board Technology Committee

Prof. U.P. Liyanage - *Chairman*
Mr. W. M. R. S. Dias
Mr. J. Durairatnam
Mr. R. Muttaih -
Chief Information Officer
Mr. L.H. Munasinghe -
Deputy General Manager - Marketing
Mr. M.E.P. Perera - *Assistant General Manager - Operations*

Board Investment Committee

Mr. K.G.D.D. Dheerasinghe -
Chairman
Mr. W.M.R.S. Dias
Mr. J. Durairatnam
Mr. K.D.N. Buddhipala -
Chief Financial Officer
Mr. S.C.U. Manatunge -
Chief Risk Officer
Mr. Prins Perera -
Head of Global Markets
Mr. A.N.P. Sooriarachchi -
Assistant General Manager - Corporate and Investment Banking
Mr. S. Balasuriya -
Head of Global Treasury/Secretary

Subsidiary and Associate Companies

Subsidiary Companies

Commercial Development Company PLC
ONEzero Company Ltd.
Commex Sri Lanka S.R.L.

Associate Companies

Equity Investments Lanka Ltd.
Commercial Insurance Brokers (Pvt) Ltd.

For any clarifications on this Report please contact:

The Chief Financial Officer
Commercial Bank of Ceylon PLC,
'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
P.O. 856, Colombo 01, Sri Lanka.
Tel.: 2486550
E-mail: 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 of the Bank.

Commercial Bank of Ceylon PLC

'Commercial House'
No. 21, Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 01, Sri Lanka.

Tel: +94 2 486 000-3
Tel-Banking: +94 2 336 633-5
E-mail: email@combank.net
Web: www.combank.lk



This Annual Report is Carbon Neutral

This Commercial Bank of Ceylon PLC annual report has been produced by Smart Media The Annual Report Company, a certified carbon neutral organisation. Additionally, the greenhouse gas emissions resulting from activities outsourced by Smart Media in the production of this annual report, including the usage of paper and printing, are offset through verified sources.

This is an Integrated Annual Report

This Commercial Bank of Ceylon PLC annual report has been prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company.



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