

BANKING ON YOU

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In the conventional sense, people would 'bank on their bank' for their financial well being. Commercial Bank however has always been about journeying together, 'Banking on You'. This journey has helped us mutually in reaching greater heights. The year 2012 has been an excellent one for the Bank as evident from our Assets portfolio crossing Rs. 500 Bn. and Profit after Taxation reaching Rs. 10 Bn. Undeniably, such stellar performance augurs well for all - be it shareholders, customers, employees, regulators and society at large.

We have attentively been listening to all our stakeholders...We have steadily been delivering on their expectations. 'Banking on You' is the recipe for our success.

This is an integrated annual report capturing economic, social and environmental performance

The Bank adopted triple bottom line reporting more than a decade ago. It firmly believed that any discussion on sustainability cannot be removed from the larger discussion about the Bank. Stemming from that, instead of producing two separate reports, the Bank has been carrying a sustainability supplement in the Annual Report itself detailing sustainability related information not captured elsewhere in the Annual Report. We have taken this approach forward in a way that better reflects the integrated thinking of the Bank.

Following convergence with the International Financial Reporting Standards (IFRSs), the Bank adopted the new Sri Lanka Accounting Standards (known as SLFRSs and LKASs) from January 1, 2012. Financial Statements up to December 31, 2011 were prepared in accordance with Sri Lanka Accounting Standards which were in effect up to that date. Accordingly, the Financial Statements for the previous year have been restated as per the SLFRSs.

Commercial Bank of Ceylon PLC is a licensed commercial bank and a public limited liability company and its ordinary shares are listed on the Main Board of the Colombo Stock Exchange. The Bank's Head Office is located at No. 21, 'Commercial House', Sir Razik Fareed Mawatha, Colombo 01. The Bank had the largest market capitalisation among all listed banking institutions in Sri Lanka and was ranked at No. 05 among all listed entities as at end of 2012 (No. 6 as at end 2011). Commercial Bank is the only Sri Lankan bank represented in the Top 1000 Banks in the world for two consecutive years (2011 and 2012) having first entered into this category in 2008, based on the annual ranking by UK-based 'The Banker' magazine, based on strength of Tier 1 capital, assets size, soundness, performance and profitability.

Operating Highlights

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 Operating Highlights
 Financial Highlights
 Letter from the Chairman
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Commercial Bank of Ceylon PLC
 Annual Report 2012

No. of Delivery Points

227 | **17**
 Sri Lanka | Bangladesh
 2011: 213 & 17 / 2010: 187 & 17

Staff Strength

4,400 | **202**
 Sri Lanka | Bangladesh
 2011: 4,329 & 195 / 2010: 4,123 & 198

Capital Expenditure - Bank

Rs. 1,400 Mn.
 2011: Rs. 1,527 Mn. / 2010: Rs. 979 Mn.

No. of ATMs

555 | **17**
 Sri Lanka | Bangladesh
 2011: 500 & 14 / 2010: 400 & 14

Contribution to Governments

Rs. 6.043 Bn.
 2011: Rs. 4.542 Bn. / 2010: Rs. 6.586 Bn.

Effective Tax Rate - Bank

28.37%
 2011: 25.72% / 2010: 41.48%



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



Post-Tax Profit increased by 28.10% surpassing Rs. 10 Bn. mark for the first time



Total assets crossed the Rs. 500 Bn. mark



Honoured with 5 other Top international accolades



Successfully obtained a loan of US\$ 65 Mn. from IFC



Won 3 Top Accolades including Gold Award for the Overall Winner in the Banking sector category at the 'Annual Reports Awards 2012' of The Institute of Chartered Accountants of Sri Lanka



Business volumes grew: Gross Loans and Advances by 18.68%, Deposit Base by 20.66% and Total Assets by 15.99%



Added 14 more branches to the branch network establishing Bank's presence in all districts of the country



Continued to maintain its position as the entity with the largest market capitalisation among all listed banks and financial institutions in the Country



Gross and Net NPL Ratios improved to 3.37% and 1.80% from 3.43% and 2.08% in 2011



Added another 55 ATMs during the year to further strengthen its position as the single largest ATM network operated by a bank in Sri Lanka



Return on Assets rose to 2.12% from 1.94% in 2011



Return on Equity improved to 20.96% in 2012 compared to 20.28% in 2011



Capital Adequacy Ratio improved to 13.85% from 13.01% in 2011



Provision Cover improved to 45.50% from 39.53% in 2011



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

	Group			Bank		
	2012	2011	Change	2012	2011	Change
	Rs. Mn	Rs. Mn	%	Rs. Mn	Rs. Mn	%
Results for the year						
Income	63,373.753	45,838.944	38.25	63,395.047	45,859.217	38.24
Profit before Financial VAT and Taxation	16,287.867	12,492.313	30.38	16,282.646	12,420.202	31.10
Profit Before Taxation (PBT)	14,312.914	10,980.219	30.35	14,295.333	10,897.230	31.18
Provision for Taxation	4,231.747	3,047.918	38.84	4,197.004	3,014.361	39.23
Profit After Taxation (PAT)	10,081.167	7,932.301	27.09	10,098.329	7,882.869	28.10
Revenue to the Governments	6,078.192	4,576.506	32.81	6,043.192	4,542.506	33.04
Gross Dividends	5,418.204	4,904.701	10.47	5,418.204	4,904.701	10.47
At the year end						
Shareholders' Funds (Capital and Reserves)	52,968.420	44,139.380	20.00	52,577.000	43,764.665	20.14
Deposits	390,568.682	323,697.628	20.66	390,611.548	323,754.748	20.65
Gross Loans and Receivables	343,739.337	289,643.907	18.68	343,797.081	289,802.876	18.63
Total Assets	512,220.640	441,597.957	15.99	511,742.708	441,329.649	15.95
Information per Ordinary Share (Rs.)						
Earnings (Basic)	12.11	9.53	27.07	12.13	9.47	28.09
Earnings (Diluted)	11.98	9.42	27.18	12.00	9.37	28.07
Dividends - Cash	-	-	-	4.50	4.00	12.50
Dividends - Shares	-	-	-	2.00	2.00	-
Net Assets Value	63.55	54.00	17.69	63.08	53.54	17.82
Market value at the year end - Voting	N/A	N/A	-	103.00	100.00	3.00
Market value at the year end - Non-voting	N/A	N/A	-	91.10	74.50	22.28
Ratios						
Return on Average Shareholders' Funds (%)	20.76	20.25	0.51	20.96	20.28	0.68
Return on Average Assets (%)	2.11	1.95	0.16	2.12	1.94	0.18
Price Earnings (times) - Ordinary Voting Shares	N/A	N/A		8.50	10.37	(18.03)
Price Earnings (times) - Ordinary Non-voting Shares	N/A	N/A		7.52	7.73	(2.72)
Year-on-year growth in Earnings (%)	27.09	43.96	(16.87)	28.10	42.72	(14.62)
Dividend Yield (%) - Ordinary Voting Shares	N/A	N/A		6.31	6.00	0.31
Dividend Yield (%) - Ordinary Non-voting Shares	N/A	N/A		7.14	8.05	(0.91)
Dividend Cover on Ordinary Shares (times)	N/A	N/A		1.86	1.61	15.53
Statutory Ratios						
Liquid Assets (%)	N/A	N/A	-	25.79	26.35	(0.56)
Capital Adequacy Ratios						
Tier I (%) - Minimum requirement 5%	12.63	12.11	0.52	12.64	12.11	0.53
Tier I & II (%) - Minimum requirement 10%	13.84	13.01	0.83	13.85	13.01	0.84

Financial Goals and Achievements

Financial Indicator - Bank	Goal	Achievement				
		2012	2011	2010	2009	2008
Return on Average Assets (ROA) (%)	Over 2%	2.12	1.94	1.60	1.43	1.55
Return on Average Shareholders' Funds (ROE) (%)	Over 20%	20.96	20.28	17.87	15.83	17.13
Growth in Income (%)	Over 20%	38.25	10.45	(5.07)	(0.85)	25.25
Growth in Profit After Taxation (%)	Over 20%	28.10	42.72	28.30	0.86	4.02
Growth in Total Assets (%)	Over 20%	15.95	18.95	14.81	14.62	4.95
Dividend per share (DPS) (Rs.)	Over Rs.5.00	6.50	6.00	7.00	7.00	7.00
Capital Adequacy Ratios: Group						
Tier I (%) - Minimum requirement 5%	Over 8%	12.63	12.11	10.86	11.92	10.55
Tier II (%) - Minimum requirement 10%	Over 13%	13.84	13.01	12.26	13.93	13.13

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Today, we acknowledge the inescapable links betwixt the economic, environmental and social impacts of our enterprise and the need for us to create value in relation to all three elements. We are mindful of generating satisfactory shareholder returns, but need also to have a clear strategy which serves all our stakeholders and their varied interests.

Dear Friends,

A momentous shift in global economic fortunes over the recent past has installed Asian economies as the drivers of the world economy today. For some time now, people have been talking about 'the Asian Century'; a prediction that perhaps, the 21st Century could be dominated by Asian politics, culture and economies, much as the 19th and 20th Centuries were thought to have been dominated by Britain and the USA respectively.

Asia's robust economic performance over the past three decades, compared to that of the rest of the world, makes perhaps the strongest case yet for it to be a possibility.

Cometh Asia's moment...cometh Sri Lanka's opportunity.

Sri Lanka's 6.5% GDP growth in 2012 looks extremely healthy when viewed against the poor performance of the Western economies.

Spurred by strong macroeconomic fundamentals and a relatively conducive environment for foreign investment, Sri Lanka has now outlined an ambitious growth plan to make it a \$100 Bn. economy by 2016 with a per capita income of US\$ 4,000. Herein lies a great opportunity for the country.

The financial institutions of the country will have a vital role to play in this regard. They can help increase credit to the private sector and strengthen the SMEs. Banks would have to be more forward-looking, innovative and develop new business models to position themselves to cater to these requirements.

It is against this backdrop, that I take pleasure in presenting some salient features of our performance in 2012.

This year, Commercial Bank takes a step towards a new reporting format - an integrated approach that does justice to the way we 'live and conduct' our business. Today, we acknowledge the inescapable links betwixt the economic, environmental and social impacts of our enterprise and the need for us to create value in relation to all three elements. We are mindful of generating satisfactory shareholder

returns, but need also to have a clear strategy which serves all our stakeholders and their varied interests. In our view, there aren't two approaches - just one. We have now mainstreamed into our corporate culture a three dimensional approach and for clarity we will henceforth have one integrated report.

Our corporate sustainability strategies are based on innovation and technology, collaboration and networking, continuous process improvement and constant stakeholder engagement to ensure that we do not deprive future generations of non-renewable resources through overuse. This allows the Bank to adopt a responsible business approach that creates long term stakeholder value through sustainable environmental, social, economic and governance practices.

Our Social and Environmental Management System (SEMS) ensures that effective sustainability practices and safeguards are implemented not only with respect to the activities of the Bank but also in terms of the indirect impacts arising from the projects of our customers.

In a year of many firsts, this is also the first report produced by the Bank according to IFRS standards.

I am delighted to report that the "many firsts" continued. Of the private banks, Commercial Bank became the first to cross the Rs. 500 Bn. threshold when it reported total assets of Rs. 512 Bn. as at December 31, 2012, a growth of 16%. Similarly, the Bank was the first private bank to cross the Rs. 10 Bn. threshold when it reported Rs. 10.1 Bn. in Net Profits for the year 2012, a growth of 28%. The Bank was able to maintain a quality loans and advances portfolio as evident from our NPL ratio of 3.37% which is one of the lowest in the industry. Correspondingly, the Bank was able to record remarkable improvement in profitability with a ROA of 2.12% and a ROE of 20.96%. The convergence of all these factors enabled the Bank to declare a total dividend for the year of Rs. 6.50 per share.

The Bank has formulated a comprehensive strategy, which is embodied in our Corporate Plan and Budget. According to this, we will concentrate on leveraging rapidly evolving opportunities in the region to grow the Bank's overseas business and also the better use of technology, to offer a unique customer proposition, and secondly, to enjoy the cost advantages it brings. Banking beyond the brick and mortar concept

is already upon us; as more and more applications and functions move to electronic platform driven channels. Commercial Bank aims to be in the vanguard of such momentum.

Plans and strategies however, can remain on the drawing board, if not for the industry, passion and 'will to win' of our people. We continue to invest in skills development across the Bank. Despite a best in class infrastructure and product portfolio, we will only be as good as the people who 'make it happen' for Bank and customer alike. The Bank has invested substantially in learning and development programmes to ensure that we will always have a flow of talented and skilled professionals ready and able to fill key positions as we progress.

Underpinning these initiatives is a high degree of customer centricity. We listen to and engage with our customers - we never forget that there is no better barometer of 'how we're doing' than from customer feedback.

We deploy these strategies and initiatives both in Sri Lanka and in Bangladesh. Constantly encouraging results emanating from our Bangladeshi operations have prompted us to look for similar opportunities in other Asian countries such as Myanmar. We are confident that Commercial Bank has the attributes necessary to become a regional player of great value.

In conclusion, I wish to thank my colleagues on the Board for their contribution and guidance, which proved so invaluable. I thank Mr. Ravi Dias, CEO/Managing Director, the Senior management team and staff of all grades for their dedication, passion and commitment in bringing our vision and strategies to life. The success of their efforts is recounted on every page of this report - more importantly they are to be seen in every customer and stakeholder of the Bank.



Dinesh Weerakkody
Chairman

February 27, 2013

Our Vision

“To be the most technologically advanced, innovative and customer friendly financial services organisation in Sri Lanka, poised for further expansion in South Asia”

Our Mission

“Providing reliable, innovative, customer friendly financial services, utilising cutting edge technology and focusing continuously on productivity improvement whilst developing our staff and acquiring necessary expertise to expand locally and regionally”



The Bank's performance reached an all time high in 2012 - our profit after tax crossed Rs. 10 Bn. for the first time ever and the total assets crossed the Rs. 500 Bn. mark. The Compounded Annual Growth Rate (CAGR) of deposits and loans & advances has been maintained above 20% over the past decade.

Reviewing the performance for 2012, it is satisfying to report the strong performance of the Bank despite many challenges faced during the year. To place the Bank's performance in context, a brief overview of the global and local economies would be pertinent.

The Global Economy

World economic growth continued to be largely stagnant. Global GDP growth reduced marginally in 2012 over 2011 but is expected to improve in 2013.

What is clearly revealed through a study of the performance of regional economies is the significant shift in economic power away from the advanced economies such as the USA, the Euro Zone and Japan to emerging and developing economies such as countries within developing Asia, Russia and Brazil.

The Sri Lankan Economy

Global impacts and policy measures to curb demand were key considerations during the year and led to a downward revision of GDP growth. Sri Lanka's GDP is reported to have grown 6.5% in 2012.

All three major contributory sectors of the economy - Agriculture, Industry and Services - have grown in 2012 and are expected to show continued growth in 2013.

The Agriculture sector is emerging from a drought affected Yala season in 2012; better times are expected to lie ahead in 2013. Both, Industry and Service sectors are expected to grow on the back of a recovery in the global economy.

The Bank's Performance in 2012

The year 2012 was not without several areas of challenge - these the Bank faced with optimism to post a successful performance.

Whilst strong liquidity was maintained during the past year, it came at a price. The gap between interest rates on savings and FD's grew wider. With the growth in FDs, the deposit mix witnessed an unfavourable shift, thereby increasing the cost of funds and leading to interest margins coming under pressure.

Another challenge lay in the volatility of Sri Lanka's exchange rate. With the Central Bank leaving the determination of the exchange rates purely to market forces, the SL Rupee/US\$ exchange rate witnessed a depreciation of 12% in 2012 as against the rate that prevailed at the end of 2011. By the latter part of the year, signs of stability began to emerge allowing the rate to remain at approximately Rs. 128 to the US\$.

The economic turmoil in the developed world also led to reduced turnover and loan servicing capabilities of some of the borrowers.

Through it all, our aim has always been to focus on our fundamentals - strengthening the Balance Sheet, ensuring stability and maintaining a strong current and savings account (CASA) base, which at current levels is probably the best in the industry.

The Bank's performance reached an all time high in 2012 - our profit after tax crossed Rs. 10 Bn. for the first time ever and the total assets crossed the Rs. 500 Bn. mark. The Compounded Annual Growth Rate (CAGR) of deposits and loans & advances has been maintained above 20% over the past decade.

Bank reported a profit before tax of Rs. 14.295 Bn. and a profit after tax of Rs. 10.098 Bn., for the year 2012, a 31% and a 28% growth over 2011, respectively.

This translates to a growth of 24% in net operating income. Growth of net interest income from fund-based operations by 22% and income from fee based operations by 44% contributed to the strong growth in net operating income. Despite the increased cost in expanding the network and the increased staff cost, the Bank managed to contain the increase in operating expenses to 17%.

Total assets of the Bank reached Rs. 512 Bn., recording a growth of 16%. Both, deposits and advances recorded impressive growth. Signifying further improvements in asset quality, non-performing ratio was brought down to 3.37% from 3.43% a year ago.

Profitability too improved, with Return on Assets and Return on Equity increasing to 2.12% and 20.96% for the year as against 1.94% and 20.28% for 2011.

From the national perspective, Commercial Bank continues to play an integral role in Sri Lanka's development drive. We also arranged sizeable funding for a raft of projects connected with national infrastructure development whilst providing funding for SMEs and the Micro sector, alongside the corporate sector and trade finance. We intend to take these initiatives forward in 2013.

We have been prudent in our lending by choosing more productive areas of the economy to support whilst reducing exposure to high risk areas. Thus, we have successfully maintained a quality lending portfolio and a correspondingly high rate of recovery.

The Bank's Cost to Income Ratio continues to be one of the best in the industry. Productivity ratios improved due to several factors such as rationalisation of staff deployment, new developments in automation, centralisation of key business processes and cost containment initiatives among others, all leading to improved net profits.

Productivity enhancement measures are continuously pursued.

Strengthening Liquidity and Tier II Capital

In terms of the Bank's financial well-being, it has always been our endeavour to maintain sound liquidity and a strong capital base. In order to strengthen liquidity, the Bank obtained US \$ 65 Mn. from the IFC as a seven year senior debt mainly to fund lending to the SME sector. Taking this forward, we signed up another agreement with IFC in February 2013 to borrow US \$ 75 Mn. as a ten year subordinated debt, which will strengthen the Tier II capital of the Bank. All this will help us to gear ourselves for a vibrant growth in lending backed by strong liquidity and capital.

Key Business Drivers and Strengths

The Bank's enterprise is driven by key business areas, namely, Personal Banking, Corporate Banking, Treasury and Trade Finance & International Operations. These are ably supported by other functions such as HR, Operations, IT, Marketing, Logistics, Procurement, Risk, Compliance, Internal Audit and Finance.

High on our list of strengths are our growing customer base, our highly trained and motivated staff, our superior technological platform, IT driven processes and our highly developed work ethic and culture.

Commercial Bank has always been a very customer centric Bank maintaining the highest levels of engagement with its customers. This is reinforced by the highly visible initiatives taken to make our services more accessible and convenient.

Our channel expansion and subsequent presence within top tier supermarket chains has significantly enhanced accessibility and convenience in respect of the customer. Likewise, our upgraded Internet banking platform is extremely user friendly, a factor that will aid in our efforts to promote its usage amongst more of our customers. Both of these initiatives have made transacting business with Commercial Bank much easier.

We are also reinforcing the 'personal touch' through more optimal staff management and deployment whilst centralisation and automation frees up time at our branches to better serve customers.

Our footprint in Sri Lanka too has widened considerably this year with 14 delivery points taking the number of branches to 227 and 55 ATMs coming on line making a total of 555 by end of 2012. We are proud of our continued presence in the Northern and the Eastern Provinces even during the conflict years, where we now operate with 24 branches. In the case of Bangladesh which we entered in 2003, we now operate 17 delivery points and 17 ATMs. The Bank has also strengthened infrastructure and enhanced productivity by maximising our IT capabilities and upgrading our risk management regime. We are now in the process of migrating to an advanced treasury software system.

The Bank is now compliant with the new Sri Lanka Accounting Standards (SLFRS/LKAS) and with that becomes IFRS compliant as well - the Report in your hands has been formulated and produced in accordance with the first time adoption requirement of these Accounting Standards.

We have also presented this first integrated annual report to you demonstrating our passion for focus and transparency in our reporting.

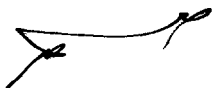
Commercial Bank features in the list of the world's Top 1000 Banks for the second year in succession.

Looking back over the year, our performance would not have been possible without a great effort, complemented by effective planning, management and oversight. Each and every employee is a proud contributor to the final results. They can all be extremely proud of their enterprise. I would like to thank all our staff without reservation.

Looking to the future, we will continue to expand our branch network both in Sri Lanka and in Bangladesh. In fact, we continue to explore the region to identify similar opportunities as is the case with our Bangladeshi operations.

I offer grateful thanks to the Chairman and to the Board of Directors for their diligent oversight and wise guidance, which helped us to move beyond the challenges of the year with an unwavering focus on achievement and progress. I wish to place on record the Bank's appreciation and gratitude to my predecessor, Mr. Amitha Gooneratne, who retired in early 2012. In like vein, I thank Messrs Sanath Bandaranayake, Deputy General Manager - Operations and Delip Fernando, Deputy General Manager - Inspection and all other staff members who retired in 2012 after rendering long years of yeoman service to the Bank. I would also like to extend my gratitude to officers at all levels of the Central Bank of Sri Lanka for their regulatory guidance and the External Auditors, Messrs KPMG for their professional advice and the timely completion of the audit.

The Bank has more achievements and progress firmly in its sight; the journey before us would be an interesting, challenging and a productive one.



Ravi Dias
Managing Director/CEO

February 27, 2013

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Commercial Bank of Ceylon PLC
Annual Report 2012

15	21	34	40	58	131	136
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Management Discussion and Analysis

Introduction

This integrated Annual Report comprehensively covers the performance of Commercial Bank of Ceylon PLC for the financial year ended December 31, 2012. In reporting both financial and non-financial matters, the Bank has acted in compliance with all the provisions as stipulated by the Central Bank of Sri Lanka 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. The report has also suitably adopted the Global Reporting Initiative (GRI) Guidelines (Version G3.1) and GRI's Financial Services Sector Supplement for sustainability reporting.

We believe that through integrating our Report we are able to bring together information about our strategy, governance, financial and corporate responsibility performance in a way that articulates how we create and sustain value for all our stakeholders - shareholders, customers, employees, community etc.

The Bank's inaugural sustainability supplement based on the Global Reporting Initiative (GRI) Guidelines was published in its 2009 Annual Report. It is the intention of the Bank to continue to report on sustainability initiatives based on GRI Guidelines annually.

Our Sustainability supplements in 2009 and 2010 were prepared and published based on GRI Guidelines version G3 while 2011 supplement was based on version G3.1. This year's Report has been compiled and presented in compliance with version G3.1 and GRI's Financial Services Sector Supplement. A Content Index appears on pages 448 to 457.

In terms of GRI Guidelines, disclosures made in this Report have been drawn up to Application Level B+. Application level criteria are published in the Guidelines and are available online at www.globalreporting.org.

Inquiries and Suggestions

Your Bank will be pleased to answer any inquiry and/or provide clarification on any material contained in this Report. Your contact point at the Bank is:

The Central Accounts Department
Commercial Bank of Ceylon PLC, 'Commercial House',
21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka.
email@combank.net

Establishing the Scope and Boundaries of the Report

The Social and Environmental performance indicators reported in our previous sustainability report covered only the activities carried out in Sri Lanka whilst they contained full disclosures on economic performance including the Bank's Bangladesh operation.

This report includes performance on all three parameters of sustainability of the Bank including its operations in Bangladesh.

The activities and performance data of the Bank's three subsidiaries - Commercial Development Co. PLC, ONEzero Co. Ltd. and Commex Sri Lanka S.R.L. and the operations of its two associates - Equity Investments Lanka Ltd. and Commercial Insurance Brokers (Pvt) Ltd., have been excluded from this Report, since they are not material in terms of their contribution to the consolidated results and the financial position of the Group, as evident from the Audited Financial Statements which are presented on pages 306 to 437. It is our intention to include the operations of these entities too in our future reports in the event the disclosure of such information becomes material to our stakeholders.

Information to compile this Report has been drawn from a number of different sources, mainly the following.

- Financial data - from Audited Financial Statements and the accompanying Notes to the Financial Statements
- Additional information presented in the Report - CSR Trust and from various business units of the Bank, based on records maintained on actual data
- Information on sustainability related activities and achievements - from Human Resources, Marketing & Development Credit Departments, CSR Unit and other core business units of the Bank and Bangladesh Operation.
- HR related information - more specifically training and development - from the records maintained by the Bank's Staff Development Centres in Sri Lanka and Bangladesh.

External Verification and Validation

Evolution of the Bank's sustainability reporting and the progress made so far are shown below.

Year	GRI Application Level	Level of declaration	Report externally assured
Inaugural report in 2009	'C'	Self declared	No
Second report in 2010	'B'	Self declared	Yes
Third report in 2011	'B+'	Self declared	Yes

This year, we have presented our fourth Sustainability Report which conforms to GRI Application Level 'B+' and has been subject to external verification and assurance by Det Norske Veritas AS (DNV), in addition to assurance of KPMG, Chartered Accountants, respectively. Their Independent Assurance Reports appear on pages 444 to 447.

The Bank does not have any relationship with DNV or KPMG apart from the latter's function as an Independent External Auditor of the Bank. The Bank expects to continue with the practice of seeking independent external assurance for its Sustainability Reports in the future as well to enhance the credibility of our reporting.

Defining Report Content

The content of this Report has been prepared based on two international standards:

- "AA1000 Stakeholder Engagement Standard" devised by AccountAbility, a UK-based organization. AA1000 is a standard that is globally recognised in developing, managing and implementing stakeholder engagement strategies.
- The G 3.1 Guidelines for Sustainability Reporting and Financial Services Sector Supplement published by the Global Reporting Initiative (GRI).

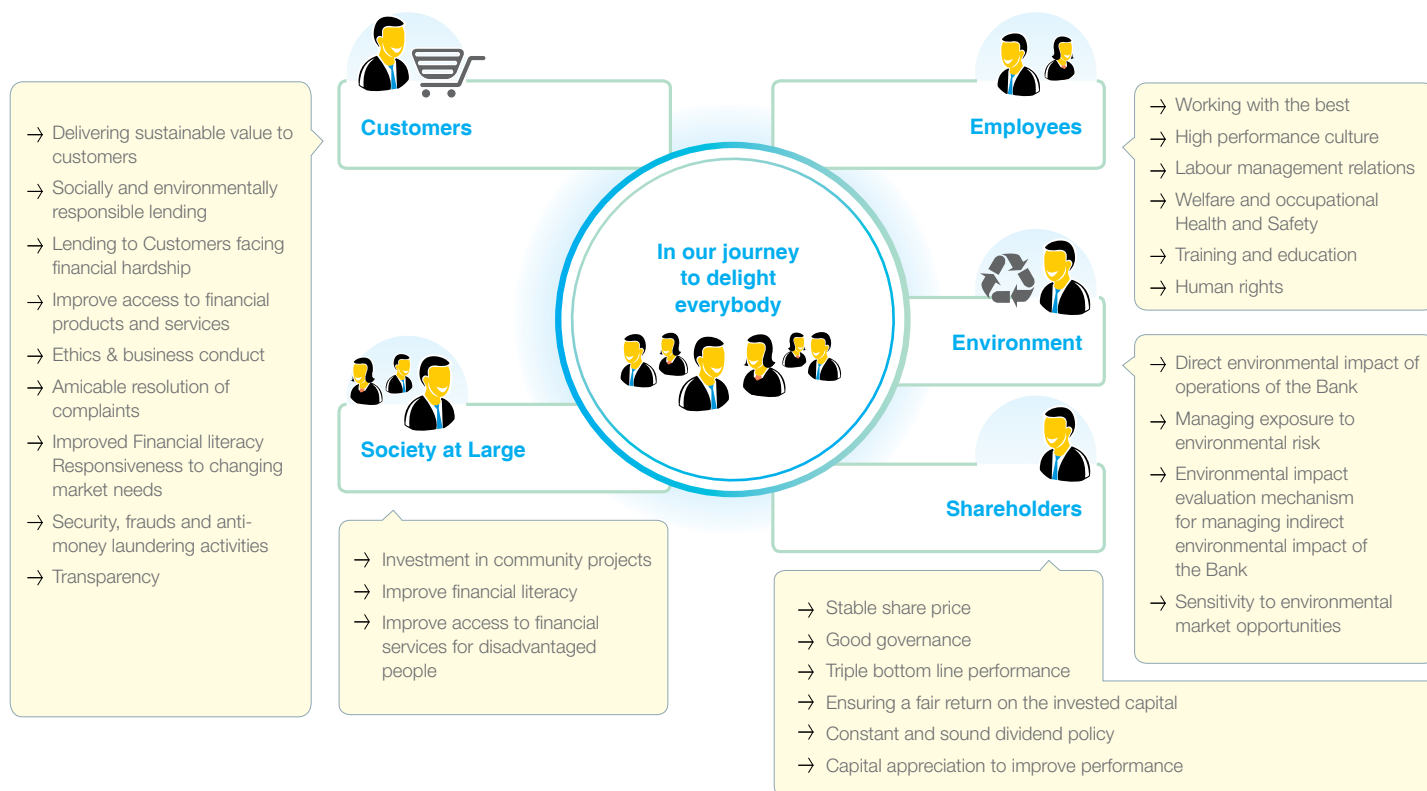
The determination of materiality of report content has been based on meeting the expectations and perceived opinions of stakeholders gathered through various channels and engagements with them (see pages 153 to 157) and its relative importance to accomplishing the Bank's Mission and competitive strategy as set out in the Corporate Plan. Therefore, this Report includes practices and performance related to issues considered to be material by both the Bank and the stakeholders.

Detailed information on selection of material issues and stakeholder dialogue is available in the Section on "Stakeholder Engagement" on page 153 to 157.

The Bank is fully aware that the linkage between sustainability and the Bank's business strategy has a significant bearing on the context within which its performance is reported.

The approach adopted by the Bank in reporting under performance indicators largely encompasses publicly available data sources where relevant and data gathered through internal sources that are of non sensitive nature.

The material topics identified by the Bank in its journey towards sustainable performance are exhibited below:



Our Materiality Assessment

Tabulated below are the key issues that we rate as the most material considering both importance to stakeholders and potential impact to business:

Material issue	Why is it material?	Material issue	Why is it material?
Delivering sustainable value to customers	Delighting customer is of paramount importance to create a win-win situation for both Bank and customer	High performance culture	The Bank's high performance culture has motivated our people to raise the bar. The Bank's strategy of rewarding its team members whenever targets are met or exceeded has been highly successful.
Lending to Customers facing financial hardship	As a bank engaged in Responsible Banking, it is our duty to assess situations and provide information and solutions to help customers in hardship to manage their financial obligations with us.	Working with the Best by being the employer of choice	It is vital to attract and retain a skilled and competent workforce within the Bank to generate sustainable value to all stakeholders.
Socially and environmentally responsible lending	Banking operations could indirectly pose negative social and environment impacts through their financial exposure to vulnerable sectors, though the direct impact is expected to be minimal	Community investment	The Bank's community investment strategy is developed within its Vision and Mission. Commercial Bank Social Responsibility Trust Fund plays a vital role in implementing this strategy .

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

The concept of sustainability is increasingly becoming an integral part of the Bank's business practices. The close dialogue that we maintain with our stakeholders helped us to identify material sustainability issues both to our stakeholders and to the Bank. We have made use of these material issues to uncover challenges ahead. We set our sustainability targets to overcome these challenges whilst capitalising on opportunities that come our way. We are mindful of the fact that the relationships established with our stakeholders and the feedback we receive on these material issues will undoubtedly further improve our business practices and performance over the coming years, leading to a win-win situation for all.

Our corporate social responsibility approach is founded on this premise. It focuses on

- Getting the fundamentals right with customers by delivering fair value and quality advice
- Being a good employer through investing in skills and capabilities of our employees

- Addressing our broader responsibility to society by supporting communities, managing environmental impact and having a positive impact through our supply chain

It is pertinent to mention that our core business being provision of banking and ancillary financial services, does not have significant impact on the limited resources of the planet although the businesses and projects that our customers and suppliers engage in with the Bank, may have.

The diagram below illustrates the key challenges and opportunities to the Bank in its journey towards doing business in a sustainable manner in the short to mid term. The Heads of various business and service units of the Bank are responsible to ensure that appropriate steps are taken to address these key challenges. The target driven culture of the Bank further facilitate to set aggregate KPIs for these individuals, whilst ensuring that the key risks and challenges identified are adequately addressed. Thereafter, they are rewarded based on the achievement of pre-set targets and those who have under performed may not be paid their bonuses or receive salary enhancements and will not be considered for their progression.



The Integrated Risk Management Process of the Bank is closely linked to its sustainability journey. The Integrated Risk Management Department of the Bank headed by the Chief Risk Officer has mandated regular risk reviews for each business unit with the objective of identification of risk including those arising from sustainability trends. The Bank makes regular commitments with a view to manage such risk and to capitalise on opportunities arising from sustainability trends.

The table below demonstrates progress made by the Bank during 2012 in terms of commitments made in 2011 and our promises for 2013.

Progress on Sustainability Commitments made in 2011 and promises for 2013

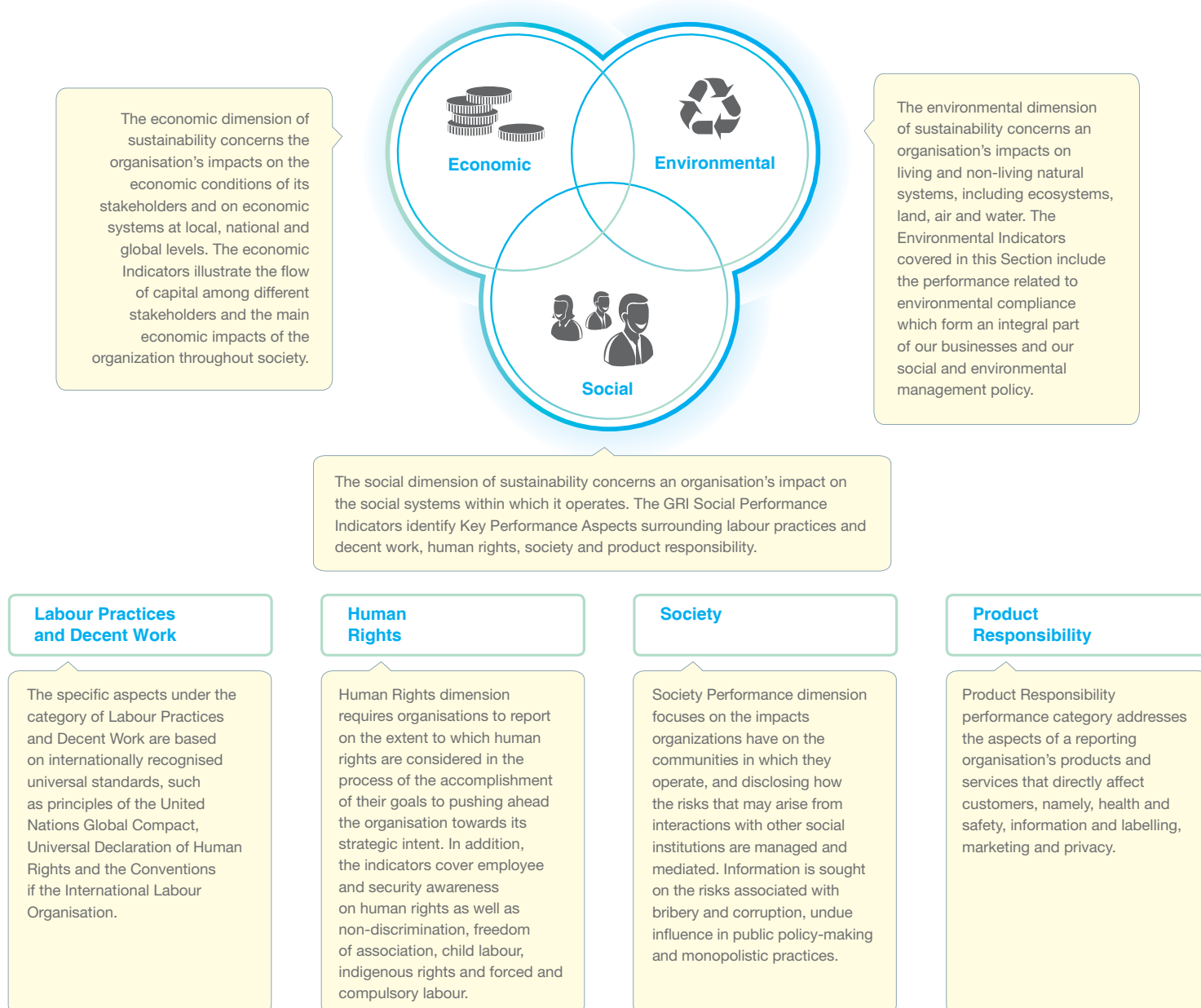
The long term and strong financial performance that offers benefits for all of our stakeholders forms the basis of our sustainability performance. Our environmental, social and ethical performances also plays an important role in accomplishing this objective. Therefore, we have set commitments for sustainability areas that are material to our stakeholders as set out in the table below:

Commitments made in 2011	Progress made in 2012	Our promises for 2013
Economic Commitments		
Achieve medium term targets as per our Corporate Plan and Budget (Refer Section on 'Financial Goals and Achievements' on page 5)	Refer Section on 'Financial Goals and Achievements' on page 5	Achieve sustainable medium and long term targets as per our Corporate Plan and Budget for 2013
Environmental Commitments		
Apply the Bank's Social and Environmental Management System (SEMS) for project financing, with targets for 2012 that included:		Apply the Bank's SEMS for all loan financing proposals, with targets for 2013 that include:
- Enhanced lending for renewable energy and energy savings projects - Training for Bank officers - Awareness programmes for customers	- Granted Rs. 51 Mn - Achieved. Please refer page 32 - Achieved. Please refer page 118	- Enhanced lending for renewable energy and energy savings projects - Training for Bank officers - Awareness programmes for customers
Due diligence at entry points and evaluation of risks of non-compliance on an ongoing basis through effective monitoring and evaluation; periodic reports to the Board Integrated Risk Management Committee	Carried out continuously.	- Continue to enhance due diligence at entry point and evaluation of risks of non-compliance on an ongoing basis through effective monitoring and evaluation; periodic reports to the Board Integrated Risk Management Committee and Board Credit Committee - Development of smart buildings that use space and natural lighting more efficiently - Priority will be given to procure energy conserving equipment with a view to conserving the environment. - Disposing ATMs through a body authorized by the Central Environmental Authority. - Adopting cleaner and more fuel efficient transportation - One national scale programme on preserving the environment - Responsible sourcing - Reducing waste

Commitments made in 2011	Progress made in 2012	Our promises for 2013
Societal Commitments		
Add satisfaction-enhancing products, features and practices by conducting periodic surveys. Follow innovations and developments in the industry and adopt accordingly.	Done on an on-going basis, via customer satisfaction surveys and launching and re-branding of products.	- Continue to add satisfaction-enhancing products, features and practices by conducting periodic surveys. - Follow innovations and developments in the industry and adopt accordingly.
Talent management, staff relations and welfare policies, productivity enhancement, business partnering, improved compensation and benefits. Periodically measure employee satisfaction through surveys; improve satisfaction level in 2012.	Attention was paid to most of the areas. Staff satisfaction survey was not done.	- Talent management, staff relations and welfare policies, productivity enhancement, business partnering, improved compensation and benefits. - Periodically measure employee satisfaction through surveys; improve satisfaction level further in 2013.
The Bank commits up to 1% of its Profit after Tax to the CSR Trust. The target for 2012 is to complete 100 projects that will include: - IT Labs for less-privileged schools to enhance IT literacy - Support English language education - Support improving health care and well-being of local communities	The Bank contributed Rs. 50 Mn in 2012 making the total contribution to exceed Rs. 290 Mn since the formation of the Trust in 2003. 37 projects were completed. Total numbers of beneficiaries - 25,739 - One pilot project was carried out. 13 projects were carried out.	The Bank commits up to 1% of its Profit after Tax to the CSR Trust. The target in 2013 is to complete another 100 projects that will include: 60 IT Labs for less-privileged Government schools to enhance IT literacy 4 programs each for both teachers and students to support for English language education 50 scholarships to be awarded to University students who do not receive any kind of grant or scholarship 15 programs in support of improving health care and well-being of local communities
		- Fostering social inclusion by making banking convenient and expanding subscriber base for our Mobile Banking systems to 100,000 - Two Heritage and cultural projects - Two Small & Medium scale enterprise development projects - Two Ranaviru rehabilitation projects - Ten local community/regional projects - New channel development and channel migration projects to enhance service quality - Branch and ATM network expansion to further enhance accessibility - Multilingual communications through media, point of sale material etc. to serve all ethnic groups - Further expand the internship programme where we currently accommodate only Advanced Level students, to include graduates for a period of 6 months to develop their employability by providing them private sector exposure. - Conduct awareness programmes for staff on health - Conduct a special training for staff who are to retire within 12 months in preparing them for retirement.

Being committed to the conduct of our business affairs in a sustainable manner, Commercial Bank has promulgated several key policies and approaches that guide triple bottom line reporting and the relevant performance indicators.

These performance indicators have been categorised into Product and Service Impact, Economic Performance, Environmental Performance and Social Performance in terms of Labour Practices and Decent Work, Human Rights, Society and Product Responsibility for the purpose of disclosure as per the GRI Reporting Guidelines. A snapshot of these categories is presented below:



Our Approach to Economic Performance

As the benchmark private sector bank in Sri Lanka, our economic policy pervades and guides every aspect of the Bank's enterprise towards the achievement of sustainable performance and growth whilst respecting the interests and concerns of stakeholders.

Our Policy

Commercial Bank is committed to delivering sustainable economic performance and growth to all stakeholders.

The Bank as an honoured corporate citizen, strives hard to enhance financial and non-financial value to its shareholders, customers, employees, local communities and other stakeholders by managing its assets and liabilities in a sustainable and socially responsible manner. Key economic targets and directions for the Bank and all its strategic business units - Corporate Banking, Personal Banking, Treasury and International Operations - are set out in its Corporate Plan and Budget, which is prepared annually on a rolling five-year planning period. This process ensures that the various functions of the Bank are closely linked to its overall strategy stemming from its Vision and Mission. In order to monitor the progress made towards the goals set in the Corporate Plan and Budget, detailed management accounts together with key performance data are prepared and submitted to monthly meetings of the Board of Directors with adequate explanations on material variances. Where necessary, the heads of the main strategic business units are called upon at these Board meetings to review and discuss the action plans recommended to improve performance.

The Bank has set up six Board Sub-Committees (of which four are mandatory) to support the functions of the Board of Directors and to ensure good governance. These committees are in turn supported by nine Management Committees headed by the Managing Director as depicted in the 'Governance Structure' on page 148.

The Bank's performance towards achieving its preset economic targets including key successes and shortcomings and associated risks are found in the following sections of the Report.

Description	Page reference
Operating and Financial Highlights	Pages 4 and 5
Key Financial Goals and Achievements	Page 5
Performance of the Strategic Business Units	Page 61
Managing Risk at Commercial Bank	Pages 229 to 268

Our Approach to Environmental Responsibility

It could be argued that a bank has only a relatively minimal impact on the environment due to comparatively lower consumption of natural resources for its direct activities. On the other hand, one can challenge the above statement on the basis that the activities of banks could be said to have a potentially enormous impact on the environment owing to consequences of the commercial and other activities of its customers.

In the backdrop of the above phenomenon, our Bank has put in place a number of procedures aimed at minimising its already modest direct impact on the environment whilst mitigating indirect impacts created by the business and industrial activities it finances via its Social and Environmental Management System (SEMS). Through 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, eco friendly and do not harm biodiversity via their outputs in the form of emissions, effluents and waste etc. 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.

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 this connection, it is pertinent to mention that a decision has been reached to place the SEMS coordinators under the Chief Risk Officer effective from February 2013 enabling the Integrated Risk Management function to validate compliance with SEMS as well as all the credit proposals referred for risk evaluation. Instructions by circular too will be issued to all branches formally informing of the new procedure.

Our Policy

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

The Bank has taken steps to ensure staff connected to procurement and disposal of assets are vigilant in carrying out such tasks in an environmentally friendly manner. The Bank's divided operational responsibility towards environmental aspects lies with a few key individuals heading procurement, logistics and Information Technology functionalities.

In addition, the Bank has taken several initiatives to minimize impact on the environment due to usage of materials, energy, water, biodiversity, emissions, effluents & waste, design of products & services and compliance activities which are discussed in the sections to follow. The heads of the respective departments continuously monitor the compliance to ensure that these activities are being carried out diligently. The Bank's Staff Development Centre ensures that staff are informed of the above aspects when designing and conducting training programs covering aspects such as credit, operations, house-keeping and compliance.

The SEMS co-ordinator of the Bank is required to submit periodic confirmations on compliance with IFC's terms and conditions and is subject to audit by the Bank's Inspection Department. It is the Bank's endeavour to comply with more and more environment related aspects in future.

Our approach to Labour Practices and Decent Work Responsibility

People are the Bank's most valuable asset. A vital contributor to the Bank's success through the years has been the quality, proficiency and motivation of its people. Molding and guiding people to reach desired heights in their profession, is a core activity. The Bank believes in continuous improvement of the work-life-balance of its staff. Primarily covered, from a regulatory point of view, under the provisions of the Shop and Office Employees Act, the Bank goes further to enhance the facilities offered to its employees. Employee welfare, development, progress and contentment are core priorities at the Bank.

Our Policy

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

Our Employment Policy: Working with the Best to Achieve Sustainable Success

The Bank's employment policy requires us to recruit candidates who are the most appropriate for open positions, using fair, objective and internationally accepted measurement and evaluation methods. Recruitment to Commercial Bank occurs at two entry points, namely as Banking Trainees or as Management Trainees. Mid-career recruitment

takes place only in relation to specialised job positions. However, the Bank always endeavours to give priority to the filling of such vacancies from within its own internal pool of talent. Through this process, the Bank aims to train the leaders of the future, imbuing them with our own dynamic and innovative perspective whilst offering them credible and lucrative career opportunities within the financial services sector.

It is a given that the Bank must at all times serve its customers to their complete satisfaction. Thus we invest time and resources to mold and develop our human capital to be able to deliver desired results in this respect. All our service points, whether they are manned or unmanned are of equal importance. Therefore, neither the services we offer to our customers nor our practices and approaches vary irrespective of the channel used to serve them. In pursuing such parity in service across the system, the Bank considers the effects of factors such as home location of employees and distance travelled to work, before employee placements/transfers to various locations of operation are made. This however, can be overridden by exigencies of business.

Our Remuneration Policy

Our remuneration policy for beginners with the Bank is uniform and independent of the location of their work. However, once they are absorbed to the permanent cadre of the Bank, their subsequent salaries and other perks may vary even within the same grade due to the 'pay for performance' culture of the Bank.

Labour Management Relations

All permanent employees of the Bank are eligible to obtain memberships in one of the two employee associations of the Bank, namely, Ceylon Banks' Employees Union (CBEU) and Association of Commercial Bank Executives (ACBE). All CBEU members other than those in executive grades are covered by a Collective Agreement and hence, their perks are based on the provisions contained in the Collective Agreement. However, those employees in executive grades are subjected to an annual performance appraisal system and their perks depend on the performance gradings they obtain at such appraisals.

To reinforce this process, the Bank has an employee relations unit to handle labour issues.

All significant operational changes which may include events such as new branch openings, relocations, setting up of new business units or divisions, upgrading of existing branches and outsourcing of activities are informed to all staff members by way of internal circulars giving adequate notice.

Occupational Health and Safety

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

Towards achieving the objective of a healthy workforce, the Bank has 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 delivery points on the procedure to be followed in instances of potential harm from incidents 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 alarm systems, counselling and ensuring prompt support from specialized 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

The Bank believes that a well trained human asset is a distinct competitive edge for sustainable business performance. Hence, the Bank is committed to 'people development'. In this process, the culture of the Bank is a great enabler, providing a conducive environment for learning and development, where employees can equip themselves with the required knowledge, competencies and attitudes to create value, both for self and Bank. Ensuring absolute job satisfaction, assisting career development and providing lifelong learning are the fundamental pillars on which the Bank's training and education strategy is formulated.

Addressing the Principle of Equality

The Bank is of single purpose when it comes to offering opportunity - we seek qualified and well-educated people from amongst our staff and do not ever discriminate along the lines of race, language, religious belief, gender, age or like considerations. In this regard, the Bank considers only the relevant skills and competencies required to create sustainable value and not the demographic characteristics of individuals. In this manner, the Bank expects to improve employee satisfaction which is a key component of stakeholder value to create a win-win situation for all.

Goals and Performance

Stemming from its Policy, the Bank's goal is to aspire at all times to be the "The Employer of First Choice". The level of its achievement may be measured by several non financial indicators such as employee turnover, average rates of promotion and absenteeism, employee satisfaction, etc.

Through the compassionate management of its human capital, the Bank creates a dedicated team that is passionate about what they do. Thus our 'optimal team' initiates, directs and synergises its common creativity towards achieving continuous excellence and greater levels of customer satisfaction.

In this process, the Bank strictly adheres to the United Nation's Global Compact (UNGC) Principles on Labour Practices as a base from which we constantly explore further enhancement of our Human Capital. (See page 457 for UNGC Principles with a mapping to relevant GRI indicators).

Organisational Responsibility

The Bank's HR function is headed by a Deputy General Manager - Human Resource Management, who is a member of the Corporate Management team. He is assisted by a Chief Manager and two Senior Managers on aspects related to Human Resource Management and Human Resource Development.

Training and Awareness for HR Personnel

Ensuring that the Bank's human resource personnel are well equipped to face the challenges ahead, effective and efficient management of human capital is among the top priorities of the Bank. In realizing this goal, the senior members of the Human Resource Management team are regularly trained on procedures relating to labour laws and regulations covering aspects of diversity, equal opportunity and gender sensitisation. They in turn guide other staff members needing their assistance.

Monitoring and Follow up

The Bank's annual performance review captures the extent of achievement of the pre-set performance targets of staff responsible for the human resource management function of the Bank. The performance lapses identified are addressed through prompt corrective and preventive action to ensure that an effective and efficient human resource management system prevails within the Bank. Periodic independent employee satisfaction surveys play a vital role in monitoring the effectiveness of HR performance. In addition, the role played by the Board Committee on Human Resources and Remuneration in evaluating, assessing, deciding and making necessary recommendations to the Board of Directors on matters that may affect the Human Resources Management is vital to the process.

Engaging Staff towards a Decent Work Environment

The following are some of the ways in which the Bank aspires to engage its people in creating a healthy work environment.

- Significant strengthening of Bank's Libraries - Our Central Library located at our Head Office boasts a collection of 14,300 books on a wide range of topics and subscribes to 8 Foreign Journals and 18 Periodicals. Invaluable Book exhibitions were also hosted. In addition, there were 169 branch libraries by end 2012. Further, our in-house publication 'Compulse' continued to disseminate Bank highlights and events while providing a vehicle to showcase creativity of the staff.
- Bank Quiz 2012 drew over 1,000 Staff Members, representing 164 teams recording the highest number of teams in history, reinforcing 'One Bank One Family' concept, creating strong employee affiliation and engagement. This was held with a view to making us the 'choice bank' to work for, by creating a stimulating and nurturing environment.
- In furtherance to creation of employee bonding, the Bank successfully concluded another 'children's party', an annual event where all staff members enjoy a day outing with their family members. 'Poson Bakthi Gee' as well as 'Christmas Carols' are a few similar events organized by the Bank's Sports & Recreation Club in helping to improve camaraderie among the employees.

- In 2012 another opportunity for the employees' interaction was introduced by way of 'Regional Outings'
- The Bank continued to invest on team sports as well. Our teams participate in mercantile tournaments as well as interbank tournaments in Hockey, Table Tennis, Cricket, Rugby, Football, Badminton, Netball and Basketball. The Bank also takes pride in employing players who represent the national team in sports such as Hockey and Table Tennis.
- Personal Banking Awards is another initiative taken to supplement the Bank's performance driven culture and the competitive work environment within the industry and to make it essential that our business lines continue to perform with heightened motivation and greater productivity. As such, an Achievers Night Awards Programme was introduced to be held annually for the Personal Banking Unit. The Bank intends to expand this initiative to other business areas and units providing support services in future.
- In 2012 too Seniority Awards were bestowed on 68 Staff Members who had completed 25 years of dedicated service in the Bank.

Our approach to Human Rights Responsibility

Commercial Bank's employment practices reflect the human rights standards enshrined in the Universal Declaration of Human Rights proclaimed by the United Nations and the Conventions of the International Labour Organization (ILO). These cover:

- Freedom of association and the right to collective bargaining
- The elimination of all forms of compulsory labour
- The effective abolition of child labour
- The elimination of sexual harassment in the workplace, and
- The elimination of discrimination with respect to employment.

These principles are followed when formulating all policies and practices of the Bank.

As a signatory to the UN Global Compact initiative, the Bank has also pledged to uphold the ten principles given on page 457.

Our Policy

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

Goals and Performance

The Bank as an active member of the UN Global Compact initiative is committed to safeguarding of human rights by upholding the principles of Global Compact and preserves human rights values and practices in all its operations. The Bank's culture does not encourage any form of forced/compulsory labour, discrimination and sexual harassment and abides by best practice governing aspects such as minimum working age limits, working hours, health and safety in the workplace and collective bargaining principles.

Organisational Risk Assessment and Impact Assessment

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

The Bank strongly believes that the existence of effective procedures supporting collective bargaining pertaining to employee compensation and other human rights concerns, help foster stronger bonds with the trade unions and executive association.

On January 12, 2012, the Bank signed two Collective Agreements and a Memorandum of Understanding with the Employee Organizations which will be in force from January 1, 2012 to December 31, 2014.

The negotiation process leading to the final agreement between the parties was facilitated by the Employers' Federation of Ceylon.

The periodic branch visits made by the officials of the Human Resource Management Department provide the Bank with a platform for staff in Branches to voice their grievances and address matters pertaining to their welfare. This supports the identification of probable risks and addresses human rights and welfare concerns of the employees.

With regard to outsourced staff, the Bank's HR Department continuously monitors the labour practices of the respective supplying agencies. For instance, the Bank ensures that the half-yearly EPF and ETF return statements of these agencies are submitted for our scrutiny.

In addition, the Security Department of the Bank ensures that all outsourced security officers are paid the statutory minimum wages by their employers.

Organisational Responsibility

At Commercial Bank the responsibility for human rights issues lies with the Deputy General Manager - Human Resource Management who is assisted by a Chief Manager and two Senior Managers on the implementation of Human Rights policies at the Bank. These officers handle all matters connected to human rights as they may apply to or concern the Bank.

The Board of Directors of the Bank overlooks the Human Resource aspects including human rights through the 'Board Human Resources and Remuneration Committee'. The report of the Committee appears on pages 206 and 207.

The Bank adopts an open door policy where urgent issues that need to be addressed are handled through immediate discussions with the Employee Associations. These organizations are not prevented from referring matters to the Commissioner General of Labour in the event the Bank and the organization fail to amicably settle same among themselves. However, there have not been any cases of discrimination or any ill treatment or any other dispute reported during the period of review.

The Bank has a well established and transparent performance appraisal system for its executive officers which are strongly linked to a variable bonus scheme and to the salary increments due for the subsequent year. All executive staff members are informed on the quantum of bonuses that he or she would be entitled to, which are based on the Bank achieving pre-determined performance criteria and individuals achieving their respective key performance indicators.

Training and Awareness on Human Rights

The relevant staff members attached to the Human Resource Department undergo periodic training on matters related to human rights, grievance handling, etc. They in turn guide other members of staff as and when necessary. The Bank is also committed to provide needs-based on-the-job and in-house training to bring employees up to desired levels of performance in this area.

Monitoring, Follow-Up and Remediation

The Bank has entered into agreements with reputed recruitment agencies to ensure that they follow the specifications laid down by the Bank when nominating candidates for recruitment by the Bank. The Internal Audit Department of the Bank also undertakes periodic reviews to ensure that the Bank follows the relevant procedures.

In addition, the Bank's intranet site of the Human Resources Department, to which all staff members have free access, has clearly laid down the procedure to be followed in instances where there is any kind of grievance, including breach of human rights.

Our approach to Societal Responsibility

As a leading bank, we acknowledge and embrace the many responsibilities we have towards society at large, in terms of conducting our business and that of our supply chain, in a manner that completely eschews moral hazard, corruption and anti-competitive behaviour.

As a leading financier serving a large segment of society and business, Commercial Bank is able to exert considerable influence for good, in living up to the ideals mentioned.

The Bank in recognising its responsibility towards society, has taken a gamut of social initiatives. The most important of these is the formation of Commercial Bank Social Responsibility Trust Fund (CSR Trust) in 2004 with a seed capital of Rs. 25 Mn. The Bank's commitment to the Fund has been maintained with financial additions to it, each year. The Bank contributes up to 1% of its post tax profits to this Trust and in 2012 the Bank contributed Rs. 50.0 Mn. towards this worthy cause. Currently, the total contribution to the Trust exceeds Rs. 290.0 Mn. The deed of the 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 assist in preserving and further promoting the cultural heritage of Sri Lanka and to promote culture and arts
- To assist the Government and Local Government Authorities and farmer organisations to dredge and rehabilitate tanks and other sources of water supply providing water for agricultural and consumption purposes and
- To undertake other charitable activities decided by the Trust

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.

Goals and Performance

The Bank's CSR strategy is developed within the Vision, Mission and objectives of the Bank. This year too, the Bank embarked on 'Education' as the prime theme for its local community engagement activities to support school children and young adults of Sri Lanka regardless of their gender, race, religion or social background. The main thrust within 'Education' is supporting IT education and English language proficiency in Sri Lanka. These areas were selected after careful consideration of the Bank's broad Vision and the development road map of the Government of Sri Lanka.

The Bank has a well established mechanism which ensures its commitment not to engage in any activity that involves corruption or anti-competitive behaviour. Risk assessments covering all areas of banking operations are carried out periodically to update the initial assessments performed by the Risk Owners together with controls to mitigate such risks, including those related to corruption. Any deviations in adopting mitigatory measures are reported to the Board Audit Committee and to Board Integrated Risk Management Committee.

It is the Bank's intention to take part in gatherings involving public policy development and lobbying.

The Bank has an effective compliance function in place headed by a designated Compliance Officer, a member of Corporate Management team of the Bank whose mandate is to ensure that the Bank fully complies with all applicable laws and regulations, in letter and spirit.

Organisational Responsibility

The Bank's responsibility for local community engagement lies with its CSR Trust represented by four members of the Board of Directors. The Chairman of the CSR Trust has overall responsibility for the Bank's commitment to Community. A dedicated senior officer of the Bank serves as the CSR Coordinator, who reports directly to the Trustees in assisting them in achieving the objectives of the Trust. This structure shows the commitment of the Board of Directors of the Bank towards the subject.

The Trustees of the CSR Trust are:

Mr. Lakshman Hulugalle - *Director/Chairman of the Trust*

Prof. Uditha Liyanage - *Director*

Mr. Ravi Dias - *Managing Director/Chief Executive Officer*

Mr. Nandika Buddhipala - *Chief Financial Officer*

Mr. Hasrath Munasinghe - *Deputy General Manager - Marketing*

Mrs. Priyanthi Perera - *Coordinator*

The Bank has a well established mechanism to deal with anti corruption activities and anti-competitive behaviour. This initiative falls under the purview of four departments, namely, Integrated Risk Management Department, Anti Money Laundering Department, Operations Department and Inspection Department.

Training and Awareness

Although, there is no formal training conducted on the subject of CSR, the Chairman of the CSR Trust sends written advice to all Branch Managers, regarding the activities the Trust has decided to undertake during the year under review, together with relevant guidelines for implementation.

The Bank's Staff Development Centre conducts dedicated training programs on corruption and anti-competitive behaviour, for the staff attached to the four departments mentioned above.

Monitoring and Follow Up

The CSR Coordinator is responsible for keeping the Board of Trustees informed of the status of all CSR activities. The Trustees meet once a month to assess and ensure that the proper follow up action is being taken in regard to all CSR projects under implementation.

The subject of corruption and activities involving anti-competitive behaviour is monitored by the Board Audit Committee of the Bank through the 'Positive Assurance Statement' submitted quarterly by the Compliance Officer.

Our Approach to Product Responsibility

The Bank offers an extensive portfolio of products and services meeting the wide spectrum of banking needs of a diverse customer base. We have pioneered several products and services consequent to identifying unique needs of customers with the objective of enhancing customer convenience while ensuring customer privacy and compliance with laws and regulations. The Bank has an array of delivery channels capable of reaching far and wide, often catering to customers at their doorstep. Transparency is a key element in the discharge of product responsibility.

The array of products and services offered by the Bank ranges from conventional deposits and loans to credit cards, leasing, corporate-banking services, project financing, e- banking, internet banking, etc. Our products and services are clearly offered and explained, branded and defined and directed to all sectors of the public catering to their requirements, fulfilling the Bank's own premise of delighting our customers.

Customer Health and Safety

This subject and its initiatives involve people from every level of the organisation including the Board, Corporate Management, Heads of Departments and other staff members in policy development, training, monitoring, compliance and compensation. Detection of any hazardous risks in the Bank and prompt implementation of risk control are key priorities of the Bank. This process is further reinforced through awareness, training, and supervision of all staff and suppliers, inducing active participation in resolving health and safety issues, impartial and fair compensation schemes for health issues of customers and employees and periodical review of policy.

Product and Service Labelling and Policies for the fair design and sale of financial products and services

In compliance with the requirements of the Central Bank of Sri Lanka on Customer Charter, the Bank at all times provides clear and informative information on all of its products and services ranging from features, rates and tariffs to terms and conditions. This process encompasses measures such as providing a mechanism for customers to interact with the Bank through means such as a hotline or e-mail based complaint handling procedure, publication of interest rates of deposits, advances and Government Securities, exchange rates and other important messages in all three languages (Sinhala, English and Tamil) via digital display units at selected Branches in addition to promoting products and services with clear information through electronic media, print media, online, web, as appropriate.

Marketing Communications

The Bank's Marketing Department is entrusted with ensuring that the following guidelines are being adhered to, in the content of all marketing communications materials produced by the Bank:

- Adhere to corporate and information security policies
- Reflect and support the corporate image of the Bank
- Avoid exposing the Bank to possible litigation
- Avoid racial content or inappropriate imagery and information
- Be free of spelling and grammar errors
- Be transparent and avoid misleading customers
- Be of high quality
- Avoid infringement of intellectual property rights

In addition, the Bank strictly adheres to the following:

- Obtaining necessary approvals required from both external and internal parties prior to the launch and communication of any customer or employee related promotional activity
- Rules and regulations concerning display materials, public-address systems, branding, etc
- Obtaining approval from the relevant Heads of Department for communication material, website changes including new and updated content
- Making a designated department responsible to ensure that the information posted on the website is appropriate, current and accurate

Customer Privacy

Safeguarding customer privacy is of paramount importance to the Bank. Thus, we have in place systems and procedures to ensure customer confidentiality levels are maintained at desired levels. Some of the important measures taken in this regard are:

• Restrictions on the Disclosure of Account Information

The Bank does not reveal specific information about customer accounts or other personally identifiable data to unaffiliated third parties for their independent use without the consent of the customer

• Protection of online privacy

In terms of submission of personal and other information of customers, the Bank ensures that information is sent via a 'secure contact point' which is password protected.

• e-mail privacy

Preserving the contents of customer e-mails and responding through a specified process with approvals and authority

• Maintenance of accurate information on all customers

The Bank has standard procedures to ensure that all financial information of customers ranging from transaction history to personal information among other areas, is accurate and updated

• Preventing access to banking transactions for under-aged children unless with the consent of the parent.

• A regime of limitations and controls for employees wishing to access personal information of customers, thus safeguarding customer confidentiality and privacy

Compliance

The marketing, distribution and sale of the products and services are carried out in a manner that is legal, decent, honest and in keeping with social norms and sustainable business practices at all times.

Our Policy

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

Goals and Performance

The main goal of the Bank's internal communication is to support the organization in achieving the overall goals described in the Bank's vision, mission and strategy whilst strengthening organisational culture and the feeling of commitment among the staff. Further, all means of external communication are geared to support the Bank in pursuing its' overall goals as in the case of internal communications, whilst supporting customer relations (branding, marketing) and investor relations enhancing the overall awareness and knowledge on the Bank and its' products and services.

The Bank follows a set of guiding principles to achieve the aforesaid goals as enumerated below:

- Communicate information in the most timely and updated manner - from replying a client's inquiry promptly, to the timely publication of the Annual Report.
- Maintain transparency in all dealings adhering to the rules and guidelines issued by the regulator from time to time.
- Being proactive and professional – consistent interaction with target groups in a climate of respect and dignity, in portraying the sought information
- Clarity and uniformity in all communication material; avoiding any unnecessary jargon
- Apply sensitivity to all cultures and languages in communication materials empathizing with and respecting the multi ethnicity of our existing and potential clientele
- Neutrality and non-alignment with any political party or political ideology through ensuring that all material and forms of communications are free of any comments of a political, defamatory or derogatory nature.
- Seek feedback on the Bank's image and communication activities both from the media as well as from its key target groups in order to make future improvements and adjustments

- All customer complaints, if deemed fit, will be directed to the Complaint Resolution Officer, a member of the Corporate Management whereby, upon his authorization, the complaints would be directed in writing to the respective Department
- Scrutinise selected communication materials and have them undergo standard approval processes of regulatory bodies such as the Colombo Stock Exchange, Department of Inland Revenue, Exchange Control Department and the Central Bank of Sri Lanka
- Entrust the handling of all media relations and communications of the Bank to the Marketing Department and identified members of Senior Management; ensure no member of staff (other than those duly authorised to do so) is permitted to provide information or issue a statement to the media with regard to the Bank and its activities without prior approval.

Organisational Responsibility

The Chief Operating Officer who is also an Executive Director of the Bank is in overall charge of this area, assisted mainly by Heads of the Corporate Banking, Personal Banking, Operations and Marketing functions, who are also the members of the Corporate Management of the Bank. The Country Manager of the Bangladesh Operations assists the Chief Operating Officer on matters pertaining to Bangladesh.

Training and Awareness

Organisation-wide goals regarding product responsibility are communicated via internal marketing and communication activities while periodic awareness programmes and communication materials on product responsibility/guidelines are sent to Branch Managers and departmental heads via operational and administrative circulars. Such circulars are also available in the Bank's intranet. In addition, product descriptor and branding guidelines are given to all third parties dealing with the Bank with strict control and monitoring aspects.

Further, the Staff Development Centre of the Bank conducts periodic training programmes to raise awareness of front-line staff on product features and how to present them to customers. Internal examinations and interviews test junior employees' product knowledge when they are being considered for promotions.

Monitoring and Follow-up

The Bank's monitoring system, geared to impart corrective and preventive action where indicated, encompasses the following:

- A control environment with written guidelines, policies and contingency management plans which reflects the commitment of the Board of Directors and the Management to sound internal controls.

- Risk assessment by respective authorities in terms of identification, measurement and analysis of risks, both internal and external, at individual business units as well as for the Bank as a whole. The effective risk assessments in turn help determine the potential risks, the control measures and their management.
- Control activities envisage the policies, procedures and practices established to ensure that the Bank's staff adheres with the directives of the Board and Management at every business unit and throughout the Bank.

Our Approach to Manage Product and Service Impact

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.

Our Policy

We are especially focused on ensuring that all activities undertaken by the Bank are consistent with the applicable requirements of SEMS, which provides a policy framework, implementation process and a monitoring mechanism to ensure that not only the Bank but also our customers conform to certain standards stipulated in SEMS.

understandable that most customers may believe that compliance with environmental standards and provisos do not generate direct financial benefits to them, though society is benefited. Hence, our goal is to educate them on the long term benefits that will accrue to all by complying with measures that enhance environmental sustainability and thus the well-being of their businesses.

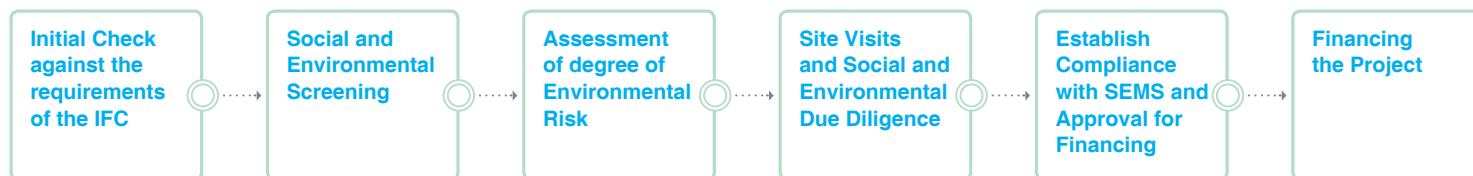
The Bank's credit policy encompasses a Social and Environmental Policy, which sustains our position whilst supporting our aim be the best player locally and regionally. A senior officer designated as a 'Social and Environmental Co-ordinator' supported by his team is responsible for the management and administration of the SEMS in the Bank.

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

Phase I: Initial Project Approval

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

The Bank in its pathway to achieve the objectives of the above mentioned policy makes every effort to ensure that all projects funded are reviewed against the stipulated criteria and are designed, built, operated and maintained in compliance with the requirements of the SEMS. It is quite



Phase II: Subsequent Project Review

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



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

The SEMS Co-ordinator who receives regular training on all aspects of SEMS is also responsible to train staff to ensure successful implementation of SEMS at the Bank.

SEMS as an integral part of the lending philosophy of the Bank

Inculcating SEMS into the Credit Policy

The Credit Policy of the Bank has evolved based on a comprehensive understanding of the needs of customers. Thus the products and services that stem from this Policy are all geared to meet and exceed customer expectations. In this regard, a conscious effort is made to lend funds to needy sectors subject to the associated risks being acceptable to the Bank. The environmental impact of activities and/or businesses financed by the Bank is always a subject of concern when credit proposals are considered by the Bank. Lending activities are aligned with the Social and Environmental Policy and all regulatory requirements and with the IFC's exclusion list. Every attempt is made to assist customers to become compliant with the relevant regulations rather than simply rejecting credit proposals that adversely affect the environment.

The operations of the Islamic Banking Unit and the Bank's operation in Bangladesh are governed by separate credit policy documents which broadly comply with the Credit Policy of the Bank.

The Credit Policy of the Bank though not publicly available is accessible by all officers directly or indirectly involved in lending as this document is hosted in the Intranet site of the Bank.

The Bank devotes much attention and deploys substantial resources to train lending officers to ensure that their approach to customer requests is always professional and helpful. As such every credit proposal is examined on its merits to understand the risks associated with it since every proposal has its own strengths and weaknesses and also has some measure of risk/s associated with it. The objective of this exercise is to explore the ways and means of avoiding, mitigating or transferring the risks while ensuring that the evaluation process does not become an adversarial proceeding with the customer.

SEMS as a tool for assessing and screening environmental and social risks

As explained under the management approach, The 'Social and Environmental Co-ordinator' manages the implementation and monitoring of the SEMS. The Co-ordinator reports to the Head of Corporate Finance who signs off on the Bank's annual Environmental Performance Report. The SEMS is largely based on the Performance Standards of the International Finance Corporation (IFC), the private sector arm of the World Bank Group and an important shareholder of the Bank since 2003. The SEMS is being upgraded in consultation with the IFC to ensure full compliance and as suggested by IFC steps are being taken to place the SEMS Co-ordinator at the Risk Management Department of the Bank so that projects/facilities could be evaluated for environment screenings.

The SEMS ensures that effective sustainability practices and safeguards are implemented not only in respect of our own activities, products and services but also with respect to the indirect impacts arising from the projects of our customers that we finance. As laid down in the SEMS, the Bank has a predetermined threshold for aggregate lending for the projects listed in the IFC Exclusion List. The underlying principles of SEMS ensure that:

- Project lending by the Bank is consistent with IFC Performance Standards and other applicable national laws on environment, health, safety and social issues. In the event, a significant environment or social risk is identified during the initial screening phase, additional procedures including environmental due diligence are performed before proceeding any further on the credit proposal;
- External specialised assistance is also obtained when required; and
- Only projects which we believe will be designated, operated and maintained according to these applicable requirements are financed.

The Bank does its best to ensure that the finance extended to its customers is used to set up and fund operations which are both sustainable and environmentally sound. This concern is at the heart of the Bank's sustainability strategy. Hence, all project related lending is reviewed against the applicable requirements at the time a credit facility is granted and on an ongoing basis thereafter for the period of the Bank's association with such project/s.

The Bank expects to extend this to all lending proposals soon.

Monitoring project compliance

On an on-going basis, lending officers of the Bank undertake desk reviews and visit projects financed, to evaluate their environmental and social impacts and to assess the client's fulfilment of agreed environmental and social objectives. These reviews may require the borrowers to take mitigating actions for any adverse effects over the project period to bring it in line with the preferred standards within agreed time periods. The officers selected for this task are those with the necessary skills and competence.

Talent building for successful implementation of SEMS

The Social and Environmental Coordinator's mandate is to ensure that all relevant procedures are complied with for every project undertaken. This officer is trained and updated on an on-going basis on matters relevant to his purview. The Bank makes use of this expertise, augmented by external resource personnel when necessary, to instruct and mobilise the wider employee base of the Bank on environmental and other sustainability issues. The Bank also takes every possible measure to ensure that its staff and the decision makers at clients' firms appreciate and agree to operate within the policy principles laid in the SEMS.

Interacting with customers on environmental and social risks and opportunities

The lending officers are required to record a summary of the discussions/interactions arising out of face to face encounters on such project visits based on checklists specially prepared for this purpose for reference and for monitoring in follow up visits.



Employees

Number of Employees

4,602

22.59 hours
of training per employee

Rs. 51.62 Mn.
invested on training

The Global Economy

Emerging from recession is continuing to be a painful process for the global community, as largely expected. Whilst growth of the world economy dipped from 3.9% in 2011 to 3.2% in 2012, the overall scenario continues to reflect an intriguing power shift. The 'muscle' that drives the global economy continues to be provided by emerging and developing economies whilst advanced economies are no longer the powerhouses they once were.

The shift in power has been a strong driver of the world economy, reflected in growing domestic demand across many emerging economies as the middle class and its spending power grow. It is also seen in rising new trade corridors, with increased trade between Asia, Africa, the Middle East and Latin America. There is also increased investment, innovation and infrastructure spending across large parts of the world.

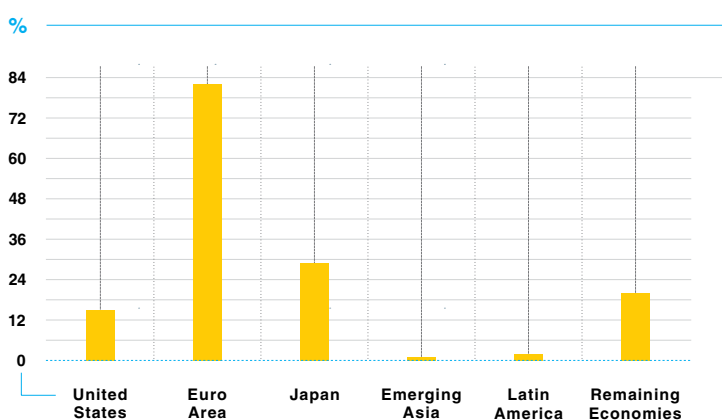
Table 01 : World Economic Outlook

	2011	2012	Projections (%)
			2013
World Output	3.9	3.2	3.5
Advanced Economies	1.6	1.3	1.4
United States	1.8	2.3	2.0
Euro Area	1.4	-0.4	-0.2
Emerging & Developing Economies	6.3	5.1	5.5
Developing Asia	8.0	6.6	7.1
China	9.3	7.8	8.2
India	7.9	4.5	5.9

Source: IMF World Economic Outlook Update, January, 2013

Looking ahead to the year 2013, as the figures in the chart suggest, despite the challenges from too much austerity in Europe, the world economy should grow at a faster pace than in 2012. Emerging-market outperformance should continue, helped by solid domestic demand.

Probability of Recession 2012:Q2 - 2013:Q1



Based on a broad reading of economic data, it has been estimated that Asia (excluding Japan) will have the lowest probability of recession during the period of one year that commenced from the second quarter of 2012, a confirmation that its Asia's time.

Source: World Economic Outlook, October 2012

Global Banking

Such has been the magnitude and reach of the financial crisis, that it has triggered an equally profound response from the global banking industry. Whilst history is replete with recessions and reforms of the past, it would be true to say that this time around, the sheer depths of the crisis and the equally far reaching regulatory response set this era apart from all others.

It is not so much a question of consolidation and adjustment, but global banking has been required to undergo radical change - a new order is emerging in terms of performance benchmarks, industry structures, business models, financial structures, taxation, products, pricing, conduct and remuneration. Already there are many indications as to how this 'new order' is changing the global banking landscape.

Internationally active banks are likely to refocus their activities to prepare for new, stricter capital and liquidity requirements. In the EU, very stringent restructuring requirements have been applied to a number of large banks that had received public support in 2008.

With many divestiture plans yet to be concluded, the question arises as to whether such trends will significantly change the structure of global banking towards a more domestic orientation. The evidence seems to indicate a geographic shift but not a pull back. Total cross-border claims of large global banks to emerging market and developing economies have grown since 2006. Cross-border activity entailed both acquisitions and divestitures, suggesting that banks are shifting business strategies to accommodate required changes in risk management practices as well as rebalancing to better reflect their competitive advantages in international markets rather than retreating from them.

The Basel Committee of regulators from nearly 30 countries agreed on January 6, 2013 to ease a new rule, forcing banks to build cash buffers to protect against any month long market squeeze. Accordingly, global regulators gave banks four more years and greater flexibility to buildup cash buffers from the originally planned 2015, so they can use some of their reserves to help struggling economies grow. Basel III has been subject to mounting criticism for its complexity, amid delays to its implementation in the European Union and the US.

The Liquidity Coverage Ratio (LCR) rule is one of the world's main regulatory responses to the financial crisis. It is part of the Basel III bank capital and liquidity accord agreed by world leaders in 2010 and being phased in over six years from January 2013, though there are delays in the United States and European Union.

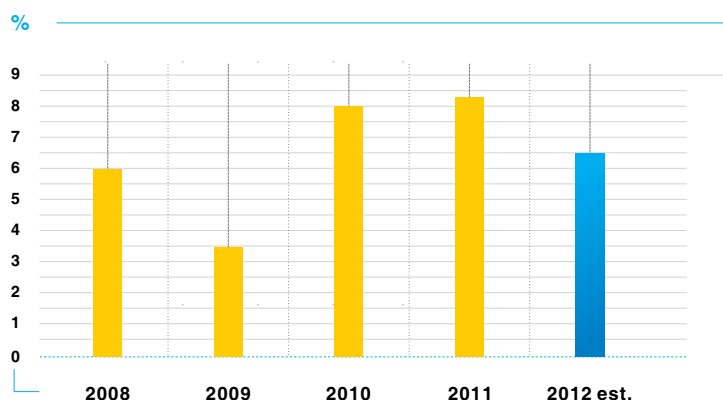
The adoption of IFRS has plenty of critics around the world. The European Union (EU) has not yet endorsed IFRS 9, meaning IFRS reporters in the EU cannot early adopt. The EU has indicated that it will only make a decision on endorsement once the entire financial instruments guidance has been finalised.

(Source: Bloomberg, Reuters, PWC, IMF)

The Sri Lankan Economy

Growth in Sri Lanka's GDP dipped to an estimated 6.5% in 2012 compared with the growth of 8.3% recorded in 2011. This was mainly due to the adverse effects of reduction in hydro power generation, agriculture production and deceleration in factory industry output. Further, the credit ceiling imposed by the CBSL also reduced the import driven consumption demand in 2012.

GDP Growth



Despite there being several other indicators, a consistent growth in GDP singularly portrays the prosperity of a nation. While the drop in 2012 reflects the global and local economic scenario, Sri Lanka is resilient enough to withstand challenges and is expected to maintain its growth trajectory going forward.

Sector	Contribution to GDP	
	up to September 2012	2011
Agriculture	11.8	11.2
Industry	29.7	29.3
Services	58.5	59.5
Banking Insurance and Real Estate	8.8	8.8

Balance of Payments (BOP)

The reduction in imports expenditure was higher than the reduction in export earnings in 2012 and as a result the trade deficit had recorded a slight decline during the period. However, the current account of the BOP improved with the increase in inflows from worker remittance and tourism etc. Further, the inflows to the financial account have increased mainly due to an increase in Government and commercial bank borrowings and foreign investments in Treasury Bills and Bonds etc. As a result the BOP recorded a surplus of over US \$ 100 Mn. in 2012, compared to the deficit of US \$ 1,061 Mn. in 2011.

Exchange Rate

The LKR/USD exchange rate began to depreciate when the Central Bank of Sri Lanka (CBSL) ceased its intervention in February 2012 and this trend continued until September 2012. However since then, the exchange rate has remained at more or less stable levels - between Rs. 128/- and Rs. 132/- to the USD. The BOP and Gross Official Reserve (GOR) position of the economy remained healthy, reducing pressure on the exchange rate.

Fiscal Sector

The budget deficit as a percentage of GDP for the first nine months of 2012 reached 6.4%, exceeding the full year's target of 6.2% mainly due to a shortfall in revenue. The budget proposals presented by the Government for 2013 are more focused on fiscal consolidation in view of reducing the budget deficit to 5.8% and to achieve the growth target of 7.5%. Almost 90% of the Government's recurrent expenditure consists of interest payments on public debt, public service emoluments and subsidies and transfers.

Inflation

The year-on-year inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07 = 100), remained at single digit level during 2012 closing the year at 9.2%. Improved domestic supply conditions of agricultural commodities coupled with relatively low international prices of imported items, helped maintain inflation at lower levels during 2012. Further, the tight monetary policy and the credit ceiling imposed by the CBSL in view of discouraging consumer related lending reduced inflationary pressures on the economy in 2012.

Interest Rates

Interest rates recorded an increasing trend in line with the increase in policy rates and tight monetary conditions until policy rates were cut down by the CBSL in December, 2012. The credit to the private sector decelerated with the increase in interest rates and the credit ceiling imposed by CBSL on bank lending.

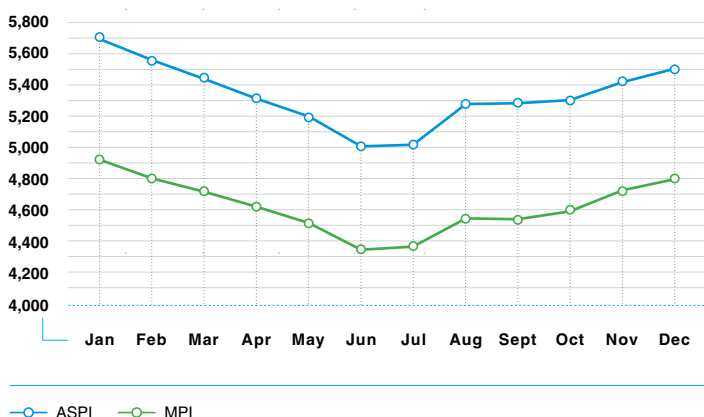
The CBSL decided to reduce Repo and Reverse Repo rates by 25 basis points in December, 2012 and also to lift the credit ceiling from 2013, considering the reduction in private sector credit growth, inflation etc.

Share Market

The operations of the share market were subdued due to the adverse market conditions that prevailed throughout the year. Nevertheless, the net foreign inflows to the share market were recorded at Rs. 39 Bn. in 2012.

Share Price Indices - 2012

Index



After a few years of phenomenal growth in the post conflict era, the share market had a lackluster performance during the year and the market indices remained more or less stagnant.

Key Economic Indicators

Indicator	Unit	2011	2012
Real GDP Growth	%	8.3	6.5*
Per Capita GDP	US \$	2,836	2,922*
Inflation (Annual Average)	%	6.7	7.6
Exchange Rate (End Year)	LKR/ US \$	113.90	127.16
Budget Deficit	% of GDP	6.9	6.2*
Average Weighted Deposit Rate (AWDR)	%	7.2	10.1

Source: CBSL

* CBSL estimates

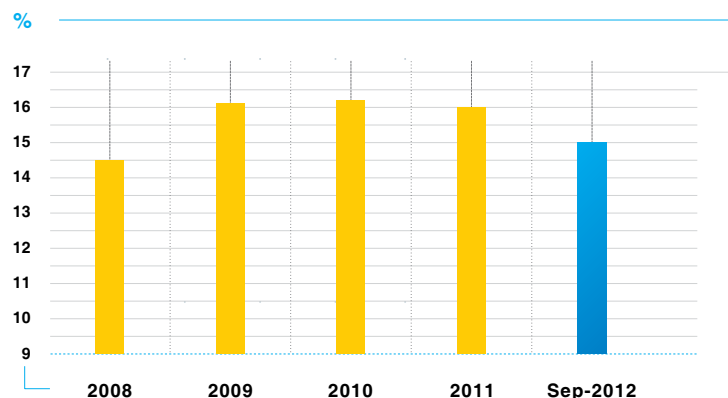
The Banking Industry

Sri Lankan banking sector looked reasonably healthy in terms of capital adequacy, asset quality, profitability, number of banks and bank branches. However, from a macro viewpoint, the sector remains relatively small in relation to the size of the economy.

Access to finance increased whilst the service delivery channels of banks continued to expand. The banking sector recorded satisfactory growth in profits despite shrinking margins, moderate growth in lending and relatively slow income growth during the year. Depreciation of the rupee, with the greater flexibility of the exchange rate resulted in an increase in the net gain from revaluation of foreign currency assets and liabilities.

Capital Adequacy ratio of banks improved in 2012 and were maintained well above the stipulated minimum level of 10%. Similarly liquidity ratios were maintained well above the minimum regulatory level of 20%.

Capital Adequacy Ratio

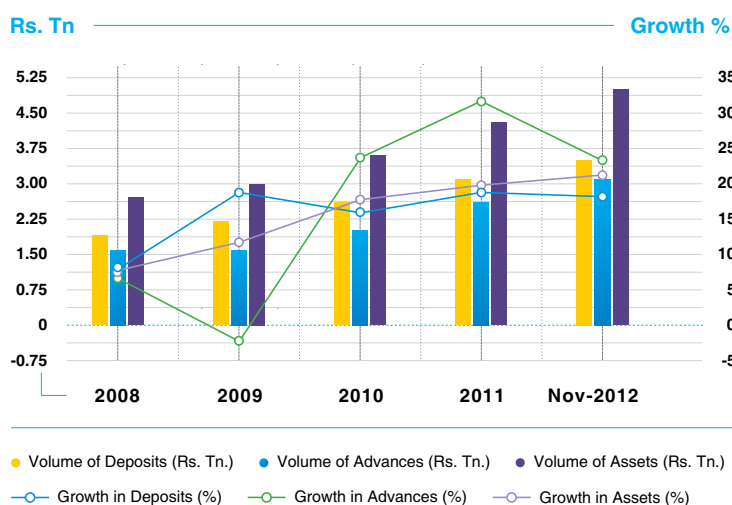


Relatively higher levels of capital adequacy maintained by the Sri Lankan banking industry has given it a higher degree of resilience in face of adversities.

Deposits continued to be the main source of funding. The share of borrowings in total funding recorded an increasing trend, especially banks raising funds from overseas sources to improve the Tier II capital.

The banking sector became strong and competitive in recent years and recorded reasonable growth in volumes.

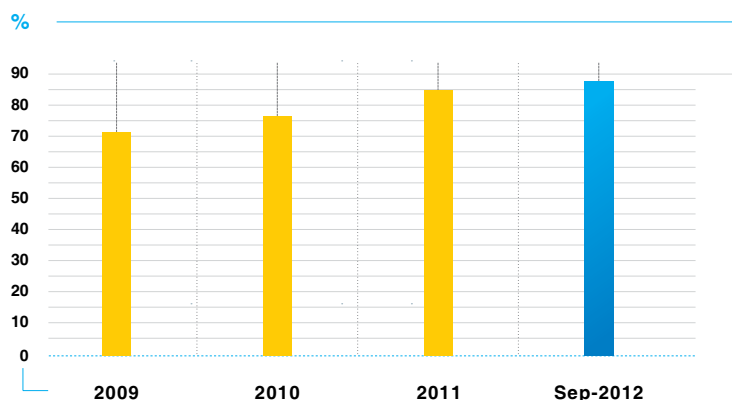
Growth in Volumes



Although the growth in savings is below the required growth rate to support the desired levels of investments to achieve a higher GDP growth, the total assets, deposits and loans & advances of the Banking industry continue to increase steadily over the years.

The Current Accounts:Savings Accounts (CASA) ratio of the banking sector has been steadily deteriorating in recent years as evident in the shift from low cost deposits to high cost deposits for higher gains. This trend is likely to increase the cost of funds in the banking sector.

Loan to Deposit Ratio

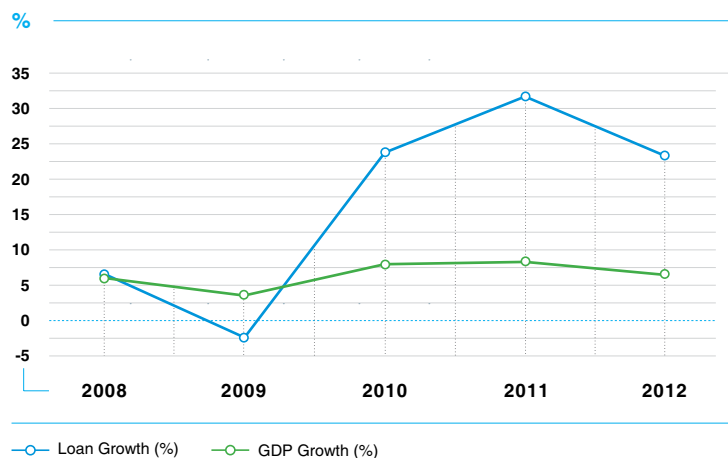


Reflecting the growth in investments in various sectors of the economy and demand for consumer credit, the advances to deposits ratio of the Banking industry has been gradually increasing over the years.

The loan to deposit ratio of the banking sector increased significantly since 2009 as growth in loans outpaced the growth in deposits.

The loan growth of the banking sector has moved in line with the economic growth resulting in fresh demand for credit, which in turn would increase the economic activities in the country. This demonstrates the pivotal role the banking sector plays in the economic growth.

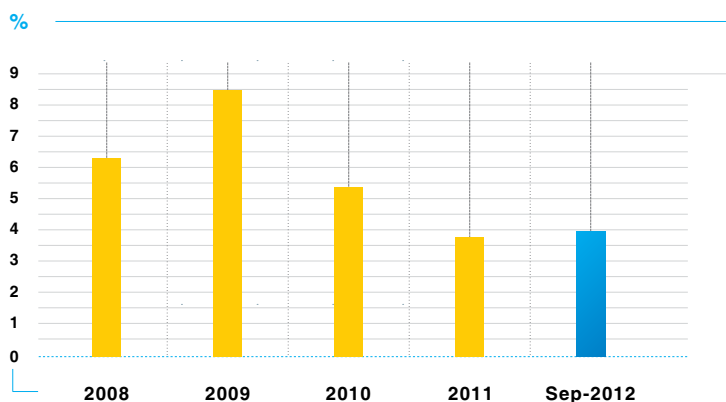
Loan Growth & GDP Growth



GDP growth is positively correlated to the loan growth of the country.

According to Fitch ratings, the non-performing loan (NPL) ratio of the Sri Lankan banking sector could see a slight deterioration in 2013 from the current 4%, but will remain below 5%.

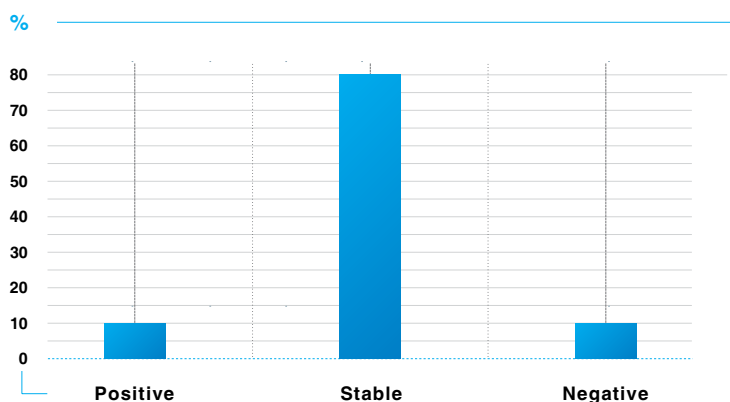
Gross NPL Ratio



Despite the pressures from the challenging global economic conditions, the Sri Lankan banking industry has been successful in gradually bringing down the NPL ratio.

The Fitch outlook on the National Long-Term Ratings of most Sri Lankan banks is 'Stable'. Fitch believes that domestic prospects should still be sufficient to support a reasonable performance and profile as the level of penetration still remains low.

Rating Outlook



Fitch expects profitability to moderate due to dampened Net Interest Margins (NIMs) amidst intense competition for deposits and a potential rise in credit costs, as loan-loss reserves remain modest. Earnings reported in 2012 have been bolstered through foreign currency income from translation gains.

According to Fitch, enhanced core capital buffers, alongside structural changes that can support the ratings of Sri Lankan banks through economic cycles, could be positive for the outlooks and/or ratings. Preliminary impact assessments of revised local accounting standards pertaining to the presentation, recognition, measurement and disclosure of financial instruments effective in financial periods beginning in 2012, have not revealed a significant impact on banks that have disclosed it.

New Acts and Legislation Implemented during the Year

New Accounting Standards (SLFRS/LKAS)

Effective from January 1, 2012, all Sri Lanka Accounting Standards converged with the International Financial Reporting Standards (IFRS). This convergence has brought substantial changes on measurement, recognition and disclosure requirements of entities. Among these changes, arrival of the Sri Lanka Accounting Standards LKAS 32 on Financial Instruments: Presentation, LKAS 39 on Financial Instruments: Recognition and Measurement and SLFRS 7 on Financial Instruments: Disclosure brings a revolutionary change to the banking industry.

The established business models need radical changes to comply with new requirements. Reporting frameworks are substantially different compared to previous methods. The provisioning policy was changed to an incurred loss model based on the actual evidence of impairment from regulatory time based provisioning. A majority of items which appeared under Off-Balance Sheet were brought into the On-Balance Sheet.

The additional disclosures required under SLFRS/LKAS may provide further insight for investors and it has significantly improved disclosures in the Annual Report. The move towards SLFRS/LKAS holds significant implications for financial sector in the country as it demands heightened levels of transparency pertaining to the utilisation of public funds in the course of business.

Amidst many challenges, the Bank successfully migrated to new standards from January 1, 2012 and published the impact of SLFRS/LKAS in interim accounts for first three quarters of 2012. The detailed financial statements were prepared as of December 31, 2012, the first full year after moving into new accounting standards.

Strengthening of Risk Management

A consultative paper on Internal Capital Adequacy Assessment Process (ICAAP) was issued, which requires banks to assign capital for additional risk not covered under Pillar 1 of Basel II. Such a process will foster a strong emphasis on risk management and encourage improvements in banks' risk assessment capabilities.

Governance on Forex Trading

In order to promote a high standard of business conduct and market practice for the orderly conduct of the foreign exchange trading activities, a directive was issued by the CBSL covering market practices, ethics, standard of conduct and practices.

Ceiling on Credit Growth of Licensed Banks

As legislated by the CBSL, the credit growth of licensed banks has been contained to 18% of the total rupee outstanding as at end of year 2011 or Rs. 800 Mn. whichever is higher. However, the banks could have granted credit in the year 2012 in excess of 18% or Rs. 800 Mn. up to 23% of the total outstanding as at end of year 2011 or Rs. 1,000 Mn. whichever is higher, provided that corresponding funds are raised from overseas sources.

Threshold Age of Senior Citizens for Transactions with Licensed Banks

Across the banking industry, different age thresholds have been employed by various constituents to define senior citizens in the course of their operations. In order to maintain a sense of parity and conformity within the industry, the CBSL requested licensed banks to use a common threshold of 55 years of age in identifying senior citizens.

Commercial Bank won five major international awards as Sri Lanka's Best Bank and Best Trade Bank in 2012 and had the distinction of being the only Sri Lankan bank to be listed among the Top 1,000 Banks of the World for two consecutive years. Overall, the Bank has been adjudged 'Best Bank in Sri Lanka' for 14 consecutive years by 'Global Finance' Magazine as a result of years of hard work, passion and commitment to fundamentals and best practice by the entire team.

The financial acumen portrayed by the Bank has positioned it as the best performing indigenous private bank of the country today. Commercial Bank has recorded impressive results consistently over a long period of time and now possesses a fair market share in banking sector assets.

The convergence of SLAS to SLFRS impacted the banking industry with certain changes to financial reporting formats. This being the first financial review under SLFRS regime, explanations and analyses have been provided in comparison to the previous method (SLAS) where appropriate, for ease of comparison.

Profits

The Bank continued its growth momentum and further consolidated its position as the premier private bank in the country. The Bank's post tax profits exceeded Rs. 10.0 Bn., for the year ended December 31, 2012, making it the first private bank in the country to achieve this milestone.

The pre and post-tax profits for 2012 and 2011 are given below:

	For the Year Ended		YoY Growth	
	2012 Rs. Mn.	2011 Rs. Mn.	Rs. Mn.	%
Pre-tax profits	14,295.3	10,897.2	3,398.1	31.2
Post-tax profits	10,098.3	7,882.9	2,215.4	28.1

* Based on SLFRS

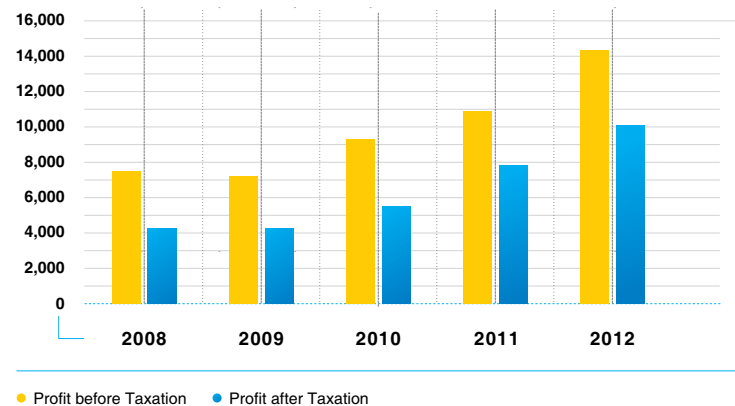
The Bank recorded a sustainable growth in its profits as reflected in the quarterly profits reported by the Bank in 2012.

	2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Pre-tax profits (Rs. Mn.)	4,145.0	3,563.2	3,230.1	3,373.3
Post-tax profits (Rs. Mn.)	2,843.3	2,477.9	2,324.9	2,425.6

* Based on LKAS

Profit Before and After Taxation

Rs. Mn.



The Bank continued to maintain a steady growth in both its profit before and after tax to maintain its pre eminent position in the banking sector of the country.

Both fund based and fee based income made significant contributions to profit growth during the year. Bank's ALCO continuously monitored market conditions and re-priced its product portfolio in a timely manner. Net interest income reached Rs. 22,855.0 Mn., recording an increase of Rs. 4,149.8 Mn. or 22.2% compared to Rs. 18,705.2 Mn. in 2011. This was largely due to the growth in interest income which rose by 37.4% Year on Year (YoY) to Rs. 52,685.4 Mn. Increase in interest earning assets and repricing of the asset portfolio in tandem with market interest rates facilitated this substantial growth.

Similarly, interest expenses recorded an increase of 51.8% or Rs. 10,180.1 Mn. and reached to Rs. 29,830.4 Mn. for the year under review. This increase is mainly due to the increased interest payments in line with the upward movement in interest rates in the country and the increase in interest bearing liabilities compared to 2011.

Growth in Volumes

The Bank recorded satisfactory growth in both deposits and advances during the year. The growth in advances was despite the controlled credit environment prevailed in the country. The details are given below:

	As at December 31		Growth Over 2011	
	2012 Rs. Mn.	2011 Rs. Mn.	Rs. Mn.	%
Deposits	390,611.5	323,754.7	66,856.8	20.6
Gross loans and advances	340,099.4	288,258.2	51,841.2	18.0

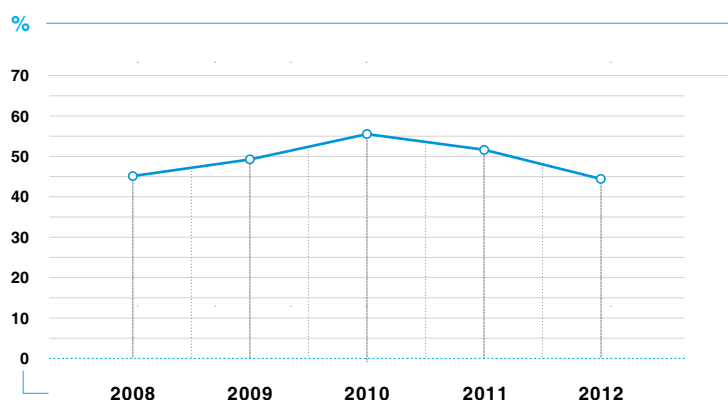
* Based on SLFRS

The Bank witnessed a substantial upward movement in interest rates specially during the early part of the year which resulted a shift in deposits specially from savings deposits to term deposits. This caused CASA ratio of the Bank to deteriorate, which was nevertheless one of the best ratios in the banking industry. Depreciation of the Rupee had a favourable impact on the foreign currency deposit growth during the year.

	As at 31 December	
	2012 %	2011 %
CASA Ratio	44.5	51.6

* Based on SLFRS

CASA Ratio



Bank experienced a shift in the deposit mix from low cost current and savings accounts to high cost fixed deposits reflecting the sensitivity of the depositors to rising interest rate scenario.

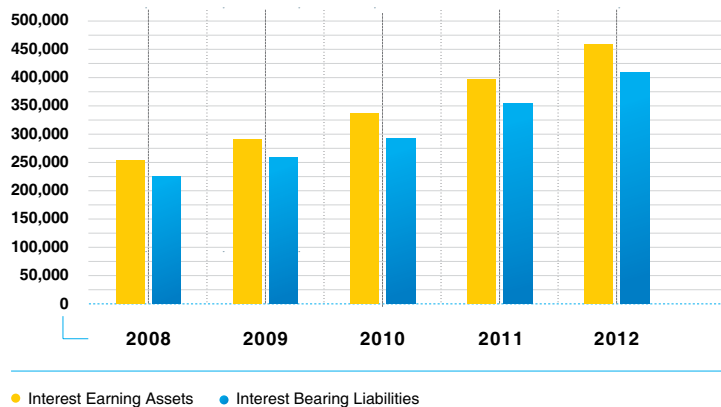
The Bank raised US \$ 65.0 Mn. by way of a DPR facility (Diversified Payment Rights) from IFC to supplement deposit growth during the year. Advances to deposits ratio stood at 87.1% as at end 2012 compared to 89.0% in 2011. Due to relaxation of the borrowing requirement by the CBSL, share of foreign borrowing by commercial banks recorded an increase during the year.

	For the Year Ended		Growth Over 2011	
	2012 Rs. Bn.	2011 Rs. Bn.	Rs. Bn.	%
Interest-earning assets	458.1	396.7	61.4	15.5
Interest-bearing liabilities	408.7	354.0	54.7	15.5

* Based on SLFRS

Interest Earning Assets & Interest Bearing Liabilities

Rs. Mn.



Mindful of its implications on the profitability, the Bank has been constantly improving its mix of assets and liabilities in terms of interest earning/non-interest earning and interest bearing/non-interest bearing.

Consequent to factors stated above, total assets of the Bank increased to Rs. 511.7 Bn. as at end 2012 compared to Rs. 441.3 Bn. in 2011, reflecting a growth of Rs. 70.4 Bn. or 15.9%. In the process, Commercial Bank became the first private bank to surpass Rs. 500.0 Bn. in total assets.

Fee-Based Operations

Commission income recorded a net growth of Rs. 272.6 Mn. or 8.2% YoY. Each category of commission income contributed towards this growth.

	For the Year Ended		Growth Over 2011	
	2012 Rs. Mn.	2011 Rs. Mn.	Rs. Mn.	%
Fees and commission income	4,146.5	3,765.2	381.3	10.1
Less - Fees and commission expenses	548.6	439.8	108.8	24.7
Net fees and commission income	3,597.9	3,325.3	272.6	8.2

* Based on SLFRS

Fees and Commission Income comprises the various sources of commission income mainly derived from fund-based operations of the Bank. Fees and Commission expenses which hitherto reported under other expenses, represents the expenses incurred to earn various commission income.

The Bank recorded a substantial growth in its foreign exchange trading profits compared to the last year mainly due to the arbitrage opportunities prevailed in the market as a result of the volatilities experienced in the rupee exchange rate and the increase in volumes of foreign currency transactions during the year.

Bank's other operating income mainly consists of recovery of non-performing loans; other foreign exchange income and revaluation gain on retained profit of the Off-Shore Banking Centre. Recoveries o/a past due loans and advances recorded a growth of Rs. 207.1 Mn. or 16.3% YoY, partly assisted by the recovery of few large past due loans and advances during the year. Revaluation profits recorded a significant growth due to the depreciation of the rupee by Rs. 14.00 or 12.3% against the US dollar during the year.

Total operating income of the Bank reached Rs. 33,016.1 Mn., an increase of Rs. 7,247.0 Mn. or 28.1% YoY.

Impairment Charges on Loans and Advances

The adoption of SLFRS affected the provisioning policy of the Bank with the time based provisioning policy being replaced by the individual and collective impairment methodology. A threshold limit was decided by the Bank to conduct impairment on significant loans which adequately represented the total loan portfolio of the Bank.

These loans were tested against predetermined individual impairment indicators decided by a steering committee set up by the Bank based on the input received from credit officers and recovery officers, approved by the Bank's Board Audit Committee.

The Bank divided its loan portfolio into several buckets based on the homogeneous risk characteristics attached to different products. The collective impairment provision was formulated based on the historical loss experience of these buckets expressed in terms of Loss Given Default (LGD) and Probability of Default (PD).

The details of the Bank's impairment provision are given below:

	For the Year Ended		Growth Over 2011
	2012 Rs. Mn.	2011 Rs. Mn.	Rs. Mn.
Individual impairment	1,296.7	2,592.8	(1,296.1)
Collective impairment	1,856.7	(869.6)	2,726.3
Direct write-off	4.9	23.5	(18.6)
Total impairment charge	3,158.3	1,746.7	1,411.6

* Based on SLFRS

Comparison of impairment provision (under SLFRS) for 2012 and loan loss provision calculated under previous provisioning policy (under SLAS) of the Bank is as follows:

	For the Year Ended		Growth Over 2011
	2012 Rs. Mn.	2011 Rs. Mn.	Rs. Mn.
Total impairment charge	3,158.3	1,746.7	1,411.6
Total loan loss provision	3,183.5	1,503.3	1,680.2
Variance	25.2	243.4	

The Bank's previous loan loss provisioning policy is more stringent than the minimum amounts prescribed under the guidelines issued by the CBSL. Based on the previous policy, the Bank made substantial additional loan loss provisions compared to 2011.

Net operating income after deducting impairment charges amounted to Rs. 29,819.3 Mn., an increase of Rs. 5,858.1 Mn. or 24.4% compared to Rs. 23,961.2 Mn. in 2011.

Total overhead expenses consisting of staff emoluments and other expenses increased by Rs. 1,995.7 Mn. or 17.3% YoY. Salary revisions of executive officers, increments under the collective agreement signed with the Ceylon Bank Employees Union (CEBU) and the salaries of additional staff recruited resulted in an increase of staff emoluments during the year.

Other expenses increased by Rs. 515.6 Mn. or 9.8% in tandem with domestic inflation. Expenses incurred in expanding the delivery points and provision of additional depreciation charge consequent to the accelerated depreciation on computer equipment also contributed in increasing the other expenses during the year.

Growth in operating income exceeded the growth in overheads, resulting in an impressive growth in pre and post VAT profits of the Bank.

	For the Year Ended		Growth Over 2011	
	2012 Rs. Mn.	2011 Rs. Mn.	Rs. Mn.	%
Pre VAT profit	16,282.6	12,420.2	3,862.4	31.1
Post VAT profit	14,295.3	10,897.2	3,398.1	31.2

* Based on SLFRS

The financial VAT on profit and income tax recorded an increase due to the increase in operating profit of the Bank. Income tax liability also increased partly due to tax on profits repatriated by the Bank's Bangladesh operation during the year.

Ratios

Credit Quality Ratios

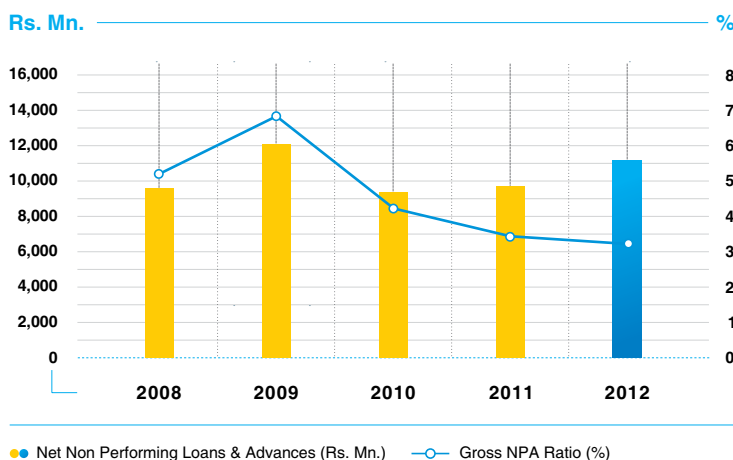
Non-Performing Advances (NPA) Ratio

NPA ratio of the Bank recorded an improvement largely due to significant recoveries made and growth in the loan portfolio during the year.

	As at December 31	
	2012 (%)	2011 (%)
Gross NPA ratio	3.37	3.43

* Based on SLAS

Net Non-Performing Loans & Advances/Gross NPA Ratio (%)



Success of the Bank's lending policies, post sanction monitoring and recovery procedures is amply reflected in the relatively low levels of Non-Performing Loans & Advances and the reducing NPL ratio.

As detailed earlier, both specific and general loan loss provisions were replaced with individual and collective impairment, while part of the non-performing advances were identified as individually impaired loans and advances. The Balance non-performing advances which were below the threshold limit decided by the Bank, were assessed under the collective impairment methodology.

	For the Year Ended		Variance Over 2011
	2012 Rs. Mn.	2011 Rs. Mn.	Rs. Mn.
Total non-performing loans and advances - based on SLAS	17,885.1	15,828.6	2,056.5
	For the Year Ended		Variance Over 2011
	2012 Rs. Mn.	2011 Rs. Mn.	Rs. Mn.
Total individually impaired loans and advances based on SLFRS	5,971.3	5,781.9	189.4

Based on SLFRS, the individually impaired loans and advances as a % of total loans and advances is given below:

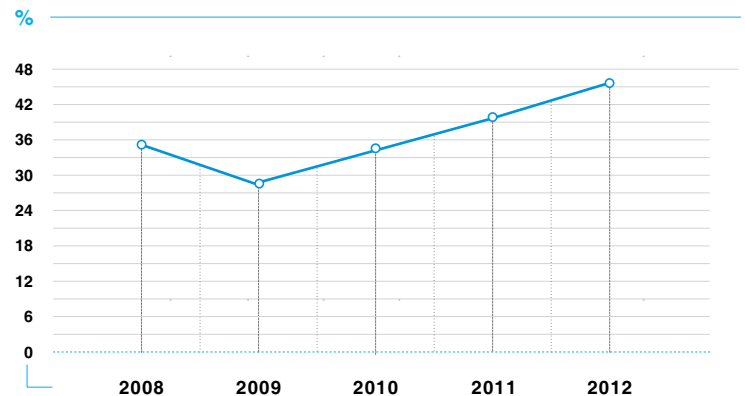
	As at December 31	
	2012	2011
Individually Impaired loans and advances as a % of loans and advances	1.8	2.0

Provision Cover

The provision cover of the Bank recorded a substantial improvement mainly due to additional provisions made during the year.

	2012 (%)	2011 (%)	Improvement (%)
As per SLAS	45.5	39.5	6.0

Provision Cover



In order to leave the capital unencumbered which will support the credit ratings, the Bank plans to gradually increase the provision cover to significantly higher levels in future.

The Bank is gradually improving its provision cover in tandem with reputed international banks. Provision cover has improved to 45.5% in 2012 from 28.5% at the end of 2009, an improvement of 17.0% over the last four years.

Efficiency Ratios

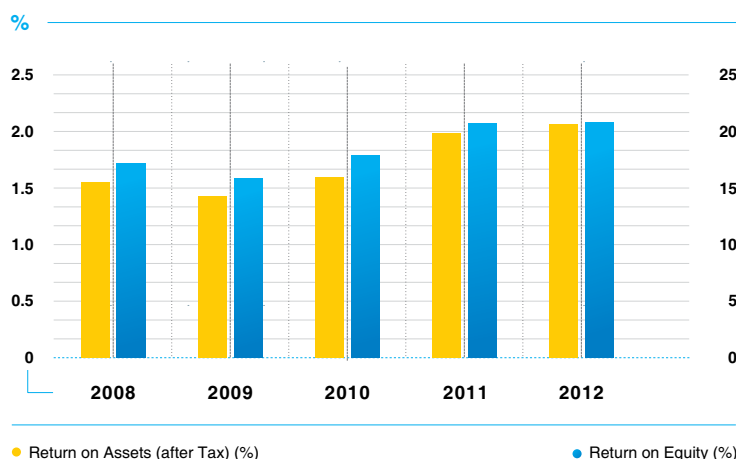
Return on Assets (ROA) and Return on Equity (ROE)

Both ROA and ROE ratios of the Bank recorded improvements when compared to the previous year.

	2012 (%)	2011 (%)
ROA	2.1	1.9
ROE	21.0	20.3

* Based on SLFRS

Return on Assets (After Tax) & Return on Equity



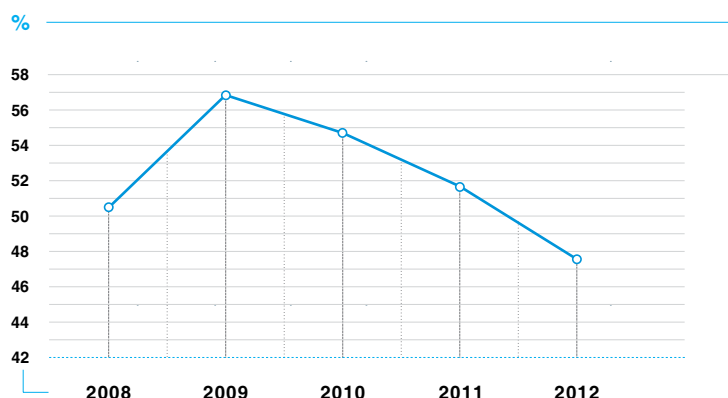
● Return on Assets (after Tax) (%)

● Return on Equity (%)



Bank continued to maintain excellent levels of profitability as depicted by the ROA and ROE. In fact, ROE is much higher than the underlying cost of equity (based on 12 months weighted average treasury bill rate plus 2% for the risk premium).

Cost/Income Ratio



Depicting the productivity improvements achieved over the years, the Bank has been able to reduce its Cost to Income ratio significantly over the years.

Cost to Income Ratio

Commercial Bank is one of the best managed banks in the country today. The operational excellence is primarily achieved through optimal and lean cost structures adopted by the Bank. Despite the increase in operational expenses as discussed under overhead charges, the Cost to Income Ratio of the Bank recorded a substantial improvement compared to the previous year.

	2012 (%)	2011 (%)
Cost to income ratio	47.5	51.7

* Based on SLAS

Commercial Bank reports one of the best Cost to income ratio in the banking industry.

Equity

The shareholders' funds of the Bank improved by Rs. 8,812.3 Mn. or 20.1% during the year mainly due to retention of profits after the payment of dividend. Furthermore, funds transferred to Investment Fund Account, being the income tax and VAT saved as proposed in the Government Budget also helped in swelling the shareholders' funds of the Bank. Total Shareholders' funds stood at Rs. 52,577.0 Mn. as at December 31, 2012.

The above developments in turn increased the free capital of the Bank, which amounted to Rs. 39.7 Bn. as at end 2012 compared to Rs. 31.0 Bn. in 2011. Further, these developments resulted in increasing the single borrower limit of the Bank; which is one of the highest in the banking industry.

Capital Adequacy Ratio (CAR)

The Bank's CAR improved despite substantial increase in loans and advances and remained well above the minimum ratio prescribed by the CBSL. Retention of profits and the scrip dividend contributed to this improvement.

CAR	As at December 31		Minimum Ratio
	2012 (%)	2011 (%)	
Tier I	12.6	12.1	5
Tier I & II	13.8	13.0	10

Statutory Liquid Assets Ratio (SLAR)

The Bank's liquid assets ratio stood above 25% during most part of the year. Deposit mobilisation efforts as well as prudent fund management enabled the Bank to maintain a satisfactory SLAR. The SLAR of 25.8% as at December 31, 2012 was well above the 20% minimum, stipulated by the CBSL.

Dividends

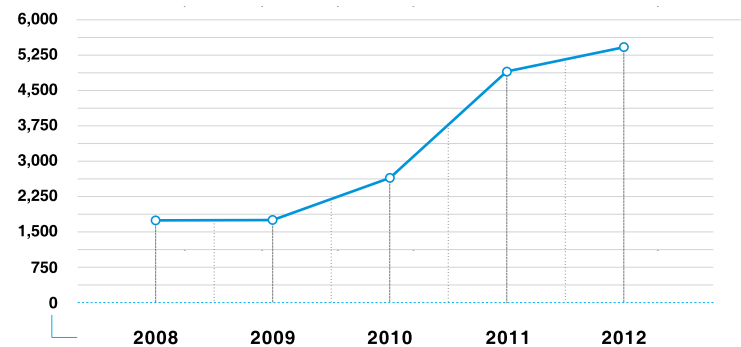
The Bank's dividend policy focuses on maximising shareholder wealth, market capitalisation, business expansion and maintaining a consistent stream of dividends.

The Bank paid two interim dividends of Rs. 1.50 and Rs. 1.00 per share for ordinary shareholders and recommended Rs 4.00 as the final dividend for 2012, of which Rs. 2.00 was in the form of cash and Rs. 2.00 in the form of a scrip dividend, making the total dividend of Rs. 6.50 per share for the year 2012 (Rs. 6.00 per share in 2011). Total dividend for the year amounted to Rs. 5,418.2 Mn. (Rs. 4,905.8 Mn. in 2011) - Rs. 3,751 Mn. in cash (Rs. 3,270.3 Mn. in 2011) and Rs. 1,667.2 Mn. in the form shares (Rs. 1,635.5 Mn. in 2011).

Dividends	Per Share	
	2012 Rs.	2011 Rs.
Interim dividends - Cash	2.50	2.50
Final dividend -		
Cash	2.00	1.50
scrip	2.00	2.00
Total	6.50	6.00

Gross Dividend

Rs. Mn.



Fulfilling shareholder expectations, the Bank has been rewarding them with a dividend payout in excess of 50% in the recent past in the form of cash and scrip dividends.

Total dividend payout ratio of the Bank amounted to 53.7% compared to 62.3% in 2011. Similarly, the cash dividend payout ratio amounted to 37.1% compared to 41.5% in 2011. The total dividend payout ratio was well above the minimum level prescribed by the deemed dividend rules of the Department of Inland Revenue.

Market Capitalisation

Commercial Bank reports the highest market capitalisation among all financial institutions in the country and ranks number 5 among all listed companies in the Colombo Stock Exchange (CSE).

	As at December 31	
	2012	2011
Market capitalisation (Rs. Bn.)	80.3	76.5
Market price per share - Voting (Rs.)	103.00	100.00
- Non-voting (Rs.)	91.10	74.50

Summary of Bank's Performance

	2012		2011
	Actual Rs. Mn.	Budget Rs. Mn.	Actual Rs. Mn.
Total Revenue	63,167.6	59,121.1	45,483.4
Profit before Tax	14,311.6	13,467.5	10,987.3
Profit after Tax	10,071.7	9,123.7	8,047.7
Deposits	382,723.6	382,811.6	318,461.4
Net Loans & Advances	325,366.6	345,974.9	276,394.4
ROA (before tax) %	3.0	2.8	2.7
ROE %	20.8	19.3	20.8
Cost/Income %	47.5	51.0	51.7
Net NPA %	1.8	2.0	2.1
Tier I %	12.6	11.5	12.1
Tier II %	13.8	14.3	13.0

* Based on SLAS

The data and information presented in the table above have been extracted from the Management Accounts prepared by the Bank which are based on SLAS balances generated by the Bank's computer system.

As given above, most of the targets set at the beginning of the year were achieved by the respective divisions during the year. The Bank's actual profit was well above the budgeted profits during the year. The Bank achieved this impressive growth in profits despite additional provisions made during the year. In line with the growth in profits, all profitability and efficiency ratios of the Bank recorded improvements compared to the Budget.

More information on the Bank's income, profits, assets, business volumes, debt and equity together with ratios connected to key performance areas of the Bank is tabulated in the Section on 'Decade at a Glance' on pages 288 to 291.

A comparison of the Bank's performance in 2012 with that of 2011 is given in the Section on 'Financial Highlights' on page 5.

Group Performance

The Commercial Bank Group which consists of Commercial Bank, the two subsidiaries of the Bank, namely Commercial Development Company (CDC) and OneZero Company and the two associates, namely Commercial Insurance Brokers (Pvt) Ltd. and Equity Investments Lanka Ltd., recorded satisfactory results during the year. Commex Sri Lanka SRL is yet to commence commercial operations as the application for re-registration to operate as a 'Payment Institution' was declined by Bank of Italy due to laws relating to money transfer business in European Union being changed. The operations of these companies are not discussed in detail as their contribution to the results and the financial position of the Group is not material in relative terms. Nevertheless, the Group recorded pre and post-tax profits of Rs. 14,312.9 Mn. and Rs. 10,081.2 Mn. respectively, compared to Rs. 10,980.2 Mn. and Rs. 7,932.3 Mn. recorded in 2011 indicating growths of 30.4% and 27.1% respectively.

Generation and Distribution of Economic Value

The Bank believes that data presented below truly reflect its performance in terms of contribution to the economy. The data provided covers a five-year period to facilitate performance comparison and assessment.

Sources and Distribution of Income

The following table portrays the value generated through principal sources of income and distribution amongst stakeholders:

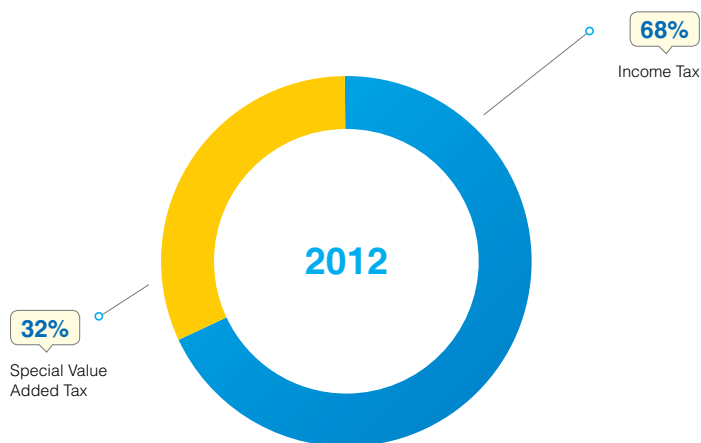
For the year ended December 31,	2012	2011	2010	2009	2008
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Source of Income					
Interest income	52,685	38,356	34,740	35,925	37,188
Foreign exchange profit	4,694	2,321	1,741	2,962	2,633
Commission income	3,598	3,325	3,220	2,530	2,715
Investment income	119	81	207	219	359
Other	2,299	1,776	1,614	2,105	1,220
Total	63,395	45,859	41,522	43,741	44,115
Distribution of Income					
To depositors and debentureholders as interest	29,830	19,650	18,328	23,515	24,336
To employees as emoluments	7,770	6,290	5,588	5,081	3,926
Depreciation	1,035	748	539	506	421
Provision for possible loan losses/impairment	3,197	1,808	1,192	1,534	2,278
To providers of supplies and services	5,229	4,828	3,779	3,619	3,511
To Government as taxation (including deferred tax)	6,184	4,542	6,515	5,159	5,352
- Income tax	4,197	3,014	3,794	2,887	3,252
- Value added tax on financial services	1,987	1,523	2,709	2,264	2,091
- Debits tax	-	5	12	8	9
To Shareholders as dividends	5,418	4,905	2,642	1,749	1,786
To Community	52	110	58	22	23
To Reserves	4,680	2,978	2,881	2,556	2,482
Total	63,395	45,859	41,522	43,741	44,115

Note:

The results reported above for 2011 and 2012 have been extracted from the audited Financial Statements of the Bank prepared based on Sri Lanka Accounting Standards (SLFRS) that came into effect from January 1, 2012. The results reported for 2008-2010 have been extracted from the audited Financial Statements of the Bank prepared based on previous Sri Lanka Accounting Standards (SLAS) that were in force up to December 31, 2011. [The Bank has duly restated its financial statements for 2011 in accordance with requirements of SLFRS].

Contribution to Government

%

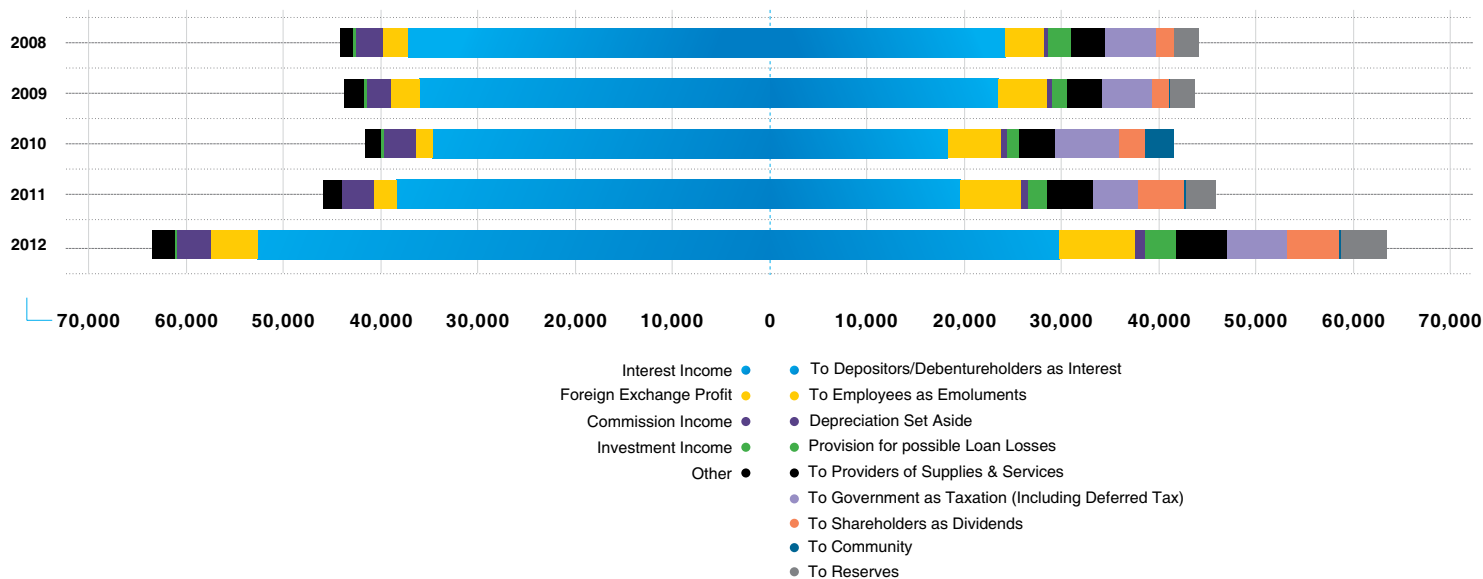


The Bank's contribution to the Government during the year 2012 in terms of taxation was Rs. 6,043 Mn.

Sources & Distribution of Income

Source of Income Rs. Mn.

Distribution of Income Rs. Mn.



Value Addition and Distribution

The following table indicates wealth generated from banking and non-banking activities and its distribution among the key stakeholders of the Bank:

For the year ended December 31,	2012		2011		2010		2009		2008	
	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%
Value Added										
Income from banking services	64,614		48,015		40,809		42,736		43,236	
Cost of services	(36,546)		(26,343)		(21,648)		(26,436)		(26,805)	
Value added by banking services	28,068	111.06	21,672	108.29	19,161	102.56	16,300	103.35	16,431	109.30
Non-banking income	400	1.59	148	0.74	713	3.82	1,005	6.37	879	5.85
Loan losses and provisions/ impairment	(3,197)	(12.65)	(1,807)	(9.03)	(1,192)	(6.38)	(1,534)	(9.72)	(2,278)	(15.15)
Total	25,271	100.00	20,013	100.00	18,682	100.00	15,771	100.00	15,032	100.00
Distribution of Value Added										
To Employees										
Salaries and other benefits	7,770	30.75	6,290	31.43	5,588	29.90	5,081	32.22	3,926	26.12
To providers of capital										
Dividends to shareholders	4,584		4,905		2,642		1,749		1,786	
Interest to debentureholders	133		229		374		626		978	
Total to providers of capital	4,717	18.67	5,133	25.65	3,016	16.15	2,375	15.06	2,764	18.39
To Government										
Income tax	4,056		3,014		3,865		2,796		3,261	
Financial VAT	1,987		1,523		2,709		2,264		2,091	
Debits tax	–		5		12		8		9	
Total to government	6,043	23.91	4,542	22.70	6,586	35.26	5,068	32.14	5,361	35.67
For Expansion and growth										
Retained profit	5,514		2,978		2,881		2,556		2,482	
Depreciation	1,035		748		623		577		483	
Deferred taxation	141		211		(71)		91		(9)	
Total for expansion and growth	6,690	26.47	3,937	19.67	3,433	18.38	3,224	20.44	2,956	19.67
To Community Investments										
Donations	51		110		59		23		25	
Total to community	51	0.20	110	0.55	59	0.31	23	0.14	25	0.15
Total distributed	25,271	100.00	20,013	100.00	18,682	100.00	15,771	100.00	15,032	100.00

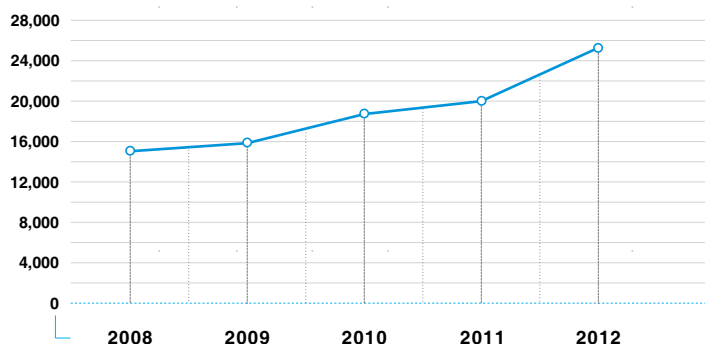
Note:

(a) Donations shown under 'Community Investments' include the contribution made by the Bank for its Corporate Social Responsibility Trust Fund (CSR Trust Fund), amounting to Rs. 50 Mn. (Rs. 80 Mn. in 2011)

* A summary of the activities of the Bank's CSR Trust Fund appears on page 120.

Value Added

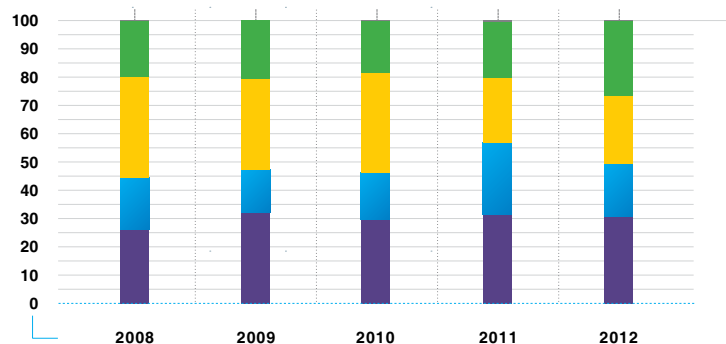
Rs. Mn.



Bank continues to add more and more value through the provision its products and services which is shared among its stakeholders.

Distribution of Value Added

%



● To Employees
 ● To Providers of Capital
 ● To Government
 ● For Expansion and Growth
 ● To Community Investments



Graph depicts as to how the value created by the Bank has been shared by its various stakeholders over the past five years.

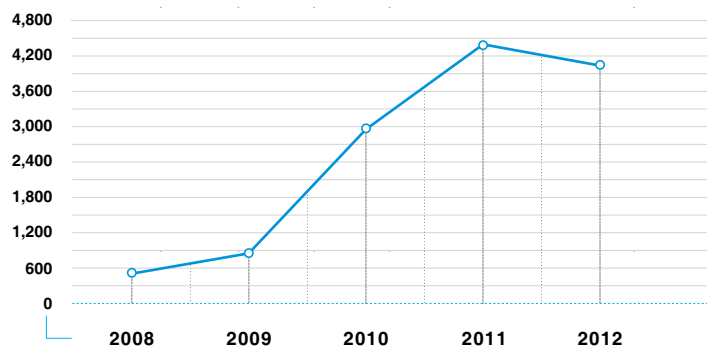
Economic Value Added (EVA)

This is a measure of profitability based on the cost of total invested equity and provides an accurate indication of true economic value generated by the Bank as opposed to accounting profits. Commercial Bank is deeply committed to delivering optimal and consistent value to its shareholders. The Bank's economic value creation during 2012 amounted to Rs. 4.033 Bn., while cumulative over the past five years amounted to Rs. 12.719 Bn.

For the year ended December 31,	2012	2011	2010	2009	2008
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Invested equity					
Shareholders' funds	52,770	43,765	33,302	28,499	25,891
Add: Cumulative loan loss provision/provision for impairment	13,501	11,601	4,900	5,015	4,955
Total	66,271	55,366	38,202	33,514	30,846
Earnings					
Profit after tax and dividends on preference shares	10,098	7,883	5,523	4,305	4,228
Add: Loan losses and provisions/impairment provision	3,197	1,807	1,192	1,534	2,278
Less: Loan losses written-off	(4)	(23)	(6)	(23)	(5)
Total	13,291	9,667	6,709	5,816	6,501
Cost of equity (based on 12 months weighted average Treasury Bill rate plus 2% for the risk premium)	13.97%	9.53%	10.49%	15.45%	20.92%
Cost of average equity	9,258	5,276	3,761	4,972	5,998
Economic value added	4,033	4,391	2,948	844	503

Economic Value Added

Rs. Mn.



As a measure of profitability, the Bank has been generating positive Economic Value Added year after year, a factor that the shareholders of the Bank can be proud of.

Impact on Performance due to Climate Change

Generally financial institutions are not directly exposed to risks arising from climate change. However, operations of banks could be directly impacted by the effects of climate change such as floods, tsunamis, cyclones, etc. Further, the operations of banks can be indirectly affected through financial exposure to sectors vulnerable to climate change such as agriculture, fisheries and exports. In order to mitigate the impact of losses that could arise from such lending, the Bank has set up internal limits for various industries. A summary of significant concentrations of credit risk by industry groups appears in Note 26.1(c) on page 364. The Bank's Integrated Risk Management Department has identified and documented all possible operational risks that could arise and kept the Board of Directors fully informed of these challenges.

Despite its limited exposure, Commercial Bank has formulated its own climate change strategy which includes the following commitments:

- Developing products and services that support GHG emission reductions and helping customers to closely monitor those activities with environmental impact. Further, the Bank has continued to provide financial assistance to its customers operating in areas such as wind power generation and energy saving. The cumulative value of such

financial accommodation granted as at end 2012 stood at Rs. 2.117 Bn. (Rs. 1.425 Bn. by end 2011). Going forwards, the Bank intends to support such industries as part of its sustainability efforts.

- Bank's Development Credit Department continuously encourages its customers to benefit from energy saving initiatives which makes their operations more efficient while reducing carbon footprints. This often involves financial support for green initiatives of various kinds.
- Updating the knowledge base of the Bank on climate change and disseminating knowledge to staff and customers through a designated Social and Environmental Co-ordinator.

Coverage of the Bank's Defined Benefit Plan Obligations

The Bank has liability towards three Defined Benefit Plans funded by the Bank for the benefit of its employees as follows:

- An unfunded pension scheme for employees who retired before January 1, 1992 and for those employees whose future service period as at that date was less than ten years.
- A funded pension scheme for employees who did not accept the restructured pension scheme in 2006.
- A retirement gratuity scheme as required by statute.

An actuarial valuation was duly carried out by the Bank on these retirement benefit obligations as at year end by a qualified actuary using the Projected Unit Credit Method as prescribed by Sri Lanka Accounting Standard - LKAS 19 on 'Employee Benefits'. Arrangements were made to fully provide any shortfall in the respective funds in the Bank's Financial Statements for 2012. More details are given in Note 3.13.1 under Accounting Policies on Defined Benefit Plans on page 335.

Additionally, the Bank has three other Defined Contribution Plans in place.

- A funded Pension Scheme for employees who accepted the restructured pension scheme in 2006.
- Employees' Provident Fund (EPF) to which the Bank and all employees contribute a statutory minimum of the basic salary.
- Employees' Trust Fund (ETF) to which the Bank contributes 3% of the basic salary of each employee.

More details are found in Note 3.13.2 under the Accounting Policies on Defined Contribution Plans on page 335. The assets of all funded schemes are adequate to cover their respective liabilities. All employees who joined the Bank on or after January 1, 2002 and who are in the permanent cadre of the Bank are eligible to participate in the gratuity, EPF and ETF plans.

Financial Assistance 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 the 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 (xi) (i) and (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 above measures enabled the Bank to earn a total tax saving of Rs. 686.6 Mn., Rs. 422.5 Mn. and Rs. 574.3 Mn. during 2010, 2011 and 2012, respectively.

Further, the Bank was able to claim a notional tax credit of 10% amounting to Rs. 329.9 Mn. (Rs. 350.0 Mn. in 2011 and Rs. 572.9 Mn. in 2010, respectively) on interest income earned on investments made in Government Treasury Bills and Bonds.

Spending on Locally-Based Suppliers

The preparation of the Corporate Plan and the Budget encompasses a rigorous process in forecasting both capital and revenue expenditure for the ensuing year. These projections are based on the requirements of individual profit centres and units providing support services. In addition, the Bank maintains a list of suppliers who are subjected to a stringent evaluation process prior to their registration as a preferred supplier. The selection is made after evaluating business critical criteria such as quality, cost, service level, delivery performance and environmental standards. Once the business need is communicated to the Central Procurement Division by the respective business units, the procurements are done following the purchasing process as per the approved procurement policy of the Bank. Wherever possible, the Bank has supported local business partners to develop their businesses further and establish themselves in the local industry. The Bank is aware that some of the local suppliers consider that doing business with the Bank will enable them to enhance their marketability in the industry.

Funding Infrastructure Investments

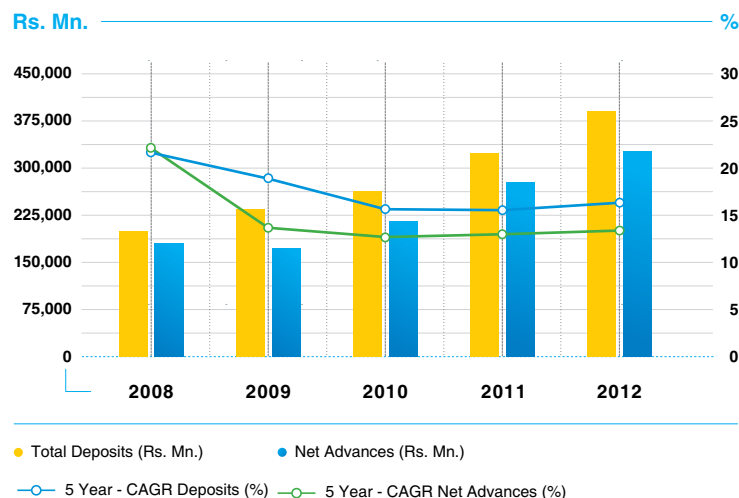
Upgrading and expanding the road network of a country significantly improve connectivity and conveyance. Such a network narrows the geographic distances and brings markets and networks closer to people. Access and mobility could reduce social isolation and bring communities closer and thus, promoting pluralism and harmony by way of sharing and appreciating each other's culture, values, beliefs and interests. As per the Central Bank Annual Report 2011, road transportation caters to over 90% of the country's total passenger and freight transportation. In this regard, it is noteworthy to mention that Commercial Bank in its endeavours towards the economic wellbeing of the country took a major initiative to fund a trunk road development project at the request of the Road Development Authority and was the first bank to provide such funding in the country.

This initiative can be considered as a turning point in the conventional infrastructure funding as it was the past practice of the country to finance larger infrastructure development projects such as these through foreign funds.

So far the Bank has funded Rs. 1.5 Bn. of which Rs. 1.0 Bn. was funded in 2012, towards the above project and has already committed for a further sum of Rs. 2.8 Bn to be disbursed in the near future.

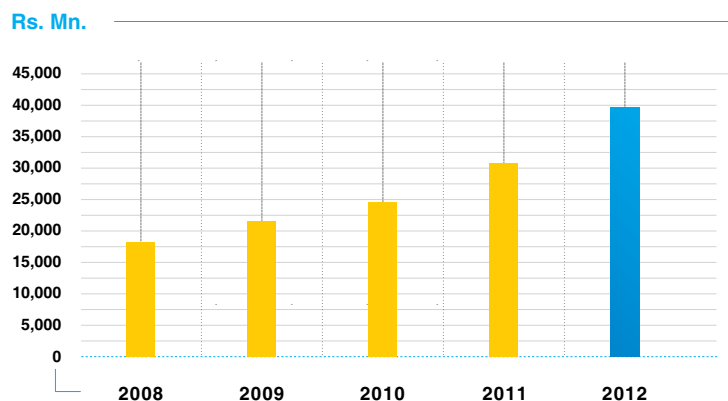
Graphical Review

Net Advances/Deposits



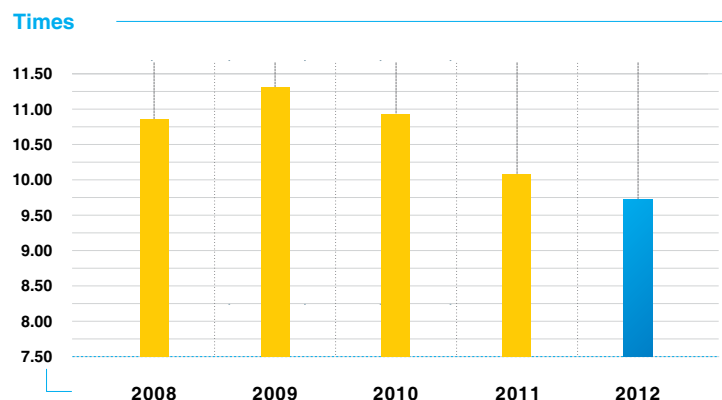
Bank has been able to record a consistent growth in business volumes, maintaining impressive compound annual growth rates in excess of 18% over the past 10 years

Free Capital



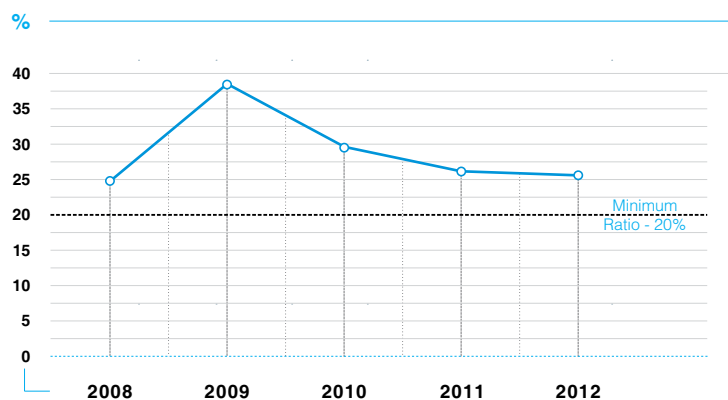
Corresponding to the record levels of profitability, consequent growth in shareholders' funds and prudent capital expenditure planning, free capital of the Bank continues to grow.

Total Assets/Shareholders' Funds



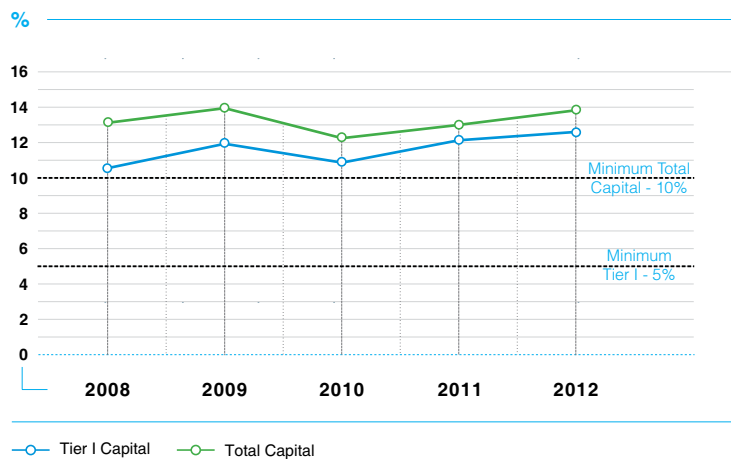
Shareholders' funds is a significant source funding over 10% of the asset book. It is an indicator of the Bank's stability.

Liquid Assets Ratio - Bank



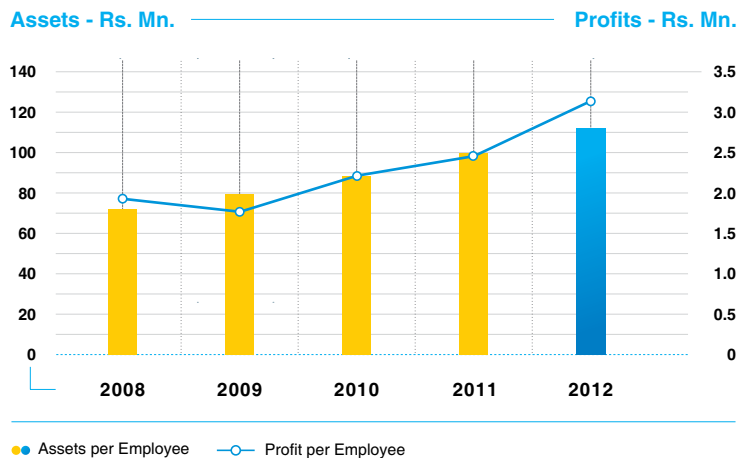
Despite volatile market conditions in relation to liquidity at times, the Bank has been maintaining the liquid assets ratio over the past five years with a buffer over and above the statutory minimum requirement of 20%.

Capital Adequacy Ratios



As an indicator of stability, it's the policy of the Bank to plan and maintain adequate levels of capital at all times comfortably above the minimum regulatory requirements thereby providing a buffer for future business expansion.

Assets per Employee/Profit Per Employee



The improvements recorded in these ratios reflect the productivity enhancements the Bank has been able to achieve over the years.





**BANKING
ON YOU**

Our Market Presence

The Bank is the largest private sector bank of domestic origin in Sri Lanka in terms of assets, deposits, loan book and profits. Although the Bank was incorporated in 1969, its history dates back to the 1920s. From then onwards the Commercial Bank has maintained continuous growth through expansion of its branch network in Sri Lanka. In 2003, the Bank commenced business in Bangladesh, with the acquisition of the Bangladeshi operations of Credit Agricole Indosuez. Please refer the branch network in Sri Lanka and Bangladesh on pages 59 and 87 respectively.

In addition, Commercial Bank has placed Business Promotion Officers in Jordan, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates with the objective of promoting the Bank's e-Exchange facility among the Sri Lankan expatriates and to canvass new accounts while promoting various other types of products.

The total staff strength of the Bank in Sri Lanka is 4,400 and 202 in Bangladesh. Information on ownership structure, identity and percentage of ownership by largest shareholders is found in the Section on 'Investor Relations' on pages 269 to 285.

In 2012, the Bank recorded a total income of Rs. 63.395 Bn. (Rs. 45.859 Bn. in 2011) and profit after tax of Rs. 10.098 Bn. (Rs. 7.883 Bn. in 2011) while its total equity and debt stood at Rs. 52.576 Bn. and Rs. 9.293 Bn. respectively as at end 2012 (Rs. 43.764 Bn. and Rs. 0.973 Bn., respectively as at end 2011). The compounded annual growth rate (CAGR) of the Bank's total assets, loan book and profit after tax which exceeded 20% over the past decade amply demonstrates the confidence placed in the Bank by our customers.

Scale of Operations

The Bank conducts its operations through a network of 227 manned and 555 automated delivery points in Sri Lanka, 17 manned and 17 automated delivery points in Bangladesh. A complete list of bank's delivery channels is given in the table below:

Our Delivery Channels

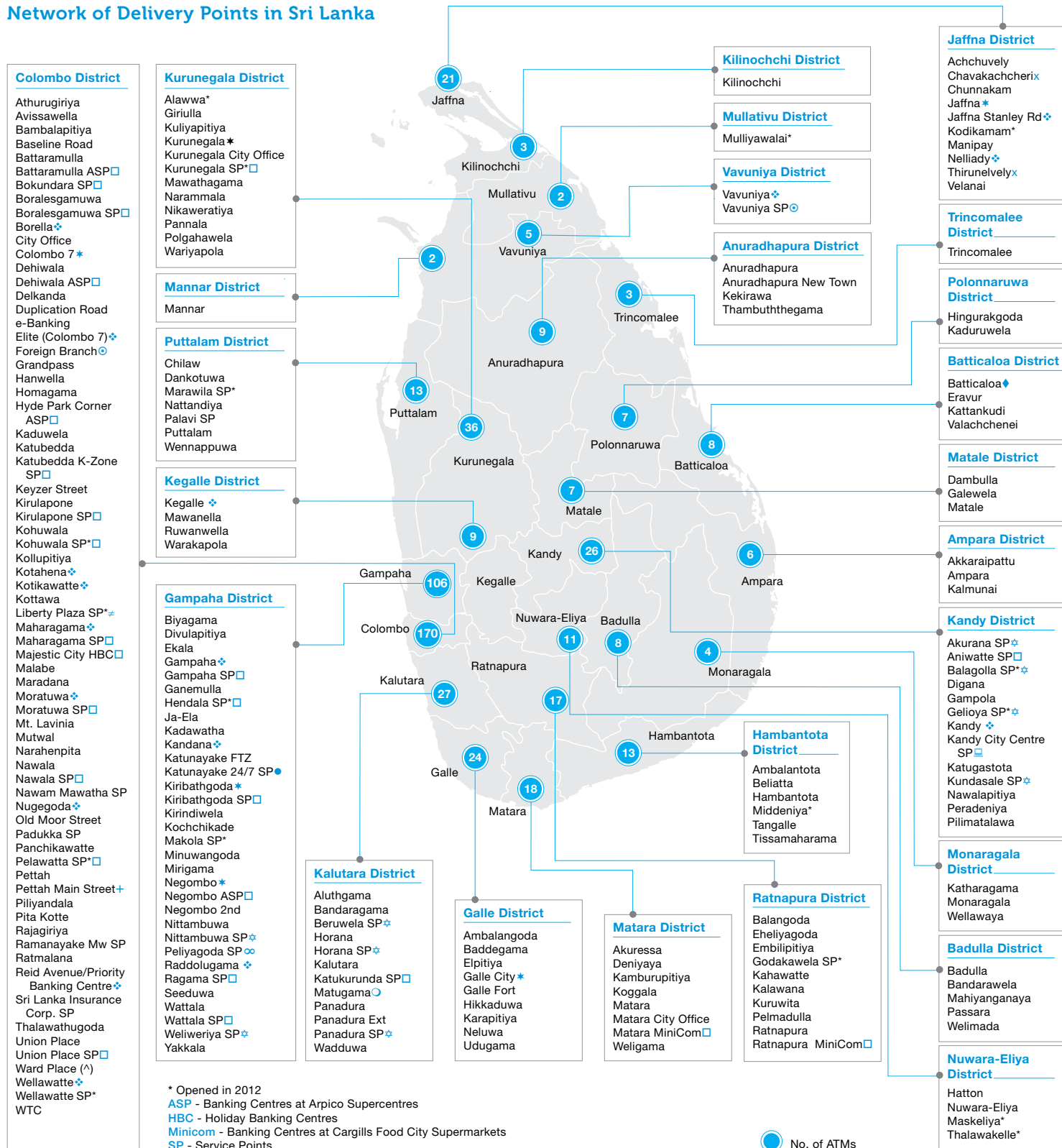
Branches	Automated Teller Machines (ATMs)	Internet Based	Mobile Phone Based	Electronic Cards/E-cash
Branch Network	ATMs at branches	ComBank Corporate Web	Telephone Banking	Debit & Credit Cards tied up with VISA & MasterCard
Customer Service Points	Offsite ATMs at Railway Stations, Retail Outlets, Hospitals & Other Commercials & Public places	Combank Online - Internet Banking	SMS Banking	Point of Sale (POS) Machines
Holiday Banking Centre	Drive through ATMs	Paymaster	Mobile Banking	e-Exchange
Supermarket Banking Centres	Mobile ATMs			
Priority Banking Centres/ Elite Banking	KIOSKS			
24-hour Banking Centre				
Call Centre				

Banking Hours - Sri Lanka

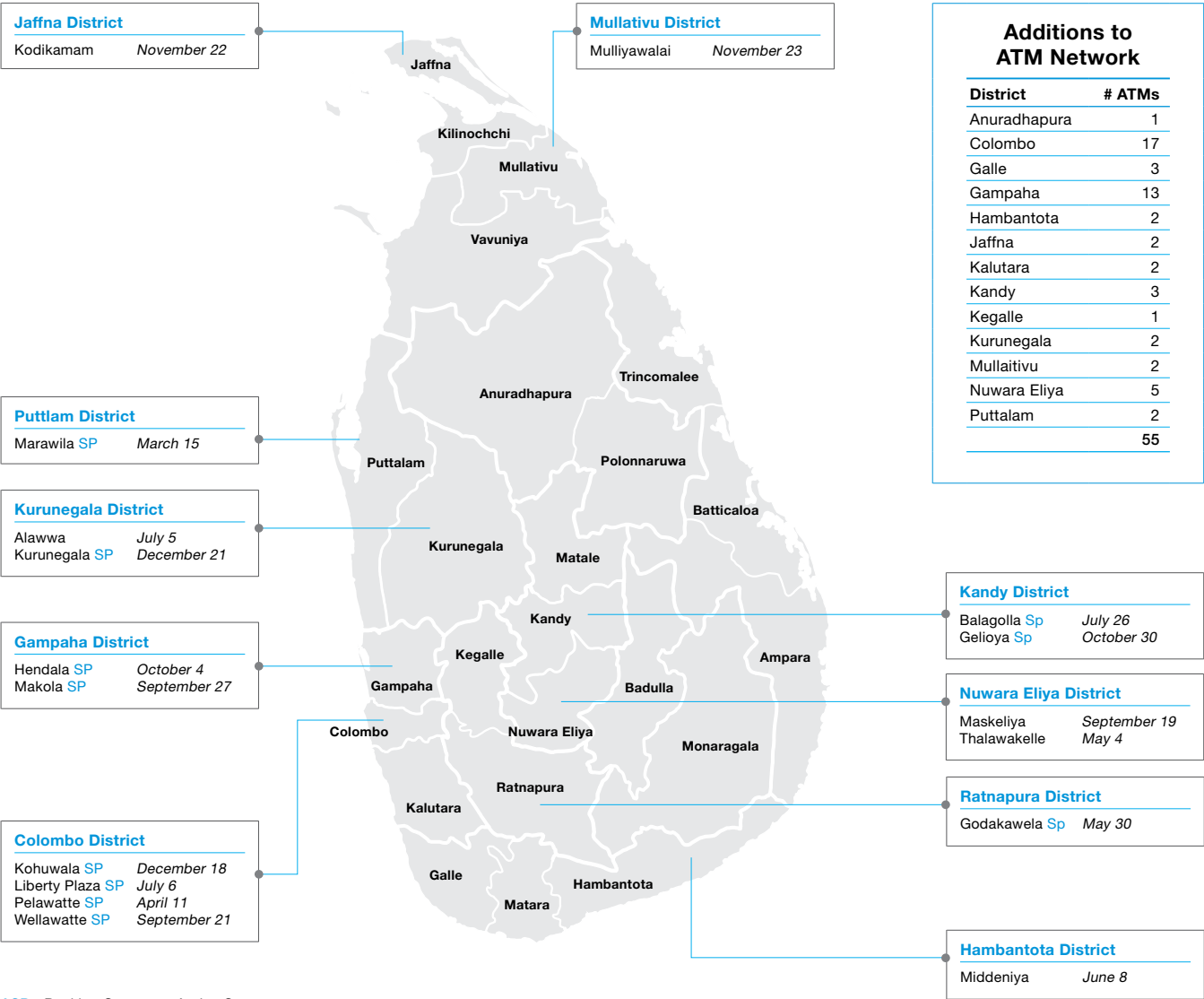
Abb/Suffix		∞	+	X	*	✱	○	⊙	◆	☆	(")	☞	≠	□	●
Weekdays	9 to 3	8 to 2	8 to 6	8.30 to 3	9 to 3	9 to 3	9 to 3	9 to 4	9 to 4	9.30 to 7	10 to 5	10 to 7	10 to 7.30	10 to 7.30	24 Hrs
Saturday	-	-	9 to 1.30	-	9 to 1.30	9 to 1.30	-	-	9 to 1.30	9.30 to 7	10 to 5	10 to 7	10 to 7.30	10 to 7.30	24 Hrs
Sunday	-	-	-	-	9 to 1.30	-	9 to 1.30	-	-	9.30 to 7	-	10 to 7	10 to 5.00	10 to 7.30	24 Hrs
Bank Holidays	-	-	-	-	9 to 1.30	-	-	-	-	9.30 to 7	-	10 to 7	-	10 to 7.30	24 Hrs

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

Network of Delivery Points in Sri Lanka



New Delivery Points and ATMs added in 2012



ASP - Banking Centres at Arpico Supercentres
HBC - Holiday Banking Centres
Minicom - Banking Centres at Cargills Food City Supermarkets
SP - Service Points

Significant Changes in 2012

The Bank focused its attention more towards centralisation of processes such as loan processing and regulatory reporting with a view to achieve cost savings and to enhance customer convenience. The centralisation of loan processing centralisation facilitates the Bank to minimise paper usage as the activities from submission of application to approval of loans are now being carried out via a specialised software.

In addition, the Bank acquired specialised software, which are now being tested, with a view to provide enhanced services to customers of the Treasury Department and also to identify potential risks through improved Management Information Systems.

Further, during the year the Bank took steps to relocate 22 delivery points in addition to adding 14 new delivery points and 55 ATMs to its network of manned and unmanned delivery points intending furtherance of customer convenience and hence their satisfaction. See maps on 'Network of Delivery Points in Sri Lanka and Bangladesh' on pages 59 and 87.

During the year, the Bank successfully raised long term loan of US \$ 65 Mn. from International Finance Corporation (IFC) mainly to provide financial assistance to SME Sector. There was no major change in the Stated Capital of the Bank.

The Bank successfully managed the transformation to the new financial reporting framework this year with the adoption of the new Sri Lanka Accounting Standards (SLFRS) issued by The Institute of Chartered Accountants of Sri Lanka. We will continue to enhance the internal reporting systems and control framework to adhere to the reporting requirements of the new accounting standards. More details on convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs) is found on page 418.

Currently the Bank serves over two million customers spread across corporate, institutional, public sector and retail segments including SMEs and individuals via an array of products, services and delivery channels. Details of the products and services offered to serve our customers categorised under four main business divisions of the Bank namely, Corporate Banking, Personal Banking, Treasury and International Operations are given in the respective sections. This breakdown does not necessarily match with the administrative reporting levels established in the Bank.

BANK	2012		2011	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax				
Corporate Banking	4,192.5	29.25	3,435.3	31.27
Personal Banking	6,996.4	48.80	4,506.4	41.01
Treasury	1,490.0	10.39	1,636.0	14.89
International Operations	1,657.1	11.56	1,409.7	12.83
Total	14,336.0	100.00	10,987.4	100.00
Loans & Advances				
Corporate Banking	109,664.2	32.85	91,976.5	32.46
Personal Banking	191,498.5	57.37	168,763.3	59.56
International Operations	32,647.7	9.78	22,603.8	7.98
Total	333,810.4	100.00	283,343.6	100.00
Deposits				
Corporate Banking	45,650.7	11.93	39,607.5	12.44
Personal Banking	301,251.4	78.71	253,179.3	79.50
International Operations	35,820.2	9.36	25,674.7	8.06
Total	382,722.4	100.00	318,461.5	100.00

The data and information presented in the table above have been extracted from the Management Accounts prepared by the Bank which are based on SLAS balances generated by the Bank's computer system.

All business units of the Bank recorded improved results during the year. A general overview, operating environment for main line of products and their performance and the strategic snapshot of each business unit is detailed on pages 63 to 89.



Personal Banking

Products
Current accounts, savings and fixed deposit accounts, credit cards, debit cards, minors' accounts, certificates of deposit, paymaster, housing loans, personal loans, leasing, development lending, agricultural and micro finance lending, automated bill payment services, SMS banking, bancassurance, Islamic banking

Delivery Channels
Branch network, ATM network, internet banking, holiday banking centres, Saturday banking, priority banking, telephone/SMS banking, mobile ATM, mobile phone banking

Corporate Banking

Products
Letters of credit, shipping and other guarantees, import and export finance, SWIFT transfers, syndicated loans, project financing, securitisation, IPO structuring, management and underwriting, private equity placements, company evaluation, restructuring and rehabilitation, investment advice and evaluation, corporate debt structuring, working-capital financing, leasing, domestic and international factoring, off-shore banking, internet banking, bullion trading, payment solutions for corporate clients, margin trading, Islamic banking.

Delivery Channels
Branch network, ATM network, internet banking

International Operation

Products
Bangladesh: A broad range of personal-banking services including accepting deposits, personal loans, ATM facilities, etc, lease financing and a variety of specialized corporate and commercial loan schemes. Maldives: Project financing development, syndicated facilities
Remittances: Combank e-Exchange web-based money transfers

Delivery Channels
Branch network, ATM network, business promotion officers in exchange houses

Treasury

Products
Foreign exchange dealing, forward interest rate swaps, features trading, currency and interest rate swaps, forward rate agreements, caps, floors and collars, LKR and FX options, hedging FX and interest rate risk, fixed income securities trading.

Delivery Channels
Branch network, ATM network, internet banking

Personal Banking



Senior Management Team- Personal Banking



Nugent Kapuwatte

Head of Leasing & Personal loans



Niran De Costa

Senior Regional Manager -
Colombo Inner



Selva Rajasooriyar

Senior Regional Manager -
Colombo South



Roshan Perera

Senior Regional Manager -
Greater Colombo



Chanura Wijetillake

Regional Manager -
Uva - Sabaragamuwa



Saman Kalansuriya

Chief Manager -
Leasing & Factoring



Siva Sivakumar

Chief Manager -
Business Promotion Unit



Chirath Manukulasuriya

Regional Manager - Southern



Sripadmanathan Rajievan

Regional Manager - Northern



Darshanie Perera

Regional Manager - Colombo North



Mithila Shamini

Chief Manager - City Office



Pradeep Banduwansa

Chief Manager - e-Banking Division



Leel Rodrigo
Senior Regional Manager -
North Central - Eastern



Priyantha De Silva
Head of Branch Credit Monitoring



Ivan Fernando
Regional Manager - Colombo Metro



Ajith Naranpanawe
Regional Manager - Central



Delakshan Hettiarachchi
Chief Manager -
Development Credit



Thusitha Suraweera
Chief Manager - Card Centre



Athula Samarasinghe
Regional Manager - Wayamba



Yasmin Weerasuriya
Regional Manager - South Western

Key Performance Indicators	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Actual 2011 Rs. Mn.	Achievement (Actual over Budget) (%)
Deposits as at December 31	301,251.4	303,460.7	253,179.3	99.3
Advances as at December 31 (Gross)	191,498.5	213,678.8	168,763.3	89.6
Profit before Tax	6,996.4	6,494.0	4,506.4	107.7
Cost Income Ratio (%)	47.0	54.6	51.4	–
NPA Ratio (%) as at December 31,	5.5	4.7	5.1	–

Personal Banking division of the Bank made an excellent contribution to the overall performance of the Bank. The division recorded an impressive growth in profits compared to the last year which is well above the budgeted profits set at the beginning of the year. Profitability ratios were also well above the levels set in the Budget. However, the division fell short of the budgeted loans and advances mainly due to increase in average interest rates as well as the controlled credit environment prevailed in the country.

An Overview

The Personal Banking Division has the pivotal responsibility of successfully operating the Bank's island-wide network of delivery points. In the process, the Division meets the needs of individual customers as well as Small and Medium Enterprises (SMEs) across Sri Lanka.

The traditional brick and mortar branches still play a dominant role in the Sri Lankan banking industry. The Bank invested substantially to improve the physical infrastructure of its network over the past several years. In tandem with its aggressive promotion of customers to migrate to more technologically advanced channels, the Bank has kept expanding its network of delivery points to reach a wider customer base in different geographical locations. This widest of footprint coupled with the Bank's inherent strengths allows Commercial Bank to be truly considered as a national bank in every sense of the term. In 2012, the Bank added 14 delivery points which are in the form of 6 branches, 5 CSPs, 3 SPs. With this, the Bank provides its services via 227 delivery points as at end of the year.

The island-wide network of delivery channels is organised into 12 administrative regions, each with an officer responsible for decentralised decision making with regard to credit transactions and everyday branch operations.

The Division also manages the performance of 365-day banking, Holiday banking, Saturday banking and Priority banking. The Bank operates its 'Elite' branch in Colombo 7 to serve high net worth customers in addition to the priority banking customers currently on our books, who enjoy certain privileges throughout the branch network. The Bank operates 63 Holiday banking centres covering most of the provinces in the country.

The operations of the Card Centre, which issues 'CAT' ATM cards and credit/debit cards under franchises from MasterCard International and Visa and the e-Banking division which oversees the entire spectrum of electronic banking services of the Bank also come under the purview of Personal Banking.

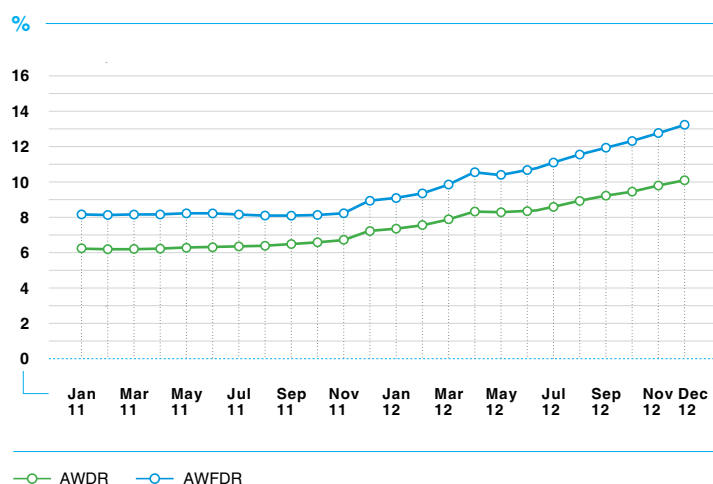
Please refer our delivery channels on page 58 for more details.

Deposit Mobilisation

The presence of a well spread branch network backed by solid financial stability help the Bank in its deposit mobilisation efforts. The increase of foreign remittances through our branch network, a bearish stock market and the prevailing lack of alternative, reliable investment opportunities in the market too contributed to the growth of deposits during the year.

Upward movement in interest rates compared to the previous year is in line with the increase in policy rates and tight monetary conditions. As a result, interest rates applicable to both lending and deposit recorded an increase during the year. The Bank had re-priced interest rates on its deposits on several occasions during the year under review, to remain competitive in the market. This trend continued until CBSL intervened to reduce policy rates in December 2012.

Deposit Interest Rates



Reflecting the macro economic conditions and the changes in the policy rates, the country experienced an increasing interest rates scenario.

Amidst this challenging environment, the Bank was able to record a 20.6% growth in its deposits base compared to 22.8% recorded last year.

In a high interest scenario, the Bank witnessed a substantial shift from low cost to high cost deposits. As a result, the CASA ratio deteriorated to 44.5% as at the end of 2012 from 51.6% at the end of 2011.

The Bank introduced the 'Anagi' savings deposits account exclusively for women which recorded an impressive growth since its launch in August 2012. 'Spin Dot Com Junior Saver Account' and 'Dot Com Teen Saver Account' were merged into a new account named 'Dot Com Youth Savings Account' in 2012.

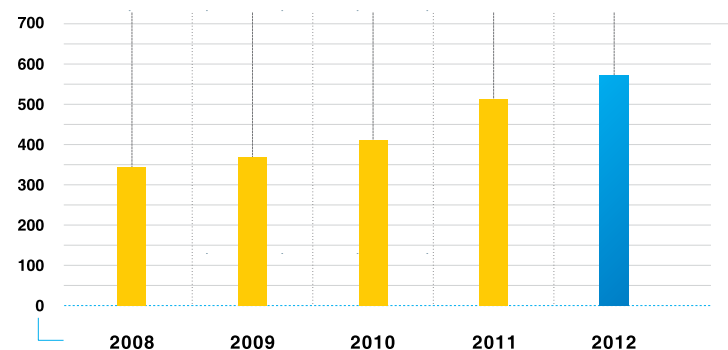
However, the interest rates applicable on foreign currency denominated deposits remained competitive and broadly stable, reflecting the continuing low interest rate environment in major economies.

ATM Network

Our ATM network acts as a catalyst in mobilising deposits. Further, it gives the Bank a distinct edge in a highly competitive retail banking environment, being the single largest ATM network operated by a bank. Our ATM network supported in promoting the channel migration while significantly reducing the counter traffic experienced at branches.

During the year, the network was expanded by 55 new ATMs. Its cumulative strength stands at 555 ATMs as at the end of 2012. At present, the Bank operates 123 off-site ATMs including 13 ATMs in Railway stations; we are the only private commercial bank to establish our presence at such public locations. Testifying to our healthy rate of expansion, we have installed 54 ATMs on average per year, during the last 5 years.

Number of ATMs



Commercial Bank has the single largest ATM network in the country, providing a highly reliable service with over 90% uptime.

Continuing the trend maintained in previous years, the uptime of our ATM network was over 99% during the year. The Bank improved the visibility of all ATMs with new, eye catching signage.

Expansion and Growth of ATM Operations

	2012	2011	Growth
Number of ATMs as at end December	555	500	11%
Value of cash dispensed during the year (Rs. Bn.)	250	205	22%
Total No. transactions during the year (Mn.)	58	50	16%
Daily average value of cash dispensed during the year (Rs. Mn.)	682	561	22%
Daily average No. of transactions during the year	157,755	137,837	14%

Pawning

The majority of Sri Lanka's domestic banks was engaged in the pawning business during 2012. In addition, several non-banking financial institutions and a few companies specialised in this trade were also active in the field and have expanded their delivery points during the year resulting in increased competition in the industry.

10 pawning units were launched and our services are now available in 184 locations. A core-banking system based, new pawning sub-system was introduced in order to further reduce the customer turnaround time and to provide a proper MIS to facilitate pawning related decision making. Further, from a security standpoint, this system is able to track Blacklisted and Non-performing customers.

The global gold prices dropped significantly until the third quarter of the year mainly due to the lingering effects of the economic crisis which affected the West. This same scenario impacted the local gold market as well. Spot gold prices dropped to a historical low in the middle of the year and picked up towards the latter part of the year.

Commercial Bank adopted a more conservative approach and the amount advanced was constantly monitored against the market value of gold to mitigate risks. The interest charged also was increased from 13% to 19% during the year. This resulted in a low portfolio growth that persisted throughout the year.

In terms of performance, the Bank has recorded a negative growth of Rs. 1,040.6 Mn. during 2012 which is a 8.9% decrease compared to the portfolio of Rs. 11.651 Mn. as at December 31, 2011. The Bank's NPA ratio for pawning is 3.2%.

Leasing

Our key areas of strength continued to be the Bank's extensive branch network which reaches across the island and the relatively low cost of funds. Further. The Bank entered into strategic tie ups with many reputed vehicle dealers during the year.

	2012	2011
Outstanding as at December 31 (Rs. Bn.)	24.6	20.8
No. of new leases facilities granted	4,226	6,121
Value of new leases (Rs. Bn.)	11.8	15.4

Despite the deterioration of the credit quality in the banking industry, the Bank recorded a healthy NPA ratio of 2.6% in leasing.

Personal Loans

The Bank continuously assisted the public at large through its unique personal loans scheme in a reduced disposable income environment due to increased rate of interest and living expenses. The existing high net worth customer base is the main strength in Personal Loan product and the Bank has promoted the 'Top-Up' facility with a greater emphasis in order to maintain the high quality of the personal loan portfolio. Further, the minimum salary requirement was increased during the year in order to ensure the well-being of borrowers after loan repayments. However, this was revised back to the original requirement by the end of the year.

During the year, we focused our attention on centralising the loan origination process with a view to making it quicker and more efficient, and also to identify professionals for loans. This process resulted in increasing the credit quality of the personal loan portfolio and reducing the turnaround time of customers.

In terms of performance, capital outstanding as at year end reached Rs. 17.2 Bn. whilst the number of new loans granted during the year recorded 11,510 which amounted to Rs. 5.4 Bn. in value. Despite the increasing trend in non-performing advances, the NPA ratio of personal loans portfolio amounted to a healthy 3.9%.

Domestic Factoring

Domestic factoring statistics show an all round excellent performance despite the upward pressure on interest rates and the credit ceiling on commercial banks during the year.

The Bank's domestic factoring business grew by 77% in 2012; in absolute terms, Rs. 5.2 Bn. The value of invoices factored reached Rs. 12.1 Bn. and the portfolio as at end December 2012 stood at Rs. 1.6 Bn. The total number of invoices factored during the period under review numbered 88,642 whilst the number of active debtors stood at 1,954.

The Banks' extensive branch network and the comparatively low cost of funds were our biggest strengths over the period.

Home Loans

Despite the CBSL introduced maximum interest rate of 16% on housing loans portfolio of Commercial Bank grew a healthy rate of 15% during the year.

During the recent past, apart from construction by individuals, developers are playing a major role in constructing condominiums and apartments to meet the housing demands of Sri Lanka's affluent. Their existence and strategic tie-ups have paved the way for Commercial Bank to extend sizeable home loan facilities and in turn generate significant returns.

Some measures that lent strength to this business segment were - the availability of Foreign Currency Home Loans for Sri Lankans working overseas; the competitive interest rates offered within different Home Loan products which satisfied the needs of different customer segments; the introduction of a discount scheme in collaboration with building material suppliers and the Bank's initiatives to pursue strategic tie-ups with renowned property developers to promote apartments as a housing solution.

Factors contributing to further growth are the technological enhancement of our Home Loans Unit; the conduct of various promotions and product marketing initiatives; extension of a Privilege Home Loan Scheme designed to appeal to professionals and academics.

However, the developing trend of upward movement in interest rates, if not arrested, may hinder future growth in this segment.

Annual growth of Home Loan portfolio

Year	2012	2011
Portfolio (Rs. Bn.)	25.0	21.8
Growth Ratio (%)	15.0%	20.0%

Payment Cards

A fair increase in transaction volumes of Credit and Debit cards has been observed during 2012. In this respect, credit cards grew by around 23% while debit cards grew by a much higher rate of 46%.

Commercial Bank offers a wide range of card products both Debit and Credit to cater to the different segments of its large customer base. Both Credit and Debit cards have differentiated products ranging from Classic to Platinum categories.

Having the largest Debit card base in Sri Lanka, the Bank recorded an impressive 50% growth in purchase volumes resulting in an increase in the market share and commission income for the year under review. On Credit Cards the volumes grew at a healthy rate of 29% which again is better than the market growth rates.

During the year, the Bank commenced issuing 'Platinum' debit cards to cater to high end customer segment. Further, Bank's ATM network was connected to the China Union Pay ATM network enabling the largest card issuer in the world to access their accounts through the Bank's ATMs.

The Bank primarily concentrated on mass promotions targeting their large customer base comprising of both debit and credit cardholders. Discounts were offered at hotels, restaurants, hospitals and clothing stores throughout the year, especially during holiday/shopping seasons.

During 2012, card industry in Sri Lanka experienced an upward pressure on card frauds comprising both counterfeit and internet frauds.

The Bank implemented a 3D Secure authentication system for its entire card base to counter the increasing Internet fraud trend during 2012. This additional authentication layer runs on top of the Internet transactions and authenticates the genuine cardholder prior to completing the order. Commercial Bank uses the dynamic card authentication method where a One Time Password (OTP) is sent to the cardholder's mobile phone for each and every transaction that enables the cardholder to engage in e-commerce on a much more secure platform.

As at end of the year 2012, around 75% of Commercial Bank's active card base was converted to chip based cards to prevent counterfeit fraud. The best available technology to prevent counterfeit fraud is the use of chip technology which has been deployed by the Bank.

Bank introduced SMS alerts on both Debit and Credit cards. This is an additional security feature that informs the cardholder about card transactions soon after their occurrence.

With the introduction of the 3D Secure authentication system to prevent Internet fraud, the Bank opened up its Debit card base for Internet transactions which has a huge potential for growth in view of the ever-increasing Internet community in Sri Lanka.

The Card Centre has upgraded the Call Centre system to provide better service to its cardholders and has implemented skill based routing when assigning calls to agents to enhance service quality whilst enabling Tamil as a language preference. Further, the Bank commenced sending e-statements for credit cardholders during the year.

With the introduction of the 'Anagi' Savings account, a chip enabled debit card has been launched with unique features for accountholders.

e-Banking

Online Banking

A key milestone this year was the introduction of a new Internet banking platform for the personal users. The new platform written for the Microsoft .NET Framework offers exceptionally user-friendly menus and cutting-edge safety and encryption features. The new e-Banking platform enables users to do more, and requires less intervention by the Bank. It embodies various enhanced safety features including two factor authentication for payments and third party fund transfers, two-layer login, a virtual keypad to protect against capture of data on key strokes, customisable security questions, password change alerts and third party fund transfer alerts to mobile phones and password verification via the latest Hardware Security Module (HSM).

Self-registration, a customisable 'My Profile' feature that can accommodate an image of the user's choice, self-addition and registration of payment recipients, customisable templates for payments, multiple payments via a single basket, a Quick Navigation menu that reduces key strokes and customisable viewing of transaction histories are among the new features of the system.

Key indices in this business area reflect growth in 2012. Our customer base grew 31% whilst income grew by 24%.

Product	Customer Base Growth %	Income Growth %
Online Banking	31.14	24.40
M-Banking	7.04	(7.54)
Product	Transactions Growth %	Volume Growth %
Online Banking	39.83	57.36

Commercial Bank was recognised as the "Bank with the Highest Growth" in the 'High Volume Bank Category' among the banks using Sri Lanka Inter-Bank Payment System (SLIPS) in 2011/12.

Account holders of the Bank now have access to banking facilities even while they are on the move, following the launch of a dedicated WAP portal by the Bank to facilitate access to a wider segment of mobile phone users.

With the introduction of the new version of Online Banking, a series of direct promotional campaigns were organised which were successful in introducing the new online banking platform to a larger number of customers.

PayMaster

ComBank PayMaster is an online total payment solution. It is relatively problem free and allows large corporate clients to execute multiple payments through a single mechanism. Many value additions were made during the recent past such as enabling clients to upload their ETF/EPF contributions, surcharges and bulk utility payments, among others.

The chart below bears testimony to the growth achieved in this segment.

Product	Customer Base Growth %	Income Growth %
ComBank PayMaster	11.04	26.97

Product	Transactions Growth %	Volume Growth %
ComBank PayMaster	8.65	24.75

The Bank's promotion of the 'PayMaster Package' particularly within the country's industrial zones has borne very positive results.

The total operation at eBanking with regard to PayMaster processing was upgraded to eliminate all paper based applications, thus generating significant cost savings. This product enhancement has also helped ease the workload at our branches by eliminating the need for a manual approval process, which had been required for payment authorisation.

Automation of the internal SLIPS handling procedure has also assisted in reducing the manual workload at the processing unit which in turn reduced the operational cost drastically.

Bancassurance

The Bank is working with seven leading insurance companies and Commercial Insurance Brokers (Pvt.) Ltd. to provide life and general insurance solutions. We have positioned 67 Business Promotion Officers from two leading insurance companies at our branches across the island to canvass life insurance business amongst our customers. Likewise, 12 officers from Commercial Insurance Brokers are also located at our branches to assist in general insurance needs of our branch network.

The market penetration for insurance is low when compared to other countries in the South Asian region. The year, under review was very challenging for canvassing life policies due to intense competition in the market. Dwindling disposable income of the people also adversely affected the life insurance sector. Further, the general insurance industry was also affected due to reduced growth in lending as a result of the increased interest rate regime that prevailed in the country.

The Bank inked agreements with four insurance companies in 2012. In terms of improving operational efficiency, we introduced a special Bancassurance page on our intranet and successfully gained access to the On Line Marine Policy portal of a leading insurance company.

The Bank recorded a satisfactory 38% growth in fee income from this new line of business during a relatively short period of operation in 2012. Also, Bancassurance promotions carried out jointly with leading insurance companies during the year augmented the growth of the business.

Supermarket Banking

Commercial Bank is the pioneer in providing banking facilities within the country's supermarket system. Currently, we operate 35 outlets across the country. Apart from the obvious benefit of convenience to the Commercial Bank customer, we are finding many other customers patronising these outlets which, reflecting the supermarket service ethics, are open outside normal banking hours.

Customer turnover has been on an increasing trend from the inception of this delivery channel.

Supermarket banking has brought the Bank out of the traditional office into a more public domain, thus increasing visibility and accessibility and fostering even more personal contact between Bank and customer.

Such has been the popularity and demand experienced at these outlets, that many are now faced with space constraints. This has compelled us to limit the operational functions that could be handled at these points. During the year, 18 outlets which were located in a leading super market chain were relocated to stand alone centres and other super markets.

The Bank has enhanced the limits of a selected few outlets and increased staff numbers to better serve the customer. Further, operations handled by these outlets increased considerably as represented by volume increase in deposits, number of accounts and daily transaction vouchers posted by the outlets.

The Bank added four new service points during the year.

Elite Banking

Commercial Bank Elite, our priority banking arm is an exclusive banking experience for high net worth customers. Emphasis is given to high quality, personalised customer service and convenience in every aspect of its operations.

Commercial Bank Elite has its own premium premises at No. 7, Gregory's Road, Colombo 07. The range of benefits offered includes exclusive accessibility to conduct financial transactions within its secure premises. Further, they are eligible for a host of discounts offered by reputed service providers. Dedicated relationship officers attend to all financial needs of the Elite customer.

In addition, the Bank operates two other priority centres within our branches at Reid Avenue, Colombo and in Kandy for the benefit of the customers in the 'priority circle'.

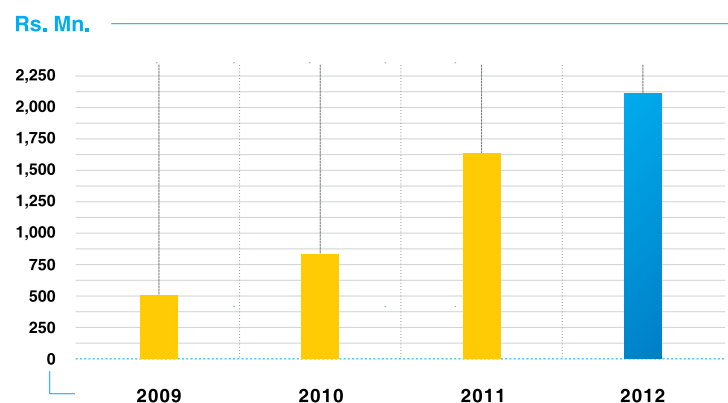
Schematised Agriculture Lending and Micro Finance Loans

Credit schemes such as Micro Finance, Paddy/Stock Purchasing Loan scheme, Tea Development Loan Scheme and Agriculture Credit Scheme are funded by the Bank's own funds. These helped the Bank to increase its lending towards the agriculture and micro enterprise sectors.

In addition, the Bank participated in five refinance credit schemes and two interest subsidised credit schemes, both focussed on the agriculture sector.

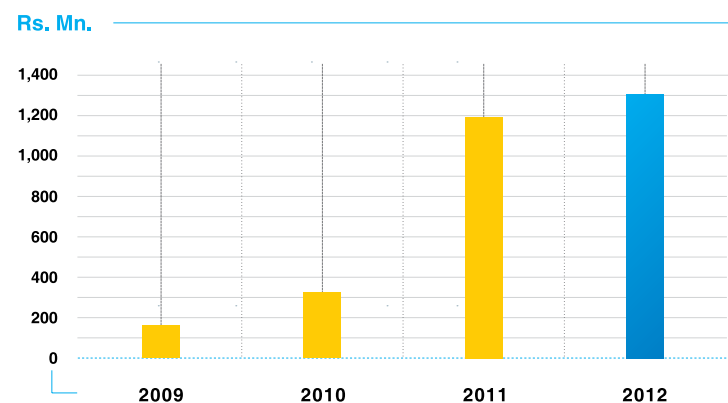
This segment continued to grow and remain profitable as the chart below indicates:

Agriculture Sector



Agriculture continues to play a dominant role in the economic growth of the nation. Bank too continued to support the sector as a partner in fulfilling the aspirations of those engaged in related activities.

Micro-Finance Sector



Despite various initiatives at the national level in the recent past to increase financial inclusion, penetration of banking services across the island is still comparably low. The Bank supported enterprises at the micro level taking into account their inability to do collateralised banking transactions.

Three more Agriculture and Micro Finance units were added to the network of dedicated centres which are established to cater to Agriculture and Micro Finance sectors, increasing the total number to nine units. The growth in agriculture lending and micro financing was due to many reasons, some of which are;

- Demand for credit derived from farmer communities and micro scale enterprises in the North and the East to reactivate their livelihood/ farming activities.
- Initiative taken to strengthen supply chains of established corporates by paving the way for agriculturists and micro enterprises to enjoy a secured market.
- Concessionary funding made available through Government and donor agencies to develop these schemes.

Schematised Industrial Loans

During the year under review, three credit lines were in operation - the 'SAUBAGYA' Loan Scheme, which was refinanced by the CBSL, 'SMILE II' - a revolving scheme refinanced by the Japan Bank for International Co-operation (JBIC) and the 'DIRIBALA' Loan Scheme, which is Commercial Bank's own development lending product.

The 'DIRIBALA' Loan Scheme is a unique product of the Bank targeting SMEs where medium term repayment and flexible terms are available to them to facilitate repayment of loans.

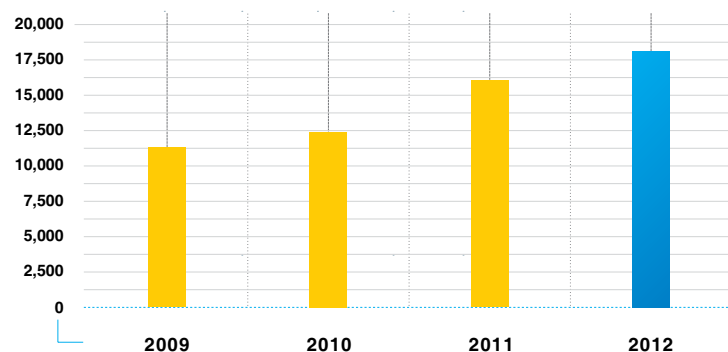
Several programmes were conducted to promote these loan schemes including a series of programmes to improve financial literacy amongst SMEs, Micro enterprises, entrepreneurship development programmes for SMEs and several promotional campaigns to raise general awareness on development lending opportunities provided by the Bank.

As at end 2012, the value of this loan portfolio was Rs. 18.09 Bn. It grew by 12.7% over the year and in absolute terms, the growth amounted to Rs. 2.0 Bn. New loans granted during 2012 totalled to 735 with a face value of Rs. 6.7 Bn. The increase in market interest rates served as a demotivating factor for borrowers.

Portfolio information as at December 31, 2012.

Industrial Sector

Rs. Mn.



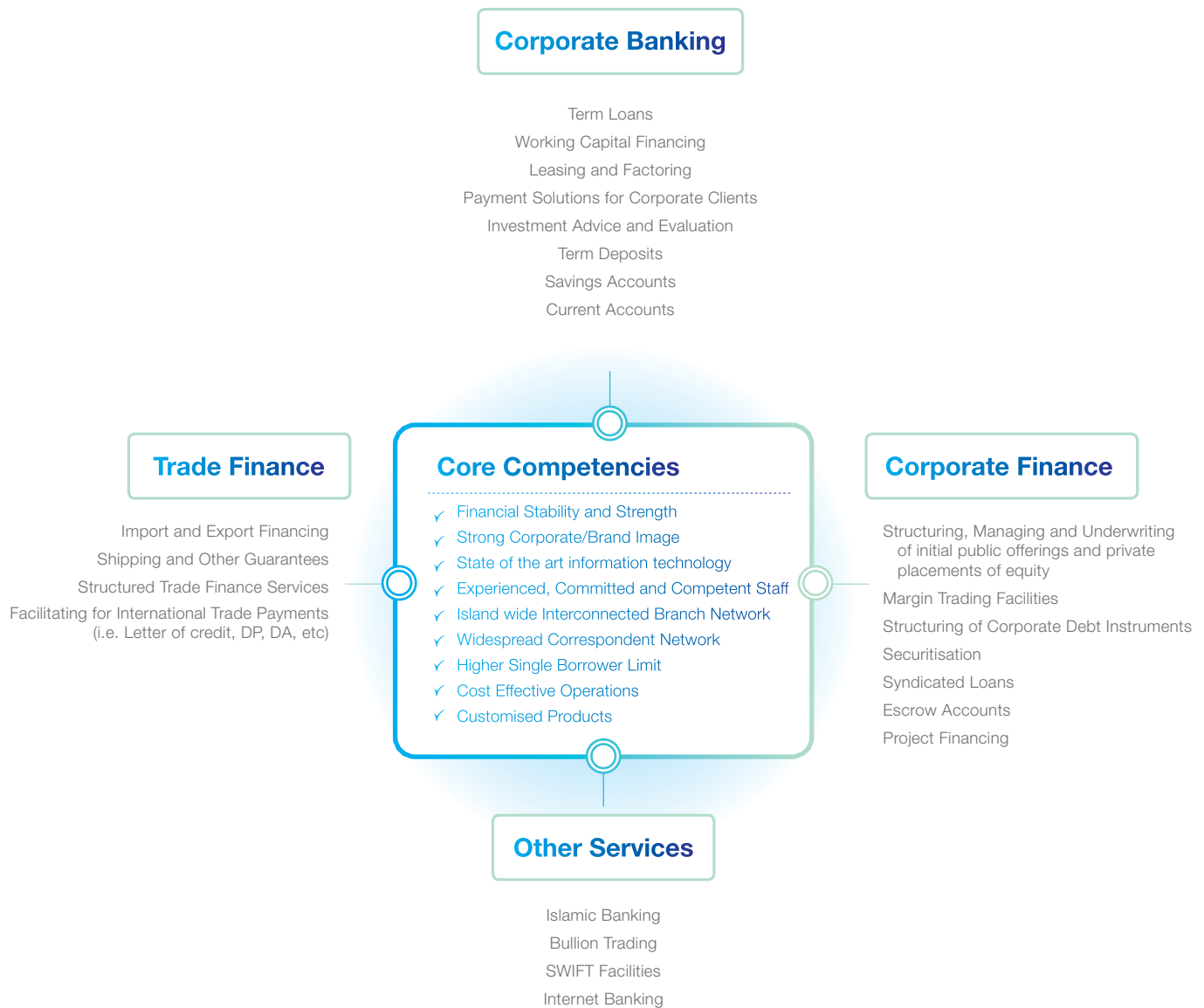
Small and medium enterprises are the backbone of the economy. The Bank continued to support this vital segment with added vigor during past several years.

Strategic Snapshot - Personal Banking

The following is a snap shot of initiatives undertaken by the Personal Banking aligned with the main strategic imperatives of the division.

Strategy	Extent of Implementation	Desired Goals
Maintain No. 1 position in deposits among private commercial banks	- Deposits grew by 19.0% in 2012 - New products launched in 2012 - Anagi Women's Savings Account - Relaunch of Dot Com Youth savings account	- Maintain the pre-eminent position in the banking industry in terms of financial stability and profitability - Aggressive marketing campaigns e.g. door-to-door marketing, advertising etc. - New products to cater to untapped segments - Centralise account opening procedures
Expand delivery points and channels to become the most sought after network in the banking industry	- Opened 14 new delivery channels - Installed 55 new ATMs - Linked the Sri Lanka's first expressway to the ComBank ATM network - Linked to the ATM network of China Union Pay - Launched the advanced e-Banking platform - Launched WAP portal to access Internet banking via mobile phones - Opened three new agricultural micro finance units	- Expand the delivery channels such as branches and service points - Introduce cash/cheque deposit machines to reduce branch traffic - Offer total payment solution to corporate and extend statutory payments to cover all Government entities. - Introduce KIOSK to enable customers to carry-out basic banking operations in a robust environment - Open new agricultural micro finance units
Enhance contribution to Bank's advances portfolio	- Advances grew by 13.5% - Personal Banking division largely contributed to overall growth of the loan portfolio - Reaped the benefits of the Loan Origination System which expedited the loan processing time - Introduction of the Platinum Credit card - Substantial growth in lending to agricultural, micro finance and industrial sectors - Borrowing from IFC to cater to the SME sector - Re-launch of Banks website with added features	- Online application to accelerate approval process. - Packaging home loans with an offset facility for high net worth individuals - Offer current customers the option to switch (for a fee) from a floating rate to fixed rate or vice versa. - Block lease facilities to high net worth customers - Assign Business Promotion Officers to all regions to assist SME growth
Maintain the NPA ratio below industry norms	- Special training programmes for branch managers and recovery officers on negotiation skills - Stringent provisioning policy to improve the provision cover - Speedy implementation of recovery action	- Improve the NPA ratio further - Expedite the legal recovery process - Improve the credit evaluation process in order to minimise the non-performing advances - Improve and strengthen credit monitoring mechanism
Build a knowledgeable personal banking team	- Succession plan through talent management - Overseas training for identified executive officers with potential leadership attributes - Conducted a series of programmes to enhance the knowledge and skills - Launching of e-Learning facility	- Training and counselling staff by industry experts - Increase frequency of e-Learning programmes - Focus training on identified areas

Corporate Banking



Senior Management Team- Corporate Banking



Naveen Sooriyarachchi
Head of Corporate Finance



Risijaya Srikantha
Head of Imports



Colvin Karunaratne
Head of Exports



Ranjan Ediriweera
Chief Manager - Corporate Banking I



Eric Bastian
Chief Manager - Exports



Sidath Pananwala
Chief Manager -
Corporate Banking III



Kelum Amarasinghe
Chief Manager - Travels & NFRC

Key Performance Indicators	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Actual 2011 Rs. Mn.	Achievement (Actual over Budget) (%)
Advances as at December 31 (Gross)	109,664.2	115,237.6	91,976.5	95.2
Profit before Tax	4,192.5	4,366.1	3,435.3	96.0
Import Turnover	177,894.0	146,440.1	175,500.3	121.5
Export Turnover	225,396.5	209,857.0	184,158.2	107.4
Cost Income Ratio (%)	20.1	21.3	20.8	
NPA Ratio (%) as at December 31	1.2	1.6	2.7	

* Based on SLAS

The growth of advances portfolio of the Corporate Banking division was adversely affected due to the increase in overall interest rates together with the controlled credit environment prevailed in the country during the year. Nevertheless, the division recorded impressive growths in advances and profits when compared to the previous year. Trade finance volumes also recorded improvements over the last year as well the actual levels were also above the Budget. Quality of the lending portfolio was well represented by the NPA ratio of the division.



B.A.H.S. Preena

Chief Manager - Corporate Banking II

G.R. Genevieve Liyanage

Chief Manager -
Off-shore Banking Centre

An Overview

The Corporate Banking Unit comprises of the Bank's Foreign Branch, Off-shore Banking Centre, Islamic Banking Unit and the Corporate Finance Unit. It offers its customers a wide range of services including working capital financing, trade finance services, leasing and factoring facilities, project financing and related services as well as Islamic Banking products.

The Foreign Branch has over the years achieved a reputation for expertise in Trade Finance operations and caters to a clientele in diverse fields of business activity. Its customers are medium sized and large Sri Lankan corporate businesses, blue chip companies and multi nationals operating in Sri Lanka.

The Corporate Banking division overlooks the Bank's credit operations in Bangladesh and continues to conduct selective lending in the Maldives.

The Trade Finance magazine published by the Euro money selected Commercial Bank as the Best Trade Bank in Sri Lanka in 2012, this was the second consecutive year the Bank achieved this prestigious accolade, reflecting its pre-eminent position in the trade finance service industry in Sri Lanka.

The Bank has a well established and trusted network of correspondents, covering every part of the world. This long standing relationship has provided a distinct advantage to the customers of the Bank in conducting their international business with global counterparts.

The post-war development activities in the country, mega infrastructure projects commenced by the Government and the boom in the tourism sector continue apace. The Investment Fund Account (IFA), built upon the tax savings announced by the Government Budget has been mainly utilised by the Corporate Banking division to support the Government's initiative to develop the road network. Funds have been earmarked to finance another road development project.

Higher policy rates, credit ceiling and lower levels of liquidity led to higher market interest rates during the year 2012. The Benchmark Average Weighted Prime Lending Rate (AWPLR) which was at 10.41% in January increased to 14.40% by the end of December. Notwithstanding the increased interest rate scenario in the country, the Corporate Banking division maintained a non-performing loan ratio of 1.2% as at the end of 2012, reflecting the high quality of its loan book.

Export Business

A largely conducive environment prevailed during 2012, in respect of export business. Tea production fetched attractive prices during the year which offset the drop in production due to adverse weather conditions that prevailed for a major part of the year. However, the external conditions especially for tea exports were undermined by stringent sanctions imposed by the UN, US and EU on some of our traditional markets, which led to this export business taking a gradual shift to other countries, this will not augur well in the long run.

There was a good international demand for natural rubber, which is a high value added traditional export item. Spices also commanded a good demand throughout the year which led to enhanced production. Similarly, coconut related products (activated carbon/fibre/coir pith) also attracted high international demand during the year.

The unstable Rupee caused financial losses/reduced profits to exporters, this situation was exacerbated during the last quarter of 2012.

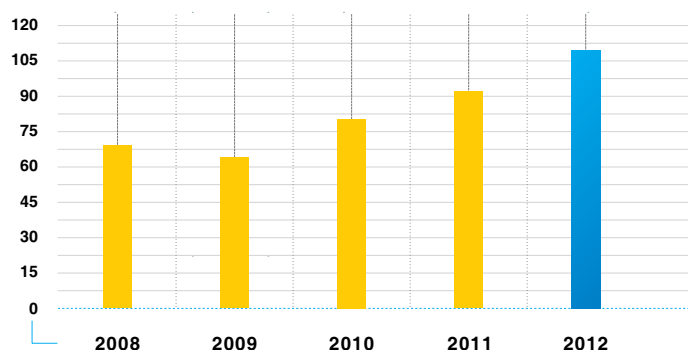
It is pertinent to mention that the Bank recorded a growth of 7% in its export volumes while the country recorded a drop during the year. Further, the Bank experienced a growth in all major export items such as Tea, Garments and Rubber during the year. The export turnover figures recorded for the past two years were as follows:

2011 - US \$ 1,615.0 Mn.
2012 - US \$ 1,728.0 Mn.

This growth was achieved despite the crisis situation in the Middle East, which affected tea exports and the volatility of exchange rates which resulting in certain exporters remaining hesitant to enter into export contracts.

Loans and Advances Volumes

Rs. Bn.



Import Business

In 2011, of the total import turnover, 51% or US \$ 802 Mn. related to vehicle imports. However, with the upward revision of import duty in early 2012, the import turnover of vehicles declined to 9 % or US \$ 121 Mn. in 2012. This impacted on the Bank's import turnover which declined by 13% in 2012 compared to the volumes recorded in the previous year. Furthermore, the import turnover of the country and the Bank were adversely affected due to the depreciation of the Rupee during the year.

Import turnover figures recorded for the past two years were as follows:
2011 - US \$ 1,572.1 Mn.
2012 - US \$ 1,372.7 Mn.

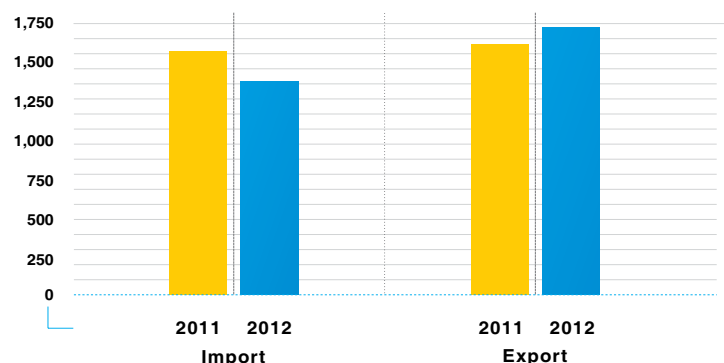
Discounting the vehicle import turnover, the Bank's import volumes recorded a substantial growth compared to the previous year.

Despite the challenging environment arising out of economic crisis affecting the global markets as well as adverse impact on local fiscal policy decisions, the industry observed a favourable change in regulatory measures under the Import Control Act which permitted and issued specific guidelines in handling shipments under Open Account Payment terms.

Modifications were made to improve the processing speed of the Eximills, Trade Finance software used by the Bank, during the year.

Import/Export Volumes

US \$ Mn.



Corporate Finance

The operating environment in 2012 was marked by difficult economic conditions, such as relatively high interest rates, a currency which depreciated significantly, as well as tight credit conditions. Further, due to adjustments in response to significant overheating in the market in preceding years, the stock market experienced a steep downward correction before recovering to some extent in the latter part of the year.

Margin trading operations, which were launched in 2010 as a key capital markets product of the Bank, were subdued in 2012 due to adverse market conditions.

Similarly, the two equity funds established in 2010 were affected by the adverse market conditions. The long-term orientation of one fund enables the Bank to benefit from expected long-run price improvements in listed equities. The other fund which employs a short-term trading strategy is poised to benefit from short-term price adjustments in listed equities by means of relatively frequent trading.

Other capital market activities of the Bank such as equity and debt structuring were also affected due to the unfavourable market conditions. Demand for large scale project finance was subdued due to the relatively high interest rates which prevailed during the year.

Islamic Banking (IBU)

The Commercial Bank's Islamic Banking window designated 'Al Adalah' has been in operation since June 2011.

In addition to the Central Bank's supervisory role, Al Adalah also needs a Sharia Supervisory Board or council to ensure that all transactions conform to the parameters of the Sharia. The Bank continued to retain the three eminent Sharia scholars appointed to this Board at the inception and periodic meetings and audits were carried out.

Some of the highlights of the year are given below:

From an infrastructural perspective, this Islamic window operates from Colombo as its funds require to be exclusive of conventional funds, hence they are vested with the unit in Colombo.

In April 2012 a separate desk to handle Islamic banking in the Eastern region was set up and this is presently located at the Akkaraipattu branch.

A new product, Musawamah was introduced in 2012. The IBU also commenced the provision of Bank Guarantees and the routing of Letters of Credit for IB customers.

The IBU's IT process was developed internally on the existing computer system. Continuous updating is being carried out. The IBU started distributing profits quarterly from the beginning of 2012, where as in 2011 this was done half yearly.

Substantial growth was recorded in all key areas of the unit during the year. Annual gross income and net profit of the IBU for the year amounted to Rs. 104.7 Mn. and Rs. 27.9 Mn. respectively.

Bullion Trading

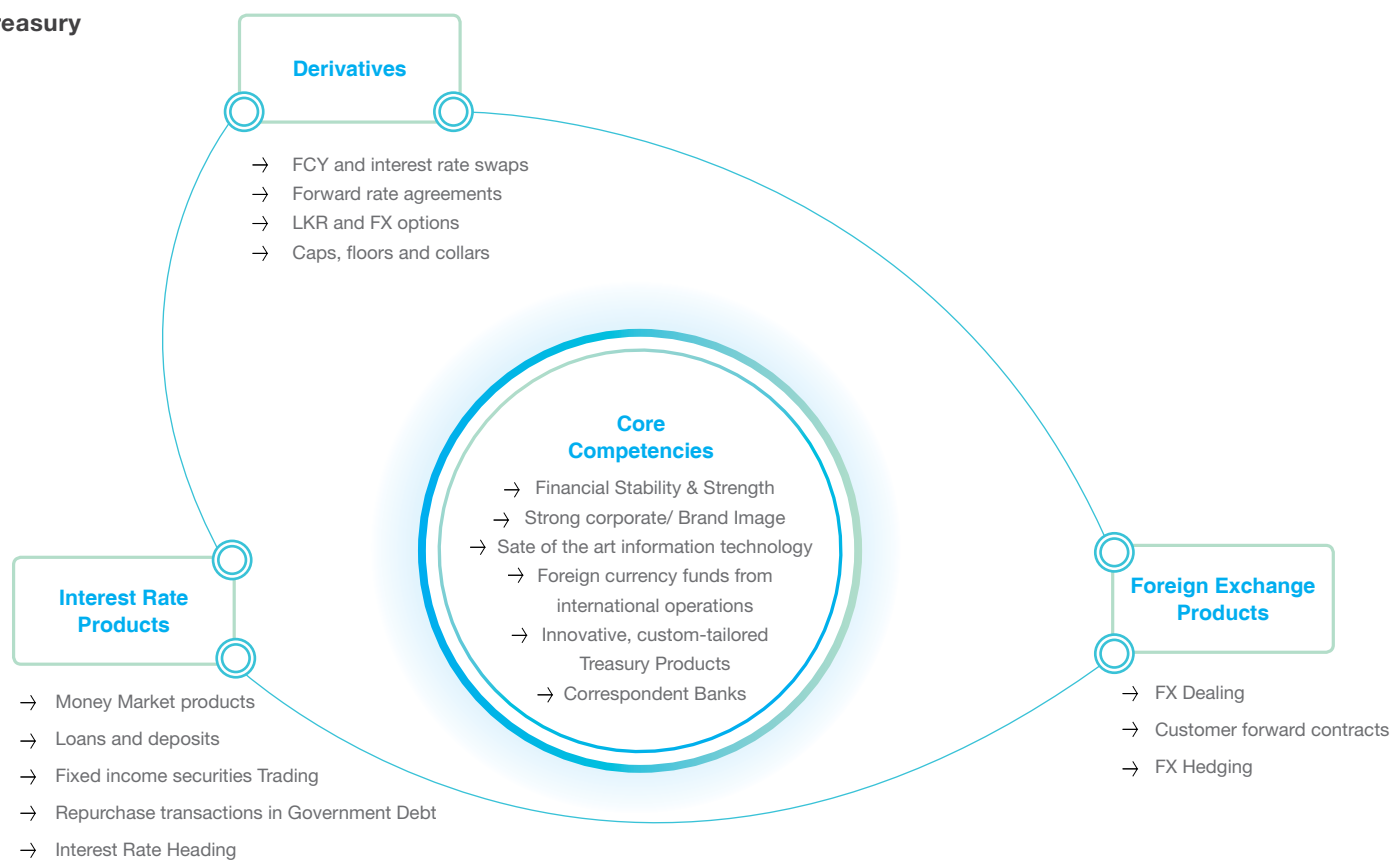
Market conditions and exchange rate fluctuations adversely affected Bullion Trading during the year. However as per the statistics of the Sri Lanka Customs, the Bank continued to maintain the leadership in bullion trading business in the country during the year. The reputation attached to the supplier of gold also helped in achieving a sustainable growth in the business volumes of the bullion trading centre. The host of benefits offered by the centre *inter alia* include online gold trading facility, night time gold fixing facility, special pawning facility and custodial service facility.

Strategic Snapshot - Corporate Banking

The following is a snapshot of initiatives undertaken by the Corporate Banking aligned with the main strategic imperatives of the division.

Strategy	Extent of Achievement in 2012	Desired Goals
Ambitious growth in the lending portfolio whilst maintaining the quality	- Advances grew by 19.2% - NPA ratio 1.2% of the division - Capitalise on lending opportunities due to current development work in the country Eg. Funded a road development project	- Continue to maintain the best Financial Ratios in the industry - Be a partner in the infrastructure development of the country
Revisit and redefine customer convenience and satisfaction in all areas	- System modification in Trade Finance were carried out to improve the processing speed time - A separate desk to handle Islamic banking operations (IBU) were opened in Akkaraipattu branch	- Focus on introducing innovative products and services - Improve operational efficiency through automation - Carry out periodic scientific market surveys on our service levels
Maintain the most preferred Trade Finance Bank position	- Export turnover grew by 22.4% - Banks import turnover (discounting the vehicle import turnover) recorded a substantial growth - Bestowed the award for 'best Trade Finance Bank' for the second consecutive year by Euro Money	Improve the trade finance market share
Enhance contribution from the Corporate Finance Unit	Subdued margin trading activities due to bearish stock market	- Pursue funding to power sector projects - Enhance the growth in Margin Trading business - Pursue investment opportunities in listed equities/ corporate debt - Introduce custodian services to the bank
Enhance the contribution from other units	- Bullion Trading activities were affected due to adverse market conditions - Widened the customer base of the Bank for Islamic banking products	- Introduce new gold products to retail markets - Expand the range of Islamic Banking products - Promote Islamic banking among high net worth customers.

Treasury



Senior Management - Treasury



Asela Wijesiriwardena
Chief Dealer - Assets & Liabilities
Management

Key Performance Indicators	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Actual 2011 Rs. Mn.	Achievement (Actual over Budget) (%)
Interest Income	9,304.0	9,412.9	8,635.2	98.8
Foreign Exchange Profit	2,856.1	1,551.2	1,364.1	184.1
Profit before Tax	1,490.0	876.4	1,636.0	170.0
Interest Earning Assets as at December 31	119,086.0	133,238.3	113,596.4	89.4
Cost Income Ratio (%)	28.2	28.4	24.8	

* Based on SLAS

Treasury achieved most of the key performance targets set in the Budget at the beginning of the year. Foreign exchange profits recorded well above the Budget mainly due to higher gains on forward/spot exchange during the year. Further, depreciation of the rupee also had a favourable impact to the foreign exchange profit of Treasury operations.

The Bank's Treasury is a distinct profit centre headed by the Head of Global Treasury and the Head of Global Markets, who report to the Managing Director of the Bank. The operations are segregated under Forex and Corporate Sales, Fixed Income Securities and ALM operations, each headed by a chief dealer.

The Treasury is entrusted with managing the interest rate risk, liquidity risk and the foreign exchange risk of the Bank. It carries out the inter-bank operations for managing risks and also has an integral role to play in the Bank's proprietary trading business. In addition, ALM function is also put into operation by the Treasury. Further, it supports the retail and corporate banking areas on their funding requirements and manages the FCY flows arising out of their business.

In addition, the Treasury directs the Bank's asset and liability management process by providing ALCO with interest and exchange rate updates as well as data on other macroeconomic developments. Based on the inputs, the ALCO sets parameters for the management of maturity mismatch risks in the Balance Sheet. It also gives directions to the ALCO Sub committee in fixing fund transfer pricing based on the prevailing market conditions.

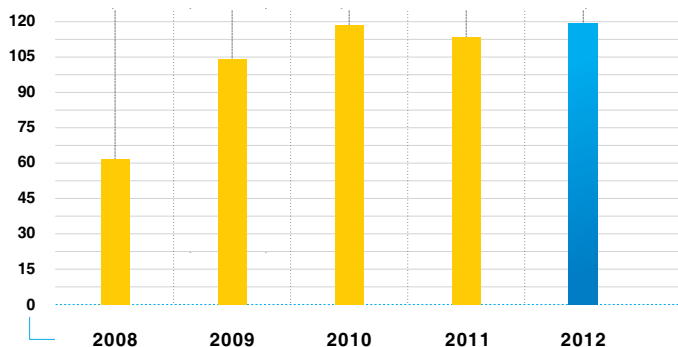
2012 in many ways was a year of challenge and opportunity for Sri Lanka and the Bank. Despite expected slowdown in GDP, the country has achieved a satisfactory growth when viewed against many other comparable countries.

This growth story was reflected in the performance of the Bank amidst a challenging business environment. In this environment, Treasury faced several challenges in managing the liquidity and interest rate risk of the Bank whilst keeping an eye on the Bank's exchange rate exposure.

The exchange rate came under pressure once the CBSL withdrew from the USD/LKR peg in mid February 2012. The decision allowing the exchange rate to move more in line with the monetary policy helped to safeguard the diminishing foreign reserves of the country. As a result, the demand for imports reduced due to the high cost of the US \$. Other policy measures taken by the Government, especially sharp increases in vehicle import duty had an adverse impact on the motor vehicle import demand.

Interest Earning Assets Portfolio - Treasury Operations

Rs. Bn.



As an intermediary, Treasury plays an important role in managing the excess funds of the Bank. As more and more funds get channeled to the Treasury with the growth of the Bank, it has a significant bearing on the Bank's profitability.

The Bank benefitted from the stronger USD with its long position in USD reserves. The exchange gains achieved in the Treasury were exceptional - well in excess of expectations. Moreover, this was achieved in a very competitive environment, under strict exchange control regulations, especially on forward bookings and in the midst of an unexpected devaluation of the LKR.

The division faced great challenge in managing the excess liquidity position which prevailed during the year whilst safeguarding the Net Interest Margin of the Bank. High market volatilities allowed Treasury to achieve significant performance during the year by correctly interpreting market direction in both foreign exchange and money markets. The Bank generated US \$ 65.0 Mn. through a DPR (Diversified Payment Rights) facility from IFC in mid-March.

The upward movement of interest rates in the market during the first half of the year adversely impacted the operations in Government Securities. However, a significant drop in long-term interest rates in Government

Securities during the 4th quarter paved the way for the treasury to earn trading profits.

Despite the substantial growth in deposit volumes, the deposit mix of the Bank deteriorated due to the increase in general interest rates in the country. As a result, the time deposits out of the total deposit base of the Bank increased to 57% compared to 49%, a year earlier. The CASA base of the Bank reduced to 44% from 51%, a year earlier. This resulted in an increase in the Bank's rupee cost of funds exerting further pressure on interest margins.

The total assets portfolio managed by the Treasury increased to Rs. 133.3 Bn. at the end of 2012 compared to Rs. 126.1 Bn. the previous year.

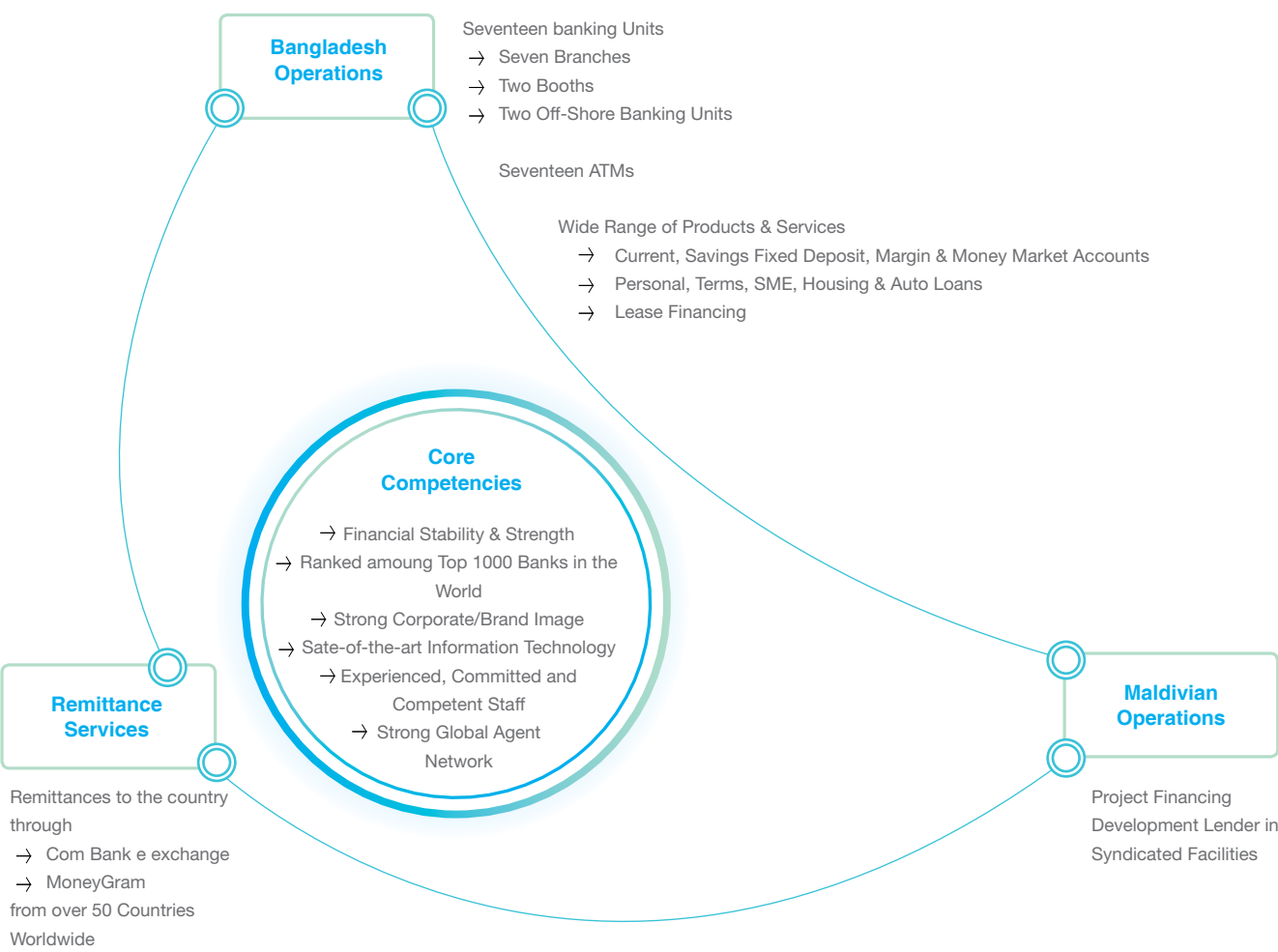
The Bank acquired a new treasury software to overcome the limitations in its current software suite and to cater to the growing needs of its business volumes. Further, it would serve the ever growing MIS and compliance requirements of the Bank in a more comprehensive manner. Phase I of the new system has been installed during the year, fulfilling requirements for the foreseeable future, whilst Phase II will see installation of the full system and complete migration to the new programme by mid 2013.

Strategic Snapshot - Treasury

The following is a snapshot of initiatives undertaken by the Treasury aligned with the main strategic imperatives of the division.

Strategy	Extent of Achievement in 2012	Desired Goals
Achieve the status of 'Most Preferred Treasury Solution Centre' in the market	- Organised client seminars and social meetings to build relationship aspects of the business - Disseminated high quality market information to prime customers	- Formation of a research and development unit within the Treasury dealing room. - Develop an SMS system to disseminate market information to internal and external customers
Improve the efficiency of the Treasury through operational excellence	- Adopted best market practices in treasury policies - Preliminary work has been done to implement the new Treasury System to carry out treasury operations efficiently.	- Diversify the product range, enabling the Bank to tap a wider segment of the market - Develop staff through continuous training - Repeat the client feedback survey to gauge satisfaction levels and service quality and take necessary action to improve services quality
Efficient Management of the Bank's financial assets and liabilities	- Arranged low cost foreign funding - Enhanced foreign exchange profit through prudent fund management.	- Streamline Bangladesh Treasury Operations and bring it under direct control of Group Treasury - Improve the Fund Transfer Pricing (FTP) mechanism

International Operations



Management Team - Bangladesh Operations



S. Prabagar
Country Manager



D. Das Gupta
Senior General Manager



Dilan Rajapakse
Chief Operating Officer



S. Kutubuddin Ahmed
General Manager - Risk,
Compliance and Corporate Affairs



A.K. Nandy
Senior Deputy General Manager -
Chittagong



Binoy Gopal Roy
Deputy General Manager -
Finance and Accounts



Mahmood Rashid
Senior Assistant General Manager -
Internal Control and Compliance



Mostafa Anwar Sohel
Assistant General Manager -
Human Resources



Reaz Wahid
Assistant General Manager -
International Trade

Key Performance Indicators	Actual 2012 Rs. Mn.	Budget 2012 Rs. Mn.	Actual 2011 Rs. Mn.	Achievement (Actual over Budget) (%)
Deposits as at December 31	35,820.2	30,155.7	25,674.7	118.8
Advances as at December 31 (Gross)	32,647.7	28,431.0	22,603.8	114.8
Profit before Tax	1,657.1	1,731.4	1,409.7	95.7
Cost Income Ratio (%)	33.0	38.3	33.8	
NPA Ratio (%) as at December 31	3.31	1.2	1.0	

The Bangladesh operations recorded impressive results and achieved most of the targets set at the beginning of the year. All key performance indicators were well above the budgeted levels. e Exchange volumes were also recorded satisfactory growth during the year. The division's profits and the NPA ratio are adversely affected due to a provision made on account of an off-shore customer.

International operations for this analysis are developed based on the stream of income generated outside the shores of Sri Lanka. Hence, the Bank's operations in Bangladesh, the activities of off-shore banking operations in Maldives and remittance operations of the E banking centre are discussed in detail here.

Bangladesh Operations

To place our operations within Bangladesh in context, we feel it is pertinent to briefly comment on the operating environment and country perspective.

The political situation in Bangladesh appeared to be stable in 2012 with the democratically elected regime still enjoying a three-quarters majority in the parliament. Bangladesh's sovereign debt was reaffirmed BB - for long term international credit and a B for short term credit by Standard & Poor's and Ba3 by Moody's Investors Service in 2012.

Growth of the Gross Domestic Product (GDP) in Bangladesh slowed marginally to 6.30% in 2011/12 fiscal year compared with 6.70% in 2011. The main reason appears to be the slowdown of agricultural growth. Although three-fifths of Bangladeshis are employed in the agriculture sector, three quarters of export revenues come from the garment industry. Bangladesh managed to maintain 6% plus growth over most of the last 10 years through strong export and remittance growth.

Healthy Inflows from wage remittances continue to be the backbone of the economy as growth in exports fell behind due to the continuous crisis spreading across the euro zone. Remittances have been buoyed by larger numbers of Bangladeshi workers moving abroad over the past year. Foreign Reserves too have improved even though adverse external demand and domestic supply constraints continue to be a drag on growth.

The inflation rate in Bangladesh averaged around 7% to 8% in 2012. Favourable international price trends along with deceleration in both food and non-food price rises helped to reduce inflation from all time high levels seen the previous fiscal year. Compared to the severe depreciation of Bangladesh Taka (BDT) close to around 15% in 2011, the currency was very stable in 2012 and in fact appreciated by 2.73%.

The Capital market volatility that was seen in 2010 and 2011 continued this year too, to a lesser extent.

Even though, banks faced intermittent liquidity shortages, overall the financial sector was resilient to the adverse movements and volatilities in the market.

Key Economic Indicators - Bangladesh

	2012	2011
GDP (%)	6.3	6.7
Inflation (%)	8.56	10.17
AWDR (%)	8.25	7.25
Per Capita (US \$)	848	818

The Banking industry in Bangladesh consists of 4 nationalised commercial banks, 4 Government owned specialised banks, 30 domestic private banks, 9 foreign banks and 31 non-bank financial institutions. In addition, the Bangladesh Central Bank accorded approval for 9 more commercial banks which are expected to be opened in 2013.

Performance of Bangladesh Operations

Commercial Bank commenced its operations in Bangladesh by acquiring the banking business of Credit Agricole Indosuez, a French multi-national Bank, in November 2003. From the commencement of the business, the Bank has established a ranking well above those of other regional banks in operation in the country. The Bank caters to a wide range of clientele which includes a healthy mix of corporate and retail customers and is backed by a wide product range.

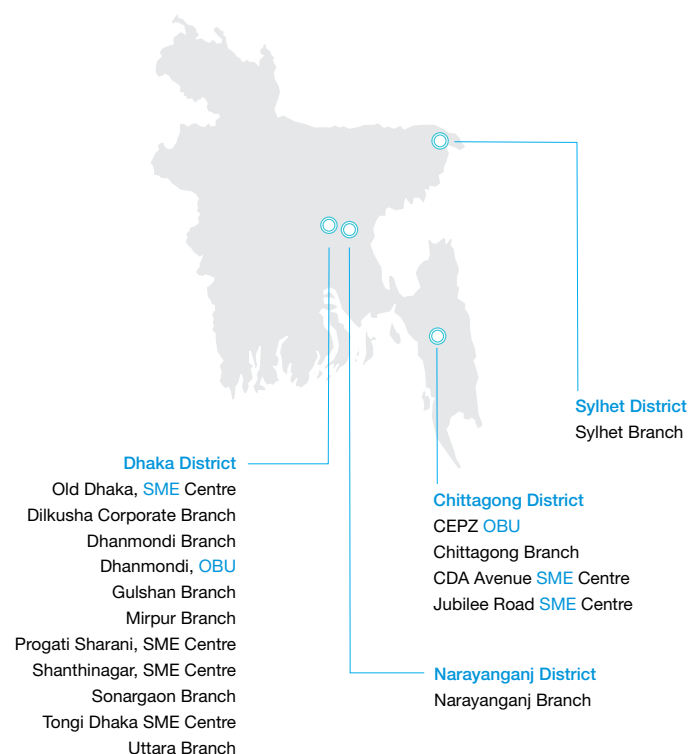
Commercial Bank, Bangladesh has been rated AAA for the second successive year in 2012 by the leading rating agency CRISL (Credit Rating Information and Services Ltd.). Also ICMA (Institute of Cost and Management Accountants, Bangladesh) has placed Commercial Bank as the third best corporate amongst the 9 foreign banks, next only to two big multinational banks operating in the country.

The Bank took over two Branches and two Booths at the time of acquisition of Credit Agricole Indosuez and the branch network has been expanded to seventeen outlets. Currently, our footprint consists of 10 Branches, 2 Off-Shore Banking Units, 6 SME Centres and 18 online ATMs including 3 Off-Site ATMs.

The customers of the Bank have access to over 3,200 Visa ATMS spread across Bangladesh. The Bank also offers a Global Dual Currency Visa Credit Card available in Classic and Gold card types for the benefit of our customers. Also, through Combank EFT (Electronic Fund Transfer), the customers have the option of transferring funds to any bank spread across Bangladesh. Commercial bank facilitates disbursement of worker remittances from Middle Eastern Exchange Houses through the branch network, EFT system as well as cash management agreement with 2 local banks.

Plans are afoot to collaborate with National Payment Switch in Bangladesh in order to provide ATM services at a lower cost and also to provide Internet and mobile based payments.

Bangladesh Branch and ATM Network Map



SME Small & Medium Enterprises / **OBU** Offshore Banking Unit

2012 was a significant year for our Bangladesh operations. Most of the targets envisaged in the Budget and the Corporate Plan at the beginning of the year was achieved by the Bank during the year.

Operating Highlights - Bangladesh Operations (In BDT)

	2012 Mn.	2011 Mn.	Growth Mn.	%
Total Deposits	18,166	14,890	3,276	22
Total Advances	15,977	12,290	3,687	30
Pre Tax Profit	1,220	953	267	28
Post Tax Profit	736	584	152	26

Annual compound growth rates for deposits, advances and post-tax profits in Taka terms since the inception of operations from 9 years ago were 19%, 22% and 24% respectively.

The Bank recorded a less than 1% NPA ratio from its inception due to the prudent lending propositions and the risk management measures in force. All key performance ratios - Cost to Income ratio, Return on Assets and Return on Equity remained healthy during the year. Prudent fund management allowed the Bank to record an improvement in net interest margins during the year. The Bank has increased the number of accounts both in deposits and advances at a steady pace from inception.

Bangladesh Operation contributes a fair percentage of the total post tax profit of Commercial Bank, and has been repatriating profits at regular intervals. The Capital Adequacy Ratio of the Bank is over 20%, against the regulatory requirement of 10%, mainly in view of the higher minimum capital requirement of the Bangladesh Bank, implemented since August 2011.

The Corporate Plan and the Budget of the Bangladesh operations which is being prepared along with the Sri Lankan operations set ambitious targets to be achieved during 2013. All Key Performance Indicators are expected to record improvements in the ensuing year. The NPA ratio is expected to remain below 1%. Improve operational efficiency and productivity through automation, especially the loan approval process is in the pipe line for 2013. Improving brand image by maintaining high quality service standards in the Bangladesh market is also envisaged during 2013.

e-Remittances

The sizable Sri Lankan population who works abroad sends money to their kith and kin in Sri Lanka. Inflows from wage remittances forms part of the foreign funds inflows to the country where foreign exchange continues to be a scarce resource. Although channelling of remittances through formal methods increased in the recent past, there are still a significant number who opt for informal methods to repatriate their monies.

The 'Com Bank e-Exchange', an internally developed money transfer platform assures Sri Lankan overseas a safe and efficient way to send money home. Over the past several years, the e-Exchange broke new ground and expanded its reach to a wider Sri Lankan expatriate population. Commercial Bank possesses over 15% of market share of worker remittances to the country with a growth of 19% compared to the previous year.

New arrangements with 10 more e-Exchange agents were finalised thus bringing the total to 76 overseas remittance agents by the year end. The Bank's Business Promotion Officers based overseas were increased to 13 to help aggressively promote e-Remittances and also to cross sell other products and services. The Bank also entered Singapore and Cyprus, which are two high potential markets for remittances.

Among the new agents who partnered with the Bank are Ria Financial Services, the third largest money transfer company in the world and Doha Bank, Qatar. Ria partnered with the Bank, connecting via the latest web service technology (The first in South Asia handling Ria money transfer systems) enabling a real time remittance payout in Sri Lanka.

The Bank held several events to promote its e-Remittance products and services and to also felicitate its partner agencies, during the year under review. Many of these events coincided with periods of religious significance, such as the Sinhala and Tamil New Year, Ramadan and Christmas and New Year, which periods are peak for money transfer activity. These were held both in Sri Lanka and overseas.

The Bank was adjudged the 'Most Productive Network in South Asia in 2011' by MoneyGram, the global funds transfer Company, at its annual South Asian Agents Conference in Goa, India in May 2012.

Growth in number of Remittances and Volumes

	2012 %	2011 %	Growth
Volume	19.8	14.6	5.2
Transactions	18.5	9.5	9.0

Strategic Snapshot - International Operations

The following is a snapshot of initiatives undertaken by the International Operations aligned with the main strategic imperatives of the division.

Strategy	Extent of Achievement in 2012	Desired Goals
To be on par with the multinational banks operating in Bangladesh	- The Bank has been rated 'AAA' for the 2nd successive year by the Credit Rating Information Services Ltd. (CRISL) - The Bank has been ranked the third best corporate amongst the 9 foreign banks operating in the Bangladesh	- Maintain the 'AAA' credit rating - Maintain excellent market reputation as a professionally run bank devoid of unethical practices - Maintain a strong, quality credit portfolio providing the foundation for a sustainable growth
Establish Commercial Bank as a preferred retail and corporate banker in Bangladesh providing superior customer service	- Deposits grew by 22% - Advances grew by 30% - Commenced the approval procedure with Bangladesh Central Bank to open new delivery points	- Open new delivery points during the year - Diversify the product range, enabling the Bank to tap a wider segment of the market - Aggressively canvass foreign currency accounts of expatriates employed in Bangladesh - Increase the number of ComBank owned ATMs
Become the market leader of the e-Remittance Business in Sri Lanka	- Market share of 15% of the country's worker remittances - New arrangements with 10 exchange agents - Increased Bank's Business Promotion Officers to 13 in 6 countries - Entered into 2 countries with high potential for remittances - Partnered with the third largest money transfer company in the world - Adjudged the 'most productive network in South Asia in 2011' by MoneyGram	- Explore new markets for remittances - Launch an e-exchange platform as a payout solution with third parties at convenient locations - Launch a new remittance card
Venturing into other regional markets	Evaluated a few identified countries in the Asian region	Explore the countries considered to be feasible

Support Services

The Commercial Bank proposition cannot be delivered without vital inputs from a number of support service rendering departments. Prior to examining the performance of the departments, we must dwell briefly on an area that in itself constitutes a vital element of the 'support processes'.

We refer to the Bank's infrastructure.

As a benchmark private sector Bank, we have fully embraced the emerging technology that moves our service onto a constantly evolving platform of sophistication and modernity. Yet, as vital to our progress is our physical infrastructure; the brick and mortar complexes that stand for high visibility, strength and presence in profusion across every town and village of Sri Lanka.

This, together with professional, highly skilled and passionate people forms the core of the Commercial Bank persona.

One of the most powerful examples of the Bank's physical presence is, our ATM network - the widest and most numerous in Sri Lanka by a long chalk; highly visible along streets and highway and now in rail stations too; a beacon for customer patronage - and together with our branches island-wide, a potent sign of the Bank's competitiveness.

Each year, a substantial portion of the profits of the Bank is invested to improve the physical and technological infrastructure. This reduced the free cash flow of the Bank that would otherwise have been invested and become part of the fund-based operations of the Bank. Most importantly, it reduces the free capital of the Bank.

During the year, the Bank completed architectural designs for five new branch buildings and has acquired prime property in the heart of Colombo with a view to relocating some departments, thus easing congestion within existing offices and moving those in rented premises into their 'own home'.

In 2012, we opened 19 new branches/CSPs and relocated 19 MiniComs and 8 branches, whilst carrying out a major face lift for 25 branches and refurbishing 21 off-site ATM points. The Bank incurred a total cost of Rs. 1,367.8 Mn. on account of these improvements during the year.

Senior Management Team - Support Services



R.R. Dunuwille
Company Secretary



Vajira Thotagammana
Head of IT Operations



Esala Silva
Chief Manager - Central Clearing



Bindu Perera
Chief Manager -
Premises & Engineering



John Premanath
Chief Manager - Inspection



Priyanthi Perera
Chief Manager - Operations



S. Yoganandasivam
Head of IT - R&D



Amitha Munasinghe
Chief Manager - Information Systems
Audit & Business Continuity Planning



S. Shanmugarajah
Chief Manager - ICBS Operations



M.Z. Careem
Chief Manager - Inspection



Thayalan Gnanapragasam
Chief Manager -
Central Administration



Sujeeva Ranasinghe
Chief Manager - Human Resource
Management



M.P. Dharmasiri
Chief Manager - Finance



Kapila Hettihamu
Chief Manager - Risk

Successful operations of the segments as detailed earlier are coordinated by several departments. Of these supporting service departments, the operating highlights of Information Technology Department, Recoveries Department and Marketing Department are detailed below:

Information Technology

The operating environment is characterised by business expansion, new channels, 'Green IT', process efficiency and an increased compliance posture.

In recognition of the evolving behaviour of our customers shaped by their ever busier schedules and adoption of newer technology, a significant leap forward was made during the year by introducing the following:

Our Internet Banking service was relaunched incorporating the very latest in functionality, user interface design, and security, and has been warmly embraced by our customers.

Our new Internet Banking system was also made available through mobile phones using Wireless Access Protocol (WAP), thereby extending the benefits of Internet Banking to a much larger customer segment.

The existing Tri-lingual Mobile Phone 'app' and SMS Banking system were complemented through the introduction of a new USSD Mobile Banking system. When combined with Mobile WAP, the Bank remains the only Sri Lankan bank to provide 4 choices of Mobile Banking thus demonstrating our commitment to both customer convenience and social inclusion.

Traditional branch and ATM channels grew to 227 and 555 respectively at the end of the year. Further, we introduced 5 Cash & Cheque Deposit KIOSKS during the year in review.

Customer convenience was enhanced with the following developments.

A Loan Origination System (LoS) was introduced to reduce turnaround time while increasing the quality of credit decisions. The system also positions us well to support business growth without a proportional increase in back-office costs.

In support of the customer charter, Digital Signage was introduced at approximately 50 locations giving customers clear visibility of products, services and rates.

Customer Service and Risk Management were enhanced with wider use of SMS Alerts for defined transactions.

Our commitment to the environment and society was underlined by a drive to encourage customers to adopt e-Statements. We have also completed the first phase of a strategic initiative to stop the use of paper for deposits and withdrawals by becoming a 'voucher less' bank. When considered alongside our previous achievements in lowering power consumption through Server Virtualisation, we have shown that 'Green IT' is a reality and something the industry as a whole, must aspire to.

Recognising the growing complexity of Business Continuity, the Bank relocated its Disaster Recovery Data Centre to a purpose built facility. This allows us to retain control of all infrastructure and data, while leveraging proven facility management expertise.

Recent upgrades to network bandwidth have enabled the wide-spread use of e-Learning, resulting in easier access to quality learning and encouraging competency development.

The expansion of e-Claims and introduction of e-Leave and e-Attendance systems have delivered process efficiencies and cost savings.

The Bank was successfully recertified in ISO/IEC 27001 and remains the only Sri Lankan bank with this Information Security certification.

The Bank incurred a total IT cost of Rs. 632.3 Mn. to improve its technological interface of the Bank during the year.

In the coming year, we expect to see an increase in the use of alternate channels provided during 2012 as well as those planned for 2013. The Bank also plans to reduce electricity consumption by deploying 'smart' devices. Investment in security and compliance will continue to grow and we will provide tailored services based on our insight of customer behaviour.

Recoveries

Recovery of loans and advances disbursed is one of the important functions directly contributing to the success and well-being of the Bank.

The Bank has a well defined and properly documented process for recoveries clearly demarcating the functions of the branches and those of the Central Recoveries Department.

The Central Recoveries Department of the Bank is entrusted with the task of assisting the branches to accomplish early recovery of non performing advances, thereby maintaining the targeted NPA Ratio of the Bank. Further, the department makes timely loan loss provisions in line with regulatory directions and the Bank's provisioning policy and monitoring of all reschedules/restructuring of advances carried out in the Bank.

Performance Highlights

	2012	2011
Gross NPA ratio (%)		
(net of interest in Suspense)	3.4	3.4
Net NPA ratio (%) (net of interest in suspense & specific provision)	1.8	2.1
Provision cover (%)	45.5	39.5
Contribution to P&L from NPA recoveries (Rs. Mn.)	3,326.0	2,704.1

Advances which languish for more than 12 months in non-performing status are monitored by the Recoveries Department. Early recovery of non-performing advances of each region has been allocated to an experienced officer of the Recoveries Department. Regular discussions with the Recoveries Department and the officers at our branches with regard to the action to be taken and speedy implementation of such

actions for the early recovery of NPA s have immensely helped the Bank in maintaining low NPA targets. All litigation and 'parate' execution matters are closely followed up by the Recoveries Department.

Recovery Strategies

The Bank adopts a flexible approach in initiating recovery proceedings by evaluating each case on its merits.

We always opt for negotiated settlement of NPAs, as opposed to legal recourse, in order to bring mutual benefits and time and cost saving, both to customers and the Bank.

During the year, special training programmes were conducted by the Recoveries Division for the entire cadre of Branch Managers, Branch Recovery Officers and the Regional Recovery Officers to disseminate knowledge on negotiation skills and recovery strategies.

With the intention of curtailing inflows to the NPA, the Bank has assigned dedicated regional recovery officers across the network. In addition to this, the Branch Credit Monitoring Unit (BCMU) is closely monitoring the advances which display early warning signs of reaching NPL status, and provide details of such advances to the branches to enable them to take appropriate and timely action to prevent such advances being moved in to NPA.

The Bank of its own accord, adopts a more stringent provisioning policy than the regulatory requirement. As a result the Bank has made a total provision of Rs. 3,183.5 Mn. during the year 2012. These provisions have assisted the improvement of Bank's provision cover from 39.5% to 45.5%.

The Credit Monitoring Unit (CMU) which is also a part of the Recoveries Division, monitors and ensures that the reschedules/restructuring of advances are carried out strictly in line with the existing regulatory requirements.

Monitoring of reschedulements includes placing the advances in proper classification category and also de-classifications, as per the regulatory guidelines.

Marketing

2012 was a very lively year in the marketing calendar of Commercial Bank. Numerous marketing campaigns were carried out during this respective year, apart from very successful new product launches, which gave the Bank a notable competitive edge, visibility and brand equity. Forging new relationships while going the extra mile to serve customer needs and seeking ways for continuous process improvement, the Bank takes great pride in the recognition derived in terms of its plentiful accolades.

The year 2012, started off with a fully fledged corporate campaign under the new corporate brand positioning theme 'For a Better Future' which was communicated to a broad audience through Above The Line and Below The Line media as well as branch visibility material. The campaign appealed to different customer segments of the Bank starting from children, youth, executives, housewives to the white-collar executive.

Strategising to orchestrate more focus on the Bank's deposits portfolio, the Bank concentrated more on savings products throughout 2012. In keeping with the increasing trend in interest rates in deposits, Commercial Bank maintained Top of Mind Awareness on its popular generic range of deposits as well as specialized savings accounts such as Arunalu and Isuru Children's Accounts, DotCom Youth Savings Account, Anagi Women's Savings Account and Udara Senior Citizen's Savings account which offer higher interest rates and benefits over its competitors.

Accordingly, special marketing campaigns ranging from mass scale communication endeavours as in Above The Line advertising to web and outdoor advertising as well as brand-specific sponsorships were carried out to endorse the specialised deposits products while tactical advertising was activated highlighting the interest rates of term deposits and specialised savings deposits products. The Bank also launched a general savings marketing campaign during the first quarter of the year.

Upon identifying some of the most potential customer segments, Commercial Bank launched a brand new savings account named Anagi Women's Savings Account for women with special interest rates and other benefits. An integrated marketing campaign was launched, throughout the island with special mobilisation campaigns targeted at women, through the Bank's branch network. Anagi account has become the breakthrough, fastest growing specialised savings product at Commercial Bank.

Another potential segment identified as having great future potential in bringing profitability to the Bank is the youth. Hence the Bank re-launched the DotCom Youth Savings Account with a complete new outlook in marketing communications creating great appeal to the younger generation of today. The relaunch too included a fully fledged mass communication campaigns supported by very innovative web and social media advertising with branch-wise and outdoor promotions.

The Bank continued to promote its Arunalu Children's Savings Scholarships programme during 2012. Over Rs. 4 Mn. worth of cash prizes were disbursed to Year 5 Scholarship winners both at a school and district level. Arunalu also hosted a grand event on World Children's Day with media collaboration in which, the Bank conducted special activities and games for children with branded give-aways and attractive cash prizes for the participants. Over 15,000 children and adults participated in this event.

The Bank relaunched its corporate website combining rich content and modern design, enabling easier navigation with a range of improved features such as the 'Search' function that enables users to find information on the website through keywords or phrases; a facility to download application forms related to loans, account opening, deposits and similar requirements; 'loan calculators' related to home and personal loans and details on interest rates for deposits and loans. The site also includes news blogs, foreign exchange rates, an easy to find locator for Commercial Bank's Holiday Banking centres and 365-day Banking centres, branches that offer extended banking hours and Supermarket banking centres.

In addition to the above marketing activities, the Bank conducted a plethora of other promotions, which are summarised under different product lines as detailed under respective segments of the Bank.

The above endeavours gave the Bank immense mileage in enhancing corporate and product brand visibility amongst the targeted customer segments while the brand equity of the Bank too saw a considerable growth, giving Commercial Bank a superior competitive edge in its marketing activities within the banking and financial sector in Sri Lanka.

Extent of Outsourcing of Bank's Functions

The Bank as a policy does not outsource key functions involving the use of its strategic capabilities since these are an important source of competitive advantage. However, it is always exploring the possibilities of outsourcing non-key functions, it will optimise sustainability and returns to stakeholders.

The Bank periodically evaluates the credibility and capability of partners selected to provide outsourced functions.

The functions outsourced by the Bank include:

- Sorting of cash and cash transportation
- Building maintenance and janitorial services
- Security services
- Transport services
- Back-office and support staff, including office helpers, typists and telephone operators
- IT support services
- Printing and dispatching of bank statements
- Courier services
- Maintenance of the share ledger and related secretarial work

Performance of Bank's Subsidiaries and Associates

Subsidiary Companies

Commercial Development Company PLC

Commercial Bank holds 94.55% of the share capital of the Commercial Development Company PLC. The Company owns the Head Office building and continues to rent it out to the Bank whilst providing various other value added services to the Bank.

During the year, the Company expanded its staff strength with the recruitment of staff outsourced to the Bank.

The Company also carried out a major renovation project to improve the condition of the Head Office building which significantly affected its growth in profits. In addition, a drop in revenue from its vehicle hiring business also adversely affected the bottom line of the Company.

Despite the extra costs incurred for renovation of the Head Office building, net profit for the year increased by 36% during the year. This was mainly due to a drop in depreciation and interest cost on leases obtained from the Bank.

The Company is exploring the possibility of enhancing its business operations further with the Bank by providing other maintenance services to its parent company.

One Zero Company Ltd.

One Zero Company is a 100% owned subsidiary of Commercial Bank providing information technology services and solutions to the Bank as well as outside customers. Its main areas of business are the supply of professional and skilled employees, support services, post warranty maintenance, software development and hardware and software sales. The majority of its business was conducted with Commercial Bank of Ceylon PLC. The Company is the partner for many renowned IT brands in Sri Lanka.

Process improvements were recorded subsequent to migration of its accounting platform to Oracle Financial system during the year. In addition, many of the internal processes of the Company were streamlined to enhance productivity and efficiency of the Company.

The Company recorded a post tax profit of Rs. 20.7 Mn., a growth of 10% compared to last year.

The Company is in the process of exploring the possibility of enhancing its business operations further, specially extending IT maintenance services to branches in few other regions of the Bank.

Commex Sri Lanka S R L

Realising the potential in remittance business from Italy where a large Sri Lankan expatriate population resides, the Bank incorporated a fully-owned subsidiary by the name of Commex S R L Italy. The Bank had to reapply the money transfer licence which it received in February 2010 due to the change of laws relating to money transfer business in the European Union.

In January, 2012, the 'Bank of Italy' declined the re-registration application made by Commex Sri Lanka S R L to be a 'Payment Institution' authorised to engage in money transfer operations from Italy on the grounds that Sri Lanka has been identified by Financial Action Task Force (FATF) as a country having certain strategic deficiencies in its Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) legislation.

Thereafter, in July, 2012, Commex tied up with MoneyGram Payment Systems in Italy as a Sub Agent of MoneyGram handling remittances to Sri Lanka and other countries.

Accordingly, Commex is presently processing Money Transfers from its office in Rome through MoneyGram. In order to further widen the scope of this money transfer service and to cover major cities in Italy, negotiations are presently underway with a few other leading money transfer companies operating in Italy. Parallel to this, additional measures are being taken to reduce overheads at the Rome Office.

Associate Companies

Equity Investments Lanka Ltd. (Equill)

The Bank holds 22.92% of this venture capital company which is in the business of providing finance to Sri Lankan entrepreneurs mainly in the form of equity contribution. The Company has a rich history spanning to 22 years.

During the year under review, growth was recorded in revenue as well as profit after tax, due to the gain on sale of quoted shares as well as an increase in interest income.

Due to the lack of opportunities for venture capital financing in the market, the Company experienced a drop in the venture capital income, especially by way of dividends and debenture interest. The dividend income was affected due to the non-receipt of expected dividend from the hydro projects which were affected by the weather patterns that prevailed during the year and reduced tariff rates offered by the Government. The current bear market conditions in the Colombo Stock Exchange also affected the fair value of investments made in private placements of shares that are subsequently listed.

The Company hopes to enter into more fruitful business propositions with the current infrastructure developments taking place in the country. Equill wishes to invest in sectors such as leisure, health care, education, construction and hydro power to reduce risk by diversifying the investment portfolio and to enhance future returns.

Commercial Insurance Brokers (Pvt.) Ltd.

The Bank has an indirect stake of 18.91% in this company through its subsidiary, Commercial Development Company. During the past 25 years, the Company has engaged in the business of insurance - both life and general. It is one of the premier insurance brokering firms in the country.

CIBL also boasts of a strong partnership with CA technologies USA and Pronto XI ERP Australia, making it one of the most technologically savvy firms in the industry. This ensures that all stakeholders of the Company are provided with instant solutions on par with world class standards.

As per the Annual Report of Insurance Board of Sri Lanka (IBSL) for 2011, CIBL has recorded the highest gross written premium among 46 Insurance Brokering Companies operating in Sri Lanka. The Company recorded a dip in its profits mainly due to reduction of new business opportunities.



**BANKING
ON YOU**



The key indicators presented in this section are to do with people...our people...our employees, their development, well-being as well as the subject of human rights. The data presented herein is an evaluation of the Bank's stewardship of these precious resources and an accounting of its record in safeguarding them.

Employment

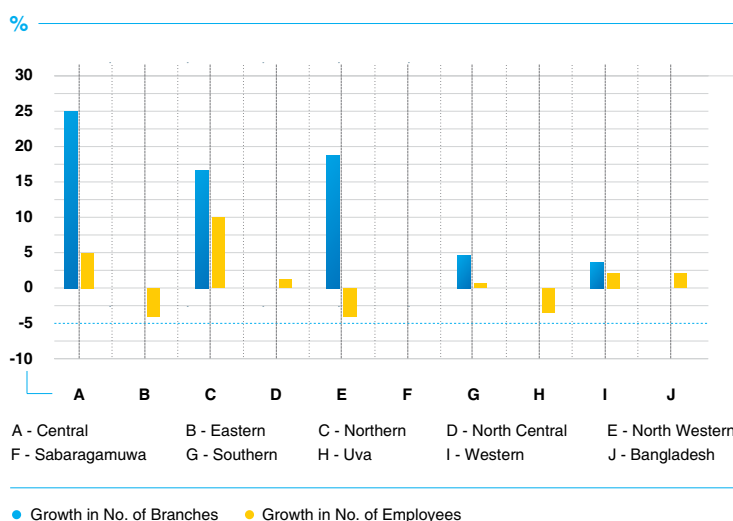
Total Employment by Employee Type, Contract, Region and Gender

The tables and graphs given below provide information on total workforce by region, employment type, age analysis, service analysis, gender and contract.

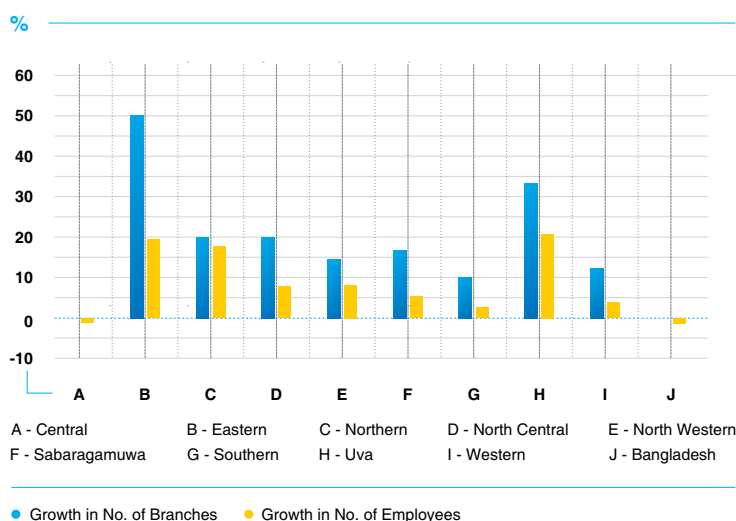
Breakdown of Workforce by Province

Province/ Departments and Other Business Units	2012				2011				2010			
	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
Central	20	213	64	277	16	205	59	264	16	208	59	267
Eastern	9	82	13	95	9	80	19	99	6	66	17	83
Northern	14	124	67	191	12	113	61	174	10	91	57	148
North-Central	6	75	10	85	6	77	7	84	5	69	9	78
North-Western	19	188	40	228	16	197	41	238	14	188	32	220
Sabaragamuwa	14	146	15	161	14	147	14	161	12	140	13	153
Southern	23	248	70	318	22	251	64	315	20	245	62	307
Uva	8	75	9	84	8	74	13	87	6	65	7	72
Western	114	1,286	529	1,815	110	1,299	469	1,768	98	1,236	466	1,702
Departments and Other Business Units		875	271	1,146		859	277	1,136		819	271	1,090
Bangladesh	17	158	44	202	17	157	41	198	17	162	39	201
Total	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 2012 vs 2011



Growth in No. of Branches vs Employees 2011 vs 2010



Employment Type: Full-Time, Part-Time and Outsourced

The Bank as a policy does not employ staff on part-time basis.

The percentage of full-time employees and out-sourced employees remained unchanged over the three-year period 2010 to 2012, although the total numbers continued to grow proportionately as shown below:

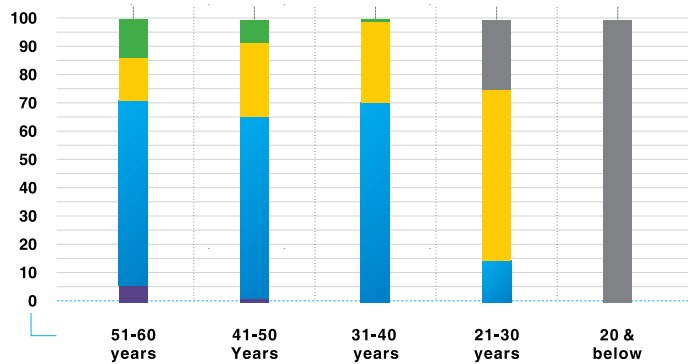
Employee Type	No. of Employees			Composition of Employees %		
	2012	2011	2010	2012	2011	2010
Full-Time Employees - Male	3,470	3,459	3,289	75.40	76.46	76.12
Full-Time Employees - Female	1,132	1,065	1,032	24.60	23.54	23.88
Total	4,602	4,524	4,321	100.00	100.00	100.00
Outsourced Employees - Male	344	330	308	56.39	53.66	50.41
Outsourced Employees - Female	266	285	303	43.61	46.34	49.59
Total	610	615	611	100.00	100.00	100.00

Age Analysis of Employees as at December 31

Category	Corporate Management		Executive Officers		Junior Executive Assistants & Allied		Banking Trainees (BTs) and Graduate Trainees (GTs)		Office Assistants & Others		Total 2012		Total 2011		Total 2010	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
51-60 years	16	3	170	36	23	24	0	0	43	0	252	63	260	54	262	49
41-50 years	11	0	286	184	48	146	0	0	59	0	404	330	382	294	364	265
31-40 years	1	0	655	179	232	103	1	0	9	0	898	282	811	300	699	316
21-30 years	0	0	275	62	1,175	232	432	142	0	0	1,882	436	1,933	406	1,869	387
20 & below	0	0	0	0	0	0	34	21	0	0	34	21	73	11	95	15
Total	28	3	1,386	461	1,478	505	467	163	111	0	3,470	1,132	3,459	1,065	3,289	1,032

Age Analysis of Employees by Category 2012

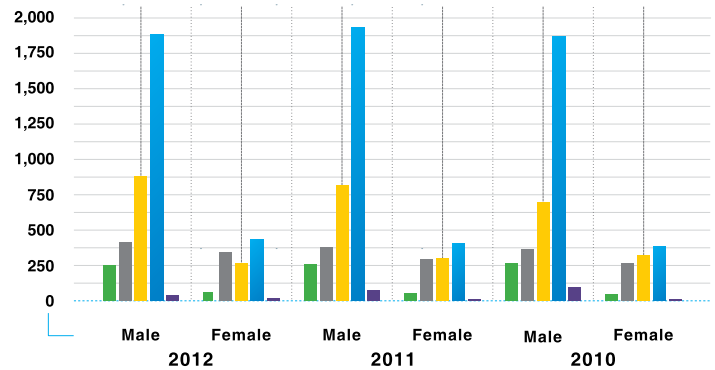
%



● Corporate Management ● Executive Officers ● Junior Executive Assistants & Allied
 ● Banking Trainees (BTs) and Graduate Trainees (GTs) ● Office Assistants & Others

Age Analysis of Employees by Gender 2010-12

No.



● 51-60 years ● 41-50 years ● 31-40 years ● 21-30 years ● 20 & below

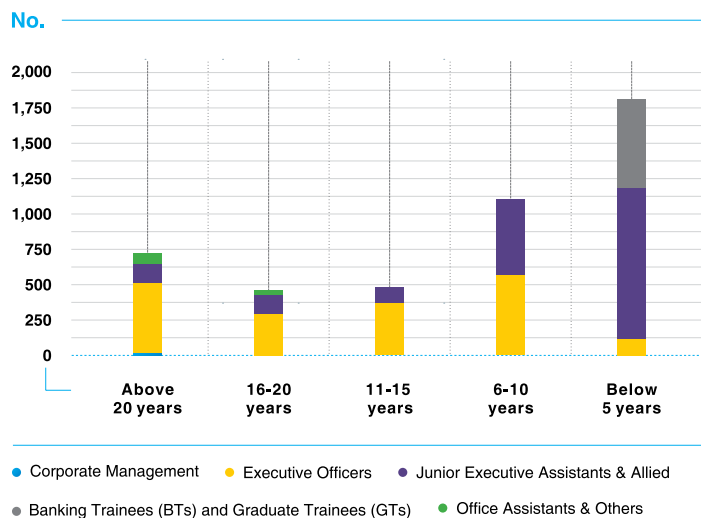
Service Analysis of Employees as at December 31

Category	Corporate Management		Executive Officers		Junior Executive Assistants & Allied		Banking Trainees (BTs) and Graduate Trainees (GTs)		Office Assistants & Others		Total 2012		Total 2011		Total 2010	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Above 20 years	15	3	329	161	48	87	0	0	74	0	466	251	476	217	448	184
16-20 years	5	0	204	92	37	96	0	0	36	0	282	188	292	210	328	236
11-15 years	0	0	317	68	66	44	0	0	1	0	384	112	200	86	246	110
6-10 years	1	0	448	118	458	113	0	0	0	0	907	231	545	149	405	127
Below 5 years	7	0	88	22	869	165	467	163	0	0	1,431	350	1,946	403	1,862	375
Total	28	3	1,386	461	1,478	505	467	163	111	0	3,470	1,132	3,459	1,065	3,289	1,032

No. of Employees by Type and Gender 2010-12



Service Analysis of Employees by Category 2012



Employment Status

Contract Employees confirmed in service in 2012 increased in number, which is attributable to the growth of the Branch network during the period under review.

Status of Full-Time Employment as at December 31,	No. of Employees			Percentage of Employees by Type (%)		
	2012	2011	2010	2012	2011	2010
Confirmed in Service	3,889	3,815	3,572	84.51	84.33	82.67
Undergo Training or on Probation	713	709	749	15.49	15.67	17.33
Total	4,602	4,524	4,321	100.00	100.00	100.00

Recruitment and Attrition

Total Number and Percentage of New Recruits by Age Group, Gender and Region

As at December 31, Age Group/Gender	2012				2011				2010			
	Male	Female	Total	%*	Male	Female	Total	%*	Male	Female	Total	%*
Sri Lanka												
51-60 years	0	0	0	–	0	0	0	–	2	0	2	0.72
41-50 years	1	0	1	0.14	2	0	2	0.32	2	0	2	0.35
31-40 years	1	0	1	0.09	1	0	1	0.10	5	0	5	0.52
21-30 years	105	102	207	9.16	292	52	344	15.11	286	75	361	16.39
20 years and below	1	0	1	1.82	4	2	6	7.14	8	0	8	7.27
Total	108	102	210	4.77	299	54	353	8.16	303	75	378	9.17
Bangladesh												
51-60 years	0	0	0	–	0	0	0	–	0	0	0	–
41-50 years	2	0	2	4.65	0	0	0	–	0	0	0	–
31-40 years	2	0	2	2.78	2	6	8	12.90	2	1	3	4.84
21-30 years	10	6	16	27.12	10	5	15	24.19	12	6	18	33.96
20 years and below	0	0	0	–	0	0	0	–	0	0	0	–
Total	14	6	20	9.90	12	11	23	11.62	14	7	21	10.45
Grand Total	122	108	230	5.00	311	65	376	8.31	317	82	399	9.23

* As a percentage of the total number of staff in respective age groups as at the end of the year.

Total Number of Staff Attrition out of New Recruits by Age Group, Gender and Region

As at December 31,	2012				2011				2010			
	Male	Female	Total	%*	Male	Female	Total	%*	Male	Female	Total	%*
Sri Lanka												
51-60 years	0	0	0	–	0	0	0	–	0	0	0	–
41-50 years	0	0	0	–	0	0	0	–	0	1	1	0.17
31-40 years	0	0	0	–	0	0	0	–	10	3	13	1.36
21-30 years	4	4	8	0.35	23	1	24	1.05	1	0	1	0.05
20 years and below	1	0	1	1.82	5	0	5	5.95	0	0	0	–
Total	5	4	9	0.20	28	1	29	0.67	11	4	15	0.36
Bangladesh												
51-60 years	0	0	0	–	0	0	0	–	0	0	0	–
41-50 years	0	0	0	–	0	0	0	–	0	0	0	–
31-40 years	1	0	1	1.39	0	0	0	–	0	0	0	–
21-30 years	0	0	0	–	0	0	0	–	2	1	3	5.66
20 years and below	0	0	0	–	0	0	0	–	0	0	0	–
Total	1	0	1	0.50	0	0	0	–	2	1	3	1.49
Grand Total	6	4	10	0.22	28	1	29	0.64	13	5	18	0.42

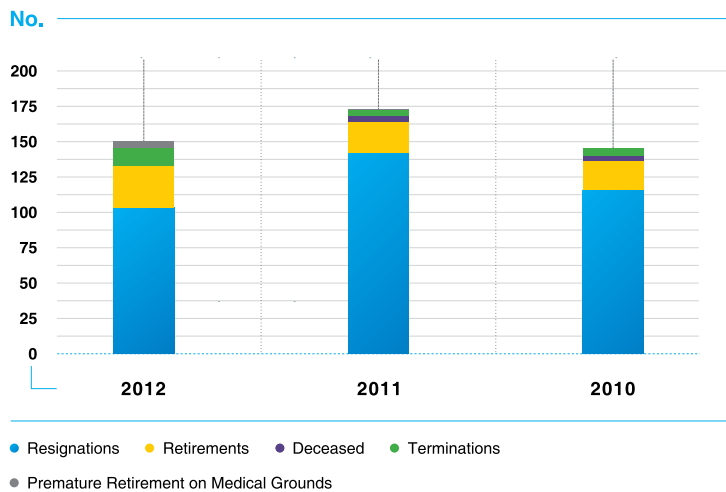
* As a percentage of the total number of staff in respective age groups as at the end of the year.

Total Number and Percentage of Staff Attrition by Age Group, Gender and Region

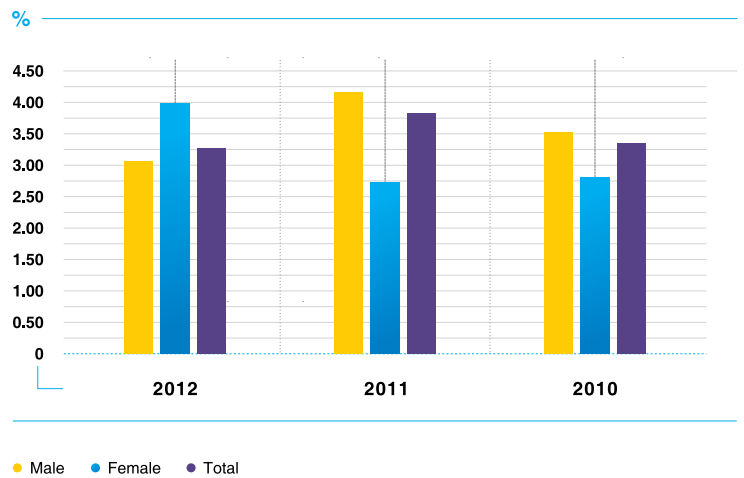
As at December 31,	2012				2011				2010			
Age Group/Gender	Male	Female	Total	%*	Male	Female	Total	%*	Male	Female	Total	%*
Sri Lanka												
51-60 years	30	6	36	12.54	25	4	29	10.21	22	3	25	8.96
41-50 years	5	2	7	1.01	5	3	8	1.27	4	5	9	1.57
31-40 years	15	8	23	2.08	14	4	18	1.72	16	6	22	2.31
21-30 years	45	23	68	3.01	73	14	87	3.82	45	11	56	2.54
20 years and below	1	0	1	1.82	5	0	5	5.95	0	0	0	–
Total	96	39	135	3.07	122	25	147	3.40	87	25	112	2.72
Bangladesh												
51-60 years	5	1	6	21.43	1	0	1	3.33	3	0	3	9.38
41-50 years	–	0	8	18.60	5	3	8	18.18	14	2	16	29.63
31-40 years	3	5	2	2.78	9	1	10	16.13	12	2	14	22.58
21-30 years	2	0	0	–	7	0	7	11.29	0	0	0	–
20 years and below	0	0	0	–	0	0	0	–	0	0	0	–
Total	10	6	16	7.92	22	4	26	13.13	29	4	33	16.42
Grand Total	106	45	151	3.28	144	29	173	3.82	116	29	145	3.36

* As a percentage of the total number of staff in respective age groups as at the end of the year.

Employee Turnover by Category 2010-12



Percentage of Employee Turnover by Gender



Total Number and Percentage of New Recruits and Attrition by Grade and Gender

As at December 31, Grade	2012				2011				2010			
	Male	Female	Total	%*	Male	Female	Total	%*	Male	Female	Total	%*
New Recruits												
Corporate Management	0	0	0	–	2	0	2	5.41	2	0	2	5.88
Executive Officers	5	1	6	0.32	8	8	16	0.89	8	3	11	0.66
Junior Executive Assistants & Allied	11	6	17	0.86	10	5	15	0.79	8	2	10	0.53
Banking Trainees	106	101	207	32.86	291	52	343	52.21	299	77	376	60.94
Office Assistants & Others	0	0	0	–	0	0	0	–	0	0	0	–
Total	122	108	230	5.00	311	65	376	8.31	317	82	399	9.23
Staff Attrition												
Corporate Management	3	0	3	8.82	2	0	2	5.41	1	0	1	2.94
Executive Officers	39	17	56	3.03	33	9	42	2.33	39	8	47	2.83
Junior Executive Assistants & Allied	30	19	49	2.47	49	13	62	3.25	43	15	58	3.09
Banking Trainees	24	9	33	5.24	50	7	57	8.68	28	6	34	5.51
Office Assistants & Others	10	0	10	9.01	10	0	10	8.20	5	0	5	3.70
Total	106	45	151	3.28	144	29	173	3.82	116	29	145	3.36

* As a percentage of the total number of staff in respective grades at the end of the year.

Total Number of Attrition by Gender and Reason

There were 103 resignations from service during the year under review, while a further 30 employees retired, in the total turnover of 151 employees.

Details of Staff Attrition by Gender, Region and Reasons are tabulated below:

As at December 31,	2012				2011				2010			
	Male	Female	Total	%*	Male	Female	Total	%*	Male	Female	Total	%*
Sri Lanka												
Resignations	61	32	93	68.89	99	21	120	81.63	64	24	88	78.57
Retirements	20	4	24	17.78	15	3	18	12.24	14	1	15	13.39
Deceased	1	0	1	0.74	3	1	4	2.72	4	0	4	3.57
Terminations	10	2	12	8.89	4	0	4	2.72	5	0	5	4.46
Premature Retirement on Medical Grounds	4	1	5	3.70	1	0	1	0.68	0	0	0	–
Total	96	39	135	100.00	122	25	147	100.00	87	25	112	100.00
Bangladesh												
Resignations	5	5	10	62.50	19	3	22	84.62	24	4	28	84.85
Retirements	5	1	6	37.50	3	1	4	15.38	5	0	5	15.15
Deceased	0	0	0	–	0	0	0	–	0	0	0	–
Terminations	0	0	0	–	0	0	0	–	0	0	0	–
Premature Retirement on Medical grounds	0	0	0	–	0	0	0	–	0	0	0	–
Total	10	6	16	100.00	22	4	26	100.00	29	4	33	100.00
Grand Total	106	45	151	–	144	29	173	–	116	29	145	–

Benefits Policy and Regime

The Bank has devised and implemented a regime of procedures and facilities that seek to ensure the enactment of fair labour practices and a conducive work environment. In addition to the provisions made in respect of employee welfare and benefits under the Shop and Office Employees' Act, the Bank has gone further to enhance the facilities and benefits afforded to its staff to ensure a continuous improvement in their working lives. In this regard, 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

- All staff are members of a private provident fund administered by an Independent Board of Trustees according to the provisions of the Employees' Provident Fund Act and the regulations framed from time to time thereunder. In addition, employees who were entitled to a pension at the time of hiring are now entitled to participate in an alternate terminal benefits plan where such benefits are offered as a single lump-sum payment.
- Medical benefits enjoyed by all employees include special health insurance cover for critical illnesses and staff loan schemes (at concessionary interest rates) to tide over an illness in the family.
- The Bank's death gratuity scheme entitles the legitimate dependants of a confirmed employee (who is not subject to the alternate terminal benefit plan described above) to a compassionate payment of 2 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 dependants also receive a sum equal to 24 months salary (based on the last drawn salary) of the deceased.

- The Bank also operates a personal accident insurance scheme which, in the event of an accident causing the death of an employee, entitles his or her legal dependants to a sum equal to 60 months' salary as last drawn.
- 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 employee.

Although the employees outsourced by the Bank are not entitled for all of the above benefits, they are paid at least the minimum wages under the applicable statutes and all mandatory contributions to defined contribution plans such as Employees' Provident Fund, Employees' Trust Fund and in addition Gratuity payable under the Payment of Gratuities Act.

Return to Work and Retention Rate after Maternity Leave

Country and Description	2012	2011	2010
Sri Lanka			
No. of Employees entitled for maternity leave	1,088	1,023	993
No. of Employees who took maternity leave	58	64	63
No. of Employees who returned to work after maternity leave	43	64	63
No. of Employees who are still employed for the last 12 months after returning from maternity leave	58	64	61
Return to work rate (%)	100	100	98
Retention rate (%)	100	100	96.18
Bangladesh			
No of Employees entitled for maternity leave	30	30	24
No of Employees who took maternity leave	4	3	2
No of Employees who returned to work after maternity leave	4	3	2
No. of Employees who are still employed for the last 12 months after returning from maternity leave	0	3	2
Return to work rate (%)	100	100	100
Retention rate (%)	100	100	100

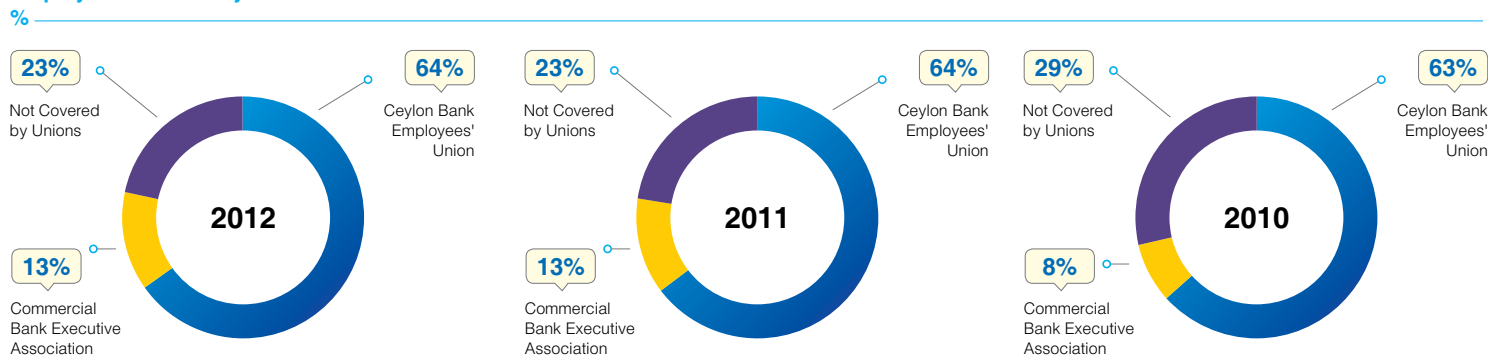
Employees Covered by Collective Bargaining Agreements

The following table illustrates that 2,928 or 63.62% of the total cadre of the Bank's Sri Lankan operations as at December 31, 2012 were covered by Collective Agreements.

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

There are no Unions/Employee Associations in Bangladesh.

Employees Covered by Unions



Minimum Notice for Operational Change Implementation

All matters which involve operational changes are implemented after due consultation with Focus Groups, Employee Associations and Shareholders. This process helps establish mutual understanding and contributes to transparency.

The Collective Agreement that is in force specifies when the time negotiations should commence when the revision of the Agreement is due. As per the present Agreements, negotiations are to commence 9 months prior to the expiry of the reigning Agreement.

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 could respond appropriately in emergency situations. Subsequent to these 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, providing them with a comprehensive training on prescribed and desired response to incidences of fire, burglary, earthquakes and other similar situations of threat.

Occupational Health and Safety

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 makes proposals to the top

Safety Training

During the year under review, the Staff Development Centre of the Bank conducted a fire training programme attended by 158 participants (covering 3.59% of the total staff cadre) representing branches and departments in the Head Office premises. The training spanned over 1,264 man hours.

Programme	2012			2011		
	No. of Programmes	No. of Participants	Man Hours	No. of Programmes	No. of Participants	Man Hours
Fire Awareness Programme for Group Leaders	1	149	1,192	1	87	696
Programme on Fire Aid Fire Appliances and Practical Fire Demonstration	1	9	72	1	25	200

Injuries, Occupational Diseases and Fatalities at Work

During 2012, there were 11 accidents reported. However, none of these resulted in work-related fatalities. The details of lost days by region and by gender are given below. Lost days count begins on the day after the accident.

Province	2012						2011					
	Total No. of Injuries		Injury Rate		Lost Days		Total No. of Injuries		Injury Rate		Lost Days	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Western	7	–	0.1521	–	244	–	5	1	0.110	0.022	175	14
Central	4	–	0.0870	–	151	–	–	–	–	–	–	–
Eastern	–	–	–	–	–	–	2	–	0.044	–	23	–

Education and Risk Control on Health Issues

In order to minimise the risks arising from occupational health and safety issues, the Bank adopts several measures to track, prevent or mitigate such risk. As regards ensuring and maintaining a healthy workforce, the Bank ensures that all new recruits undergo extensive medical screening prior to employment. Thereafter, a regular medical regime is in place to help staff and their families maintain good health.

The Bank's Staff Development Centre conducts training on handling work-related stress. Employees identified as being affected by high levels of stress and traumas are provided with counselling to support their rehabilitation. The Human Resources Management Department of the Bank too conducts periodic dust and emission tests in relation to certain vulnerable locations across the branch network. In addition, the Premises Department of the Bank carries out periodic pest control programmes at the Head Office, Union Place premises and at our Branches.

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.

Training and Education

Training and Professional Development

The Staff Development Centre of the Bank at the last quarter of each calendar year, carries out a training requirement analysis of staff at all levels for the forthcoming year on a needs basis. In addition to this formalised approach, in an ongoing initiative throughout any given year,

the Training Centre will, in consultation with the relevant line management, respond to other training requirements as required by business development. Such additional training may be carried out, using in-house and/or external training resources. Subsequently, the participation of nominees is monitored and their feedback obtained will be used for future improvement and identification of new training needs in response to the training needs of an evolving business environment.

Our Staff Development Centre focuses on the soft skills developed by them through the years and continues to 'listen to', 'empathise with' and 'touch' all our employees to better their lives.

Value addition and learning will continue to be the primary factors of recognition sought to retain top talent pools.

The team at the Staff Development Centre is dedicated to co-ordinate skill transformation in order to prepare the Bank to meet the challenges and exciting expectations of a new tomorrow.

In the year under review, the Bank spent a total of Rs. 51.62 Mn. on training and education programmes. A total of 455 training programmes involving 103,956 person-hours of training were executed during the year.

In keeping with practice, the Bank continued to identify high performers among its senior management, through a process of 'talent discussions' conducted annually. Through this exercise, leadership competencies are identified and a pool of talent is created to serve the long-term needs of the Bank.

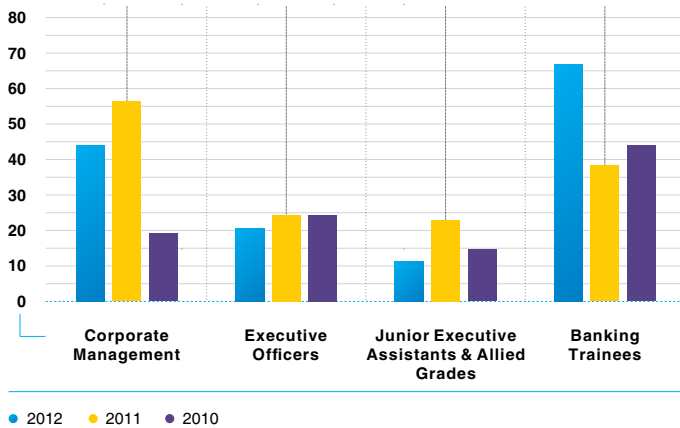
The training programmes conducted by the Bank include technical, soft skills and overseas training, as externally-held training programmes.

Average Hours of Training per Year per Employee by Employee Category and Gender in Sri Lanka

Employee Category and Type of Programme	2012				2011				2010			
	Training Hours				Training Hours				Training Hours			
	Male	Female	Total	Per Employee	Male	Female	Total	Per Employee	Male	Female	Total	Per Employee
Corporate Management	1,454	38	1,491	43.85	1,953	126	2,079	56.19	552	95	647	19.03
Technical	825.5	38	863	25.38	1,214	88	1,302	35.19	258	59	317	9.32
Soft skills	156	0	156	4.59	219	38	257	6.95	22	4	26	0.76
Overseas	472	0	472	13.88	520	0	520	14.05	272	32	304	8.94
Executive Officers	29,489	8,527	38,016	20.58	33,953	10,264	44,217	24.58	31,517	9,011	40,527	24.44
Technical	25,891	6,793	32,684	17.70	25,665	7,373	33,038	18.36	19,009	5,437	24,445	14.74
Soft skills	2,654	1,454	4,108	2.22	6,792	2,451	9,243	5.14	11,500	3,356	14,856	8.96
Overseas	944	280	1,224	0.66	1,496	440	1,936	1.08	1,008	218	1,226	0.74
Junior Executive Assistants & Allied Grades	19,423	3,014	22,437	11.33	35,427	8,511	43,938	23.02	23,904	3,716	27,620	14.71
Technical	18,295	2,596	20,891	10.55	34,649	8,252	42,901	22.47	23,188	3,496.5	26,685	14.22
Soft skills	1,128	418	1,546	0.78	690	259	949	0.50	716	219	935	0.50
Overseas	0	0	0	–	88	0	88	0.05	0	0	0	–
Banking Trainees	29,360	12,652	42,012	66.69	20,244	4,810	25,054	38.13	21,644	5,567	27,211	44.10
Technical	28,104	12,336	40,440	64.19	20,116	4,806	24,922	37.93	21,032	5,446.5	26,479	42.91
Soft skills	1,256	316	1,572	2.50	128	4	132	0.20	612	120	732	1.19
Total	79,726	24,231	103,956	22.59	91,577	23,711	115,288	25.48	77,617	18,388	96,004	22.22

Average Training Hours per Employee by category 2010-12

Hours



Continuing with the Bank's strong commitment towards developing a learning culture, it is pertinent to note that employees underwent a total of 100,624 man hours of training during the year in Sri Lanka (110,510 man hours during 2011) and a total of 3,332 man hours of training during the year in Bangladesh (4,778 man hours during 2011) on various knowledge building programmes.

This works out to an average of 22.59 man hours of training per employee (25.48 man hours per employee during 2011).

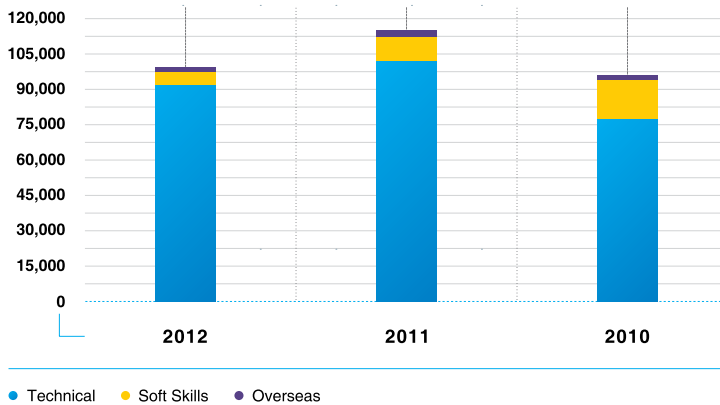
Our Investment on Training

In 2012 too, the Bank continued to invest in human capital development and its investment on training increased to Rs. 51.62 Mn. from Rs. 49.75 Mn. in 2011 representing an increase of 3.75%.

The graph below amply demonstrates the Bank's commitment over the past five years towards strengthening the staff development process to support its efforts to delight our valued customers across all business units.

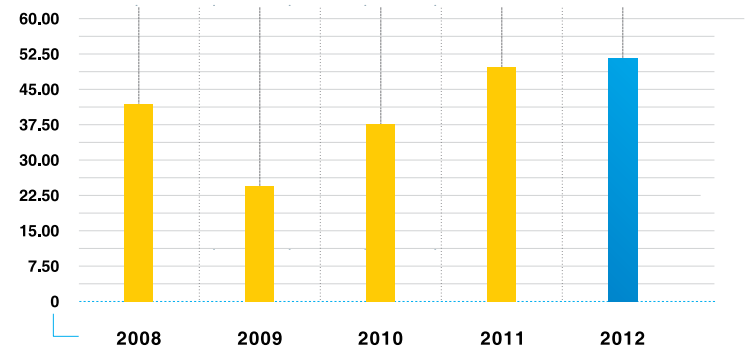
Training Analysis by Programme Type

No. of Hours



Investment on Training 2008-2012

Rs. Mn.



Skills and Competency Development

The year 2012 was significant as the Bank commenced a Centre to conduct training in the Northern Region of Sri Lanka. This centre is expected to contribute more during the ensuing year as it caters to a region which was mostly isolated during the longstanding war. We have also set up a special training calendar for our own employees in the Northern region in an effort to motivate them as they emerge from serving in a conflict zone with all its attendant difficulties. We recognise their duress; some of our employees lost their lives whilst in service to the Bank and to those who remain, the Bank owes rehabilitation and motivational programmes, at the very least. Thus during 2012, our Staff Development Centre conducted 261 internal training Programmes and 172 external local Programmes.

For frontline staff, the medium of initial customer contact, 07 training programmes were facilitated. Frontline staff competency was improved by capability enhancement training.

Management and Leadership capabilities were also enhanced to concurrently meet current and future needs, create new knowledge wealth as well as fashion a well-prepared workforce. 13 value adding, continuous programmes assessing and studying specified required elements were hence orchestrated.

Training targeted key areas such as Northern Region Management Development; Communication Enhancement; Service Excellence and Relationship Integration.

A summary of the programmes conducted targeting skills and competency development is tabulated below:

Programme Name	Objective	No. of Programmes	No. of Participants	Training Hours
Programme on Managing Key Clients and Building Relationships	To enhance skills required for better customer relationship (CRM)	1	14	112
Programme on 'A Holistic Approach to Strategic Decision Making'	To enhance the decision-making skills of the members of Senior Management	1	23	368
Good to Great: Relationship Management Programme	To generate positive results and to achieve high performance levels that will sustain through effective rapport, through building and maintaining trust and through persuasion. This Programme was conducted for Account Managers attached to the Corporate Banking Unit.	2	10	200
Management Development Programme for Managers and Assistant Managers in Northern Region	To provide the professional skills to assist the executives in the Jaffna Peninsula to effectively function in a corporate environment	1	22	704
Programme on Service Excellence	To create a mindset in our front line staff to deliver excellent customer service	6	298	2384
Oral Communication Programme for BTs	To develop Communication skills of the Banking Trainees (Oral and Written English)	1	56	328
Programme on General Management Competencies : jointly with CIMA Sri Lanka	To enhance competencies such as, business modelling which includes pricing, cost structure, activity-based costing, organisational branding, human resources management, strategies etc. involved in carrying out their duties effectively when working as members of the Senior Management	1	24	1344

Details of some of the other important training initiatives during 2012 are summarised below:

- **Programme on Secretarial Excellence**
To assist the secretaries to improve their performance levels
- **IT Risk Awareness Session for Corporate and Senior Management Team**
To influence positive behavioural change in all employees towards IT risk awareness thus leading to the creation of a more secure corporate environment
- **Programme on International Financial Reporting Standards**
An awareness Programme for the members of the Bank's Inspection Team
- **Programme to Promote Products of the Bank**
To enhance the product knowledge among front line staff to better equip them to promote the Bank's products
- **Banking Trainee Integration & Learning Seminar**
An integration exercise bringing Banking Trainees into contact with the Corporate Management of the Bank, where the Management shared their experience with the Trainees regarding the required values and qualities necessary for them to effectively function as front line staff
- **Internship Programme**
The Bank launched its first structured internship programme during the year, designed to equip outsiders entering the job market. Ten selected interns commenced a 9-month training stint in branch operations with the objective of providing them focused training and work experience.

Career Development Review

All employees of the Bank irrespective of their gender receive formal performance and career development reviews. This process helps the Bank in identifying and enhancing the salient skills of employees and developing them on an ongoing basis.

Equal Remuneration for Women and Men

The ratio of basic salary of women to men by employee category is tabulated below:

Category	Ratio for Basic Salary Women to Men	
	2012	2011
Corporate Management	1:0.82	1:0.75
Executive Officers	1:0.96	1:1.02
Junior Executive Assistants and Allied	1:0.90	1:1.12
Banking Trainees	1:1.08	1:1.04
Office Assistants and Others	1:1.16	1:0.88

Other Related HR Accomplishments During 2012

This year too, the Bank undertook several important non-training-related initiatives, some ongoing, including the following in Sri Lanka:

- A market survey to ascertain the Bank's relative position in terms of compensation and benefits to staff; findings to be used in relation to collective agreements and revision of executive compensation packages.
- Support for branch expansion drive through recruitment, training and staff allocation.
- Efforts towards better utilisation of staff at branches, with staff allocations based on branch location and business volume.
- Efforts to improve trainee intake quality through further strengthening our brand-image as the 'Bank of choice', carrying out recruitment drives at selected schools, and revising our training processes.
- Building closer relationships with employee organisations.
- Entering into Collective Agreements and a MOU with the employee unions covering non-executive staff and junior executive staff for the period of 2012 to 2014.
- Personal 'Banking Awards' was organised for the first time to reward the staff on the hard work and dedication based on the achievements of the respective branches.
- Rewarding selected staff with seniority and attendance awards.
- Organising a variety of social events for staff in order to maintain work-life balance, including the very popular Quiz Competition, Children's Party, Poson Bakthi Gee, Christmas Carols, Sports Carnivals (which included games such as, Cricket, Rugby, Football, Netball), Regional Gatherings and Branch/Dept. annual get-togethers/excursions.
- Honorarium for completing Banking exams as well as other professional course to encourage enhancement of knowledge
- The main library at the Head Office was expanded while invaluable book exhibitions were held.

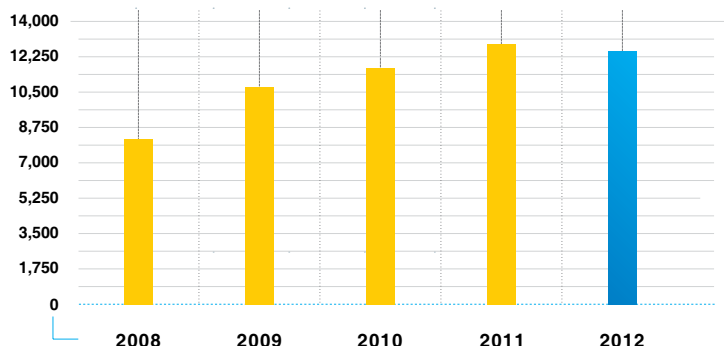
- Branch libraries were developed.
- Publication of the Bank's HR Manual in compliance with Central Bank Guidelines.
- Implementing a number of employee suggestions relating to sales and service enhancement as part of an interactive feedback process.
- Ongoing publication of the Bank's internal newsletter, Com Pulse.
- Improving on the use of the 'log book' for banking trainees and work-based training guide.
- Career guidance programmes/job fairs conducted.
- Automation of systems to collate and prioritise training needs as well as in organising training activities.

In addition to the above, the Bank's Bangladesh Operation too took several initiatives of their own during the year:

- During 2012, the Human Resource Department participated in a Job Fair organised by various public and private universities which allowed the Bank access to graduates interested in joining the Bank. Participation at the Job Fair also allowed the Bank to conduct advertising, branding and image building thus promoting the Bank and its products among the visitors and other participating organisations.
- The Human Resources Department paid due recognition to the value and importance of Banking Studies by introducing an Award Programme for the Employees. Under this programme, employees who have passed the Diploma in Banking Examination were awarded Cash Prizes with Letters of Appreciation for their achievement and for qualifying at the examination arranged by the Institute of Bankers' Bangladesh (IBB).
- A Library and Reference Centre has been set up in 2012 at the Bank's Head Office to assist employees with banking studies as well as the acquisition of knowledge on the Laws and Rules of Banking Operations.
- During the year, Human Resources Department officials including the Head of Human Resources attended various Seminars and Courtesy Meetings with Trade and Human Resources delegates at Bangladesh Employers' Federation and The Metropolitan Chamber of Commerce and Industry (MCCI). The meetings, seminars and symposiums are mostly attended by the leaders of the trade bodies, ministers, and representatives from diplomatic missions and ILO.
- The Commercial Bank of Ceylon Bangladesh also completed the revision, modification and update of its Comprehensive Human Resources Manual during the Year 2012.

Value of Human Capital per Employee

Rs. Mn.



Human Resources Accounting

The Value of Our Human Capital is estimated to be Rs. 57.722 Bn*

The Lev and Schwartz model has been used to compute the value of the Bank's human capital as at December 31, 2012

The Human Resource Valuation is based on the following assumptions

All the existing employees will continue in employment up to retirement.

Employee remuneration includes all direct and indirect benefits earned by them.

Annual increment is granted at 5% to 8% on average.

Total future remuneration of all the employees for each year is discounted to the present value at 9.35% the 12 months weighted average Treasury Bill rate plus 2% for the risk.

spells out the annual increment such employee will receive based on the grading he/she has obtained on the annual performance appraisal. Also, clear reference is made to other pecuniary benefits, such as out of pocket allowance, travelling allowance, disturbance allowance among others that would accrue to the employee apart from his/her monthly wage.

With regard to the employees not covered under the Collective Agreements, wages and perquisites are decided mainly taking into consideration the market rates applicable for similar categories/jobs.

The Bank has the economic well-being of its employees at heart and recognises that some aspects of employment could be difficult to negotiate. Due cognizance has been taken of the facilities that are available in particular locations at the time of opening branches. Depending on the recommendations of the Regional Offices and the requests of the staff, the Bank has provided various benefits to those stationed in such difficult locations. These include provision of benefits both monetary and otherwise such as provision of staff quarters free of charge, transport arrangements, difficult station allowance and rent allowance. The medical scheme of the Bank, staff loan schemes and the professional association subscription/honorarium payments paid to employees provide further examples that demonstrates the Bank's commitment towards its employees' welfare as a responsible employer.

Compensation and Benefit Strategy of the Bank

Since there is no regulation in place under the Shop and Office Employees Act indicating the minimum wage applicable to employees covered under such Act, through collective bargaining and continuous dialogue between and among employee organisations, corporate peers and labour authorities, the Bank keeps abreast with the current trends and policies pertaining to wage practices in the banking industry and the mercantile sector as a whole. The wage policy of the Bank is based mainly on the Collective Agreements that are in operation covering specified employee categories and market surveys carried out from time to time which indicates the highest and lowest range of wage structures prevailing in the industry.

The 2012 Collective Agreement entered into by the Bank and the Ceylon Bank Employees' Union stipulates the minimum wages for Junior Executive Assistants and allied grades. Both Collective Agreements covering Junior Executive Assistants and the Non-Executive Grades specify the annual increment entitlement of an employee. With regard to the Junior Executive Assistant Grade, the Collective Agreement further

Recruitment Procedure

All recruits to corporate management and senior management grades are drawn from citizens of the respective country - Sri Lanka and Bangladesh - except for those positions in Bangladesh for which recruitment from Sri Lanka is allowed.

The general procedure followed by the Bank when recruiting staff is discussed below:

There are two entry levels to the Bank; as Banking Trainees or as Management Trainees. Mid career recruitment will take place only in relation to specialised job positions. The recruitments take place mainly at the Head Office situated in Colombo and Dhaka in Bangladesh. Applicants from all parts of their respective countries are called to these locations as and when applicable, for examinations and/or interviews.

With regard to mid career recruitments, the basis for recruitment is the competencies held by the respective individual and the experience he / she carries in the required field of work. Hence, such recruitment is carried out independent of any geographical concerns.

Training Employees on Human Rights

During the year 2012, 72 participants from the Human Resource Department received a total of 684 man hours of training on policies and procedures concerning various aspects of human rights that are relevant to the Bank's operations. This was restricted to staff of the HR Department for purposes of practicality. These officers at the HR Department are available to assist other staff members when they need help on issues connected with human rights.

Name of the Programme	No. of Programmes	No. of Participants	No. of Hours
Sri Lanka			
Power to People - Learning Conference (HRM AWARDS 2012)	1	16	128
International HR Conference 2012 - People Drive	1	10	128
EFC Cir. No. 59 of 2012 - Employers' Symposium on 'Harnessing Innovation for Organisational Sustainability'	1	2	24
EFC Cir. No. 60 of 2012 - Great Place to Work - Building Trust and Inspiring Performance	1	1	8
HRP Achievers Forum	1	7	28
Employee Motivation and Reward Management	1	1	16
Certificate Programme in Labour Law and Industrial Relations 2012	1	1	96
EFC HR/IR FORUM	1	1	4
EPF and ETF Acts & Employee Benefits	1	3	12
Total	9	42	444
Bangladesh			
Promoting Gender Equality and Preventing Violence against Women at Workplace	1	28	224
TOT Workshop HIV/AIDS at Enterprises Level	1	2	16
Total	2	30	240
Grand Total	11	72	684

Non-Discrimination

The Bank's strict adherence to Human Rights Best Practice as enshrined by the United Nations and the ILO and our own strong ethical grounding, have ensured that to date no incidents of discrimination have been recorded.

Freedom of Association and Collective Bargaining

The Bank continuously maintains very cordial dialogue with its two employee associations. In doing so, the Bank also acknowledges that the 'right to organise' and the 'right to form and join a trade union' are fundamental rights granted to all employees of the Bank. The Bank believes that being a financial services provider, it does not have critical operations in which the right to exercise freedom of association or collective bargaining may be violated or be placed at significant risk.

Child Labour and Forced and Compulsory Labour

All employees of the Bank are engaged at their own free will. The minimum age for employment is 18 years.

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



Customers

Over 2 Mn. customers

Online banking customer base grew
by **31%** in 2012

244 conventional branches
and **572** ATMs

Deposits as at 31 December, 2012 -
Rs. 391 Bn.

Security Practices

The Bank's policies and procedures concerning aspects of Human Rights are communicated in writing to all security service providers. They are in turn advised to communicate them to all personnel who are assigned by their firms/companies to carry out duties at the Bank. The Bank's Senior Manager - Securities conducts periodic verifications on the awareness amongst security personnel of the said policies and procedures in connection with Human Rights.

Security Personnel Trained on the Bank's Procedures Concerning Aspects of the Human Rights

During the year under review, the Bank provided 7,632 man hours of training for Security Officers in Sri Lanka on security aspects, including Information Technology security.

Although there were no special training programmes conducted for security staff in Bangladesh, all security officers have been educated on the Bank's procedures connected to aspects of human rights.

Name of the Program	2012		
	No. of Programmes	No. of Participants	Man Hours
Special Training Programme for Newly Recruited Security Officers	2	318	2,544
Special Training Programme for Contracted Security Officers	3	467	3,736
Special Training Programme for Senior Security Officers	1	169	1,352
Total	6	954	7,632

The Bank is acutely aware of its position in society. We know that an isolationistic mindset has no place in the world today. Thus we wish to present key indicators that will enlighten the reader with regard to the Bank's stance vis-à-vis its place and role in society and the benefits of Commercial Bank being an integral, vibrant and contributory member of that society.

Monetary Value of Products Designed to Deliver Specific Social and Environmental Benefits

The Bank has access to various lines of credit extended by the Government and donor agencies that target loans to certain designated sectors and beneficiary groups with specific social and environmental merits under an array of refinance arrangements. Details of these refinance schemes are summarised below:

Name of the Scheme	Name of the Donor	Loan Tenure and Eligibility Criteria	Eligible Sectors	No. of Loans Granted as at 31.12.2012	Value as at 31.12.2012 (Rs. Mn.)	No. of Loans Granted as at 31.12.2011	Value as at 31.12.2011 (Rs. Mn.)
Agriculture and Microfinance Credit Lines							
New Comprehensive Rural Credit Scheme	Central Bank of Sri Lanka	270 days	Cultivation of agricultural crops	3,501	400.95	4,737	654.38
Kapruka Ayojana	Coconut Cultivation Board	05 Years	Coconut cultivation development	32	18.88	33	15.2
Tea Development Project Credit Scheme Revolving Fund	Central Bank of Sri Lanka	Maximum of 13 Years	Individuals, groups of individuals, registered companies or Tea Smallholder Development Societies (TSHDs) registered with the Chairman of the Tea Smallholder Development Authority (TSHDA)	22	35.28	–	–
Agro Livestock Development Loan Scheme	Central Bank of Sri Lanka and Development Finance Department of Ministry of Finance and Planning	Maximum of 5 years	Small scale farmers and dairy farmers	256	55.71	1,129	169.35
Small Holder Plantation Entrepreneurship Development Programme	Central Bank of Sri Lanka	Maximum of 05 Years	Agri and allied activities including tea and rubber-based industries	126	22.90	–	–

Name of the Scheme	Name of the Donor	Loan Tenure and Eligibility Criteria	Eligible Sectors	No. of Loans Granted as at 31.12.2012	Value as at 31.12.2012 (Rs. Mn.)	No. of Loans Granted as at 31.12.2011	Value as at 31.12.2011 (Rs. Mn.)
Industrial Credit Lines							
Saubagya (Prosperity) Loan Scheme	Central Bank of Sri Lanka	Maximum loan amount Rs. 10 Mn. (Rs. 20 Mn. for projects in North and East). Maximum repayment period 5 years, inclusive of a maximum grace period of 6 months.	Micro, small and medium enterprises excluding cultivation, fisheries, trading, businesses, livestock and commercial building	770	806.45	678	514.90
Saubagya Micro Loans	Central Bank of Sri Lanka	Maximum of 5 years	Microfinance and non-agricultural sectors	62	10.00	–	–

Monetary Value of Products Designed to Deliver Specific Environmental Benefits

Promoting Installation of Environmental Friendly Wood Working Machinery

The Development Credit Department (DCD) of the Bank, in collaboration with machinery suppliers conducted two awareness programmes for saw millers in Moratuwa and Eheliyagoda areas to educate them on better technology options viz - the band saw as opposed to the conventional circular blade saw. Around 50 saw millers attended these programmes.

We proved that by installing modern band saws, the miller's total electricity consumption could be reduced by approximately 60% and timber wastage could be reduced by 30%, which also increased timber out-put by 30%. Such economies contributed towards reduction of deforestation and the minimising of environmental pollution caused by disposal of saw dust.

The Bank granted 10 loans totalling Rs. 23.2 Mn. to implement environment friendly, technically sound and energy efficient sawing methods in saw mills during year 2012.

Raising Awareness on Environmental Friendly Automobile Painting

An awareness programme was conducted for 40 automobile spray painting industrialists in Negombo educating them on ways to operate their businesses in an environmentally friendly manner by installing eco-friendly spray booths. It was demonstrated that these spray booths helped control the emission of spray paint to the atmosphere whilst significantly improving working conditions.

Initiatives to Improve Access to Financial Services for Disadvantaged People

In the historical and conventional sense, the micro agriculturist sector was not a bankable proposition. Banks had to find a way of assisting this segment get on their feet and contribute to the country's development.

The Bank made that happen, providing financial facilities for this underserved sector.

Dedicated units have been established to cater to agriculturists and micro entrepreneurs in identified potential locations. Nine units are in operation in the country.

Details of the loans facilities granted to this sector is given below:

2012			2011			2010		
No. of Groups	No. of Loans	Amount Disbursed (Rs. Mn.)	No of Groups	No of Loans	Amount Disbursed (Rs. Mn.)	No. of Groups	No. of Loans	Amount Disbursed (Rs. Mn.)
34	364	48.330	57	1,007	125.110	31	581	54.760

Extending credit to recommence economic activities in the North and the East

With the development in economic activities in the North and the East, the population who had only restricted access to formal borrowing were assisted by the Bank to recommence their business activities through the provision of funds at concessionary terms and conditions.

Year	No. of Loans Granted	Amount Granted (Rs.Mn.)
2010	257	8.049
2011	3,599	853.033
2012	2,597	431.812

In addition, the Bank extended finances to re-settlers in Kilinochchi and Mullaitivu districts to obtain solar powered lighting for their houses.

Initiatives to Enhance Financial Literacy by Type of Beneficiary

The Bank's Development Credit Department conducted several programmes aimed at enhancing financial literacy which is so important in equipping individuals and organisations to be able to effectively and efficiently manage and utilise their financial resources.

Description of the Programme	Number of programmes conducted	Target group/s	Number of participants
Programme on financial literacy and entrepreneurship development	5	Households, micro finance/self employed groups/ cultivators and SMEs including women, youth groups, lower and middle income earners	580

Overview of CSR Activities

This year too, the Bank's CSR activities concentrated on projects under three ongoing initiatives: IT and English Education, Undergraduate Scholarships and Healthcare. In all, a total of 67 projects were completed, of which 60 were undertaken in these three areas. In addition, in 2012, the Bank engaged in 7 other programmes promoting Culture & Heritage, Innovation/Invention and a few other aspects.

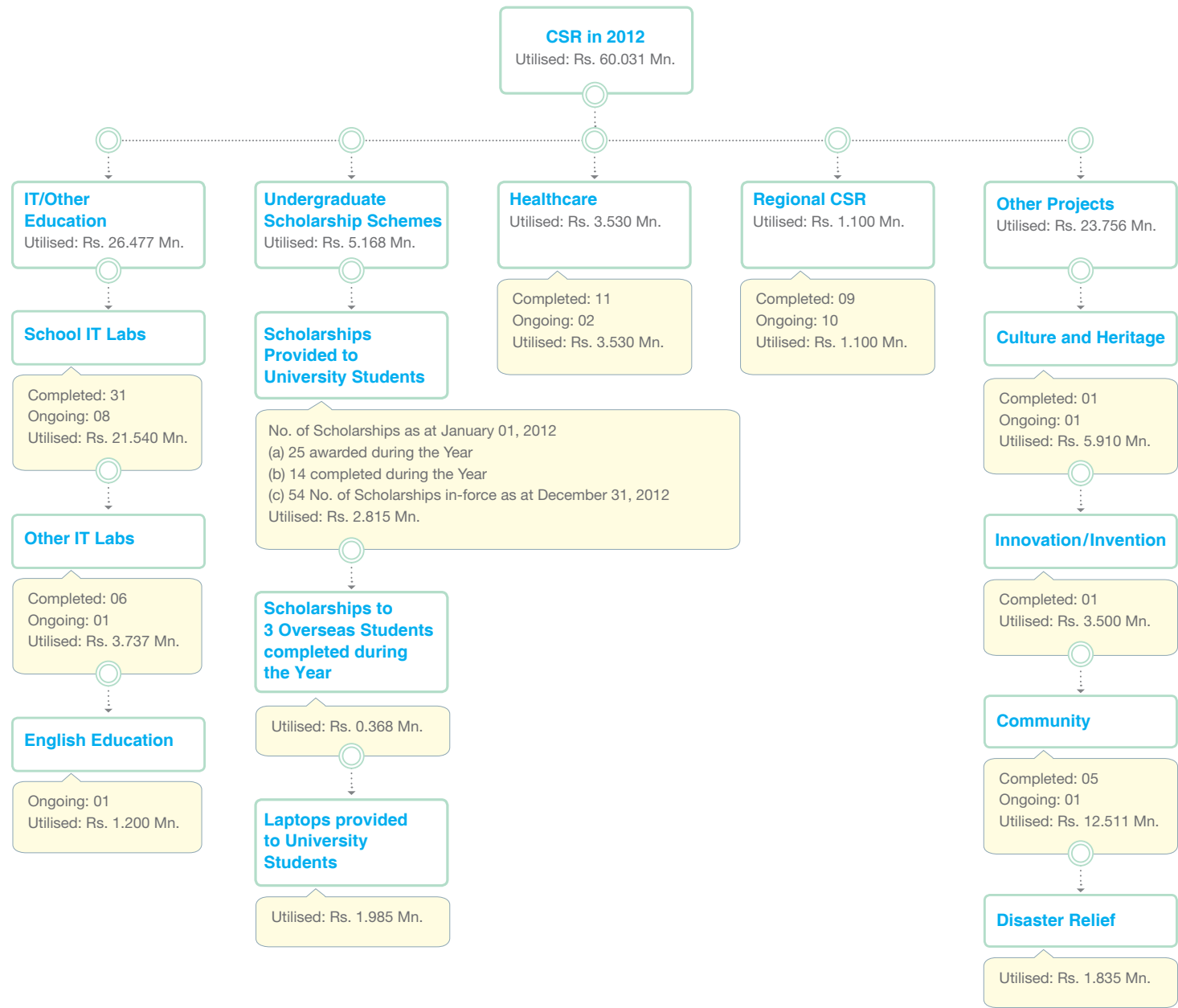
Branch Involvement

The identification of projects was accomplished with the assistance of our Branch Managers. These were subsequently referred to the Board of Trustees for their evaluation and ratification. Summarised below is the involvement by percentage of the Branch operations in the community development programmes concluded in 2012.

Magnitude of CSR Projects Completed

The average cost of a CSR project completed amounted to Rs. 900,000/-.

The narration below gives a snapshot of CSR activities completed and under implementation in 2012.



Education

The Bank embarked on several CSR initiatives that support the development road map of the country instead of restricting such activities to its core business domain. In this connection "Education" was identified objective key enabler. The Bank's goal was to support school children and young adults of Sri Lanka regardless of their gender, race, religion or social background. Further, through this initiative the Bank expects to bridge the digital divide and to empower the upcoming generations to achieve their aspirations of a better future. Under this initiative the Bank provided numerous facilities such as fully fledged IT Labs to school children, scholarships to university undergraduates, English education to rural school children and computer facilities to children with visual impairment and like facilities to other special segments in society. Our IT education initiative and educational scholarship scheme will enable Sri Lankan children and youth and the country as a whole to face the future armed with a world class education.



Deputy Chairman - Mr. K.G.D.D. Dheerasinghe (seated) with Mr. Ravi Dias, Managing Director/CEO at the opening of the 60th computer lab donated by the Bank to Tellijawila Central College

During the year, 31 Government schools were provided IT Labs whilst 6 other IT Projects were also commissioned. These Government schools are spread across 19 districts of the country even reaching rural areas.

Other projects were conducted for Holy Cross School of Health Science, the Welikada Prison, the John Paul II Centre, the Mahiyangana Raja Maha Viharaya and the Annai Illam Children's Home.



Chairman Mr. Dinesh Weerakkody and Managing Director/CEO Mr. Ravi Dias at the opening of the Computer Lab of Killinochchi Central College, donated by the Bank

IT Education

The main thrust within "Education" is supporting IT education for technical advancement and innovation, to equip children and to impart confidence amongst youth for a better future.



The inaugural programme of the Commercial Bank's English education project in progress at Kiriella Madhya Maha Vidyalaya, Ratnapura

The total number of beneficiaries amounted to 25,739 students. Many other people were also beneficiaries of other IT Lab projects which are not quantified due to practical difficulties.



Ms. Priyanthi Perera, Coordinator of the Bank's CSR Trust at the opening of the computer lab at Gnanodaya Maha Vidyalaya, Kalutara, donated by the Bank

Undergraduate Scholarships

Scholarships were provided under the 'Sarasaviyata Nawa Saviyak' community initiative to support worthy undergraduates. The Bank awards 25 scholarships annually based on the recommendation of the University Grants Commission. The chosen undergraduates each receive Rs. 25,000/- per year for the duration of their degree studies. Expanding its commitment this year, the Bank also presented laptop computers to the 25 undergraduate awardees, at a total value of Rs. 1.985 Mn. 54 undergraduates received the grant during 2012. By the end of the year, 14 scholarship holders graduated from their respective universities. 40 students will continue to receive the grant in 2013.



Hon. Minister S. B. Dissanayake presents a scholarship and a laptop to an undergraduate under Bank's "Sarasaviyata Nawasaviyak" Undergraduate Scholarship Programme, in the presence of Chairman of the Bank Mr. Dinesh Weerakkody and Chairman of the Bank's CSR Trust Mr. Lakshman Hullugalle

Healthcare

Safeguarding our future requires that we continue to invest in community care programmes to enhance medical facilities at Government Hospitals. A sum of Rs. 3.53 Mn. was invested in 11 healthcare projects in 2012, of which 5 projects were with a special focus on maternity and paediatric healthcare. Trincomalee, Vavuniya, Galewela, Polonnaruwa, Elpitiya, Dambadeniya, Thirunelvally are some of the key medical facilities that benefited under the healthcare initiatives.



Chief Financial Officer, Commercial Bank and Trustee of the CSR Trust, Mr. Nandika Buddhipala donating essential medical equipment to Lady Ridgeway Hospital together with officers of the Bank's CSR Trust

Culture & Heritage

A success story will never be complete if it ignored the past. Sri Lanka has such a rich and diverse heritage. We basked in its glory and were groomed by it. It is only fair that we do our best to ensure that the future generations benefit from it. We completed the construction of a museum at the precincts of the Kataragama Kirivehera to house many valuables and artifacts that have been discovered in archaeological excavations over the years. The museum will also house a book store.



His Excellency President Mahinda Rajapaksa declares open the new museum building, donated to Kataragama Kirivehera by the Bank, in the presence of First Lady Madam Shiranthi Rajapaksa, Chief Minister of Uva Province Hon. Shashindra Rajapaksa, the Chairman of the Bank's CSR Trust Mr. Lakshman Hulugalle and the Bank's Managing Director/CEO Mr. Ravi Dias

Taking Care of Our War Heroes

In 2012, we pledged monetary assistance for one year, towards the upkeep of Attidiya Mihindu Seth Medura, a residential facility that provides professional healthcare services to disabled war heroes.

The Bank also participated in welfare programmes of Ragama Ranaviru Sevana and donated an IT Lab for Joint Services Language Training Institute, Kotmale.



The computer based language laboratory donated by the Bank to the Joint Service Language Training Institute (JSLTI) of the Ministry of Defence

Supporting Sri Lankan Invention

Commercial Bank powered the inaugural 'The Ray' award for invention, presented by the Ray Wijewardene Charitable Trust in collaboration with Sri Lanka Inventors Commission. 'The Ray' is presented in order to encourage ongoing innovation and enterprise in areas of public interest. As Principal Sponsor of this award, the Commercial Bank committed its support, including a grant of Rs. 1.0 Mn. to enable the award-winning Sri Lankan inventor Mr. Indresri Karunatilaka to commercialise his invention of the 'waveless' boat that can traverse inland waters without disturbing riverbeds.



Managing Director/CEO Mr. Ravi Dias awarding the Rs. 1 Million grant in the presence of Hon. Senior Minister Prof. Tissa Vitharana to the winner of inaugural "The Ray" award for invention, powered by Commercial Bank

Regional CSR

A decision was taken by the Trustees of the Commercial Bank Social Responsibility Trust to expand CSR Initiatives to a Regional perspective with a view to providing wider scope for understanding and assisting communities in proximity to our branches.

19 projects were carried out during the year with the highest of voluntary employee engagement. The Bank also came forward to assist the public in areas affected by floods in 2012.



A Bank official handing over relief items to government official to help flood victims in Nikaweratiya

Corruption

Business Units Analysed for Risk Related Corruption

Corruption and internal frauds are considered in all types of Operational Risk Assessments carried out by the Integrated Risk Management Department (IRMD) and other units of the Bank. Risk assessments covering all areas of banking operations are carried out on a half-yearly basis where initial assessments are carried out by the Risk Owners while the IRMD reviews and updates such risk assessments. Controls relating to the risks identified are tested by the Inspection Department.

All incidents relating to corruptions and internal frauds captured through Key Operational Risk Indicators and Operational Loss Events are analysed by IRMD on a monthly basis. These include evaluation of existing controls and action taken to avoid repetition of similar types of incidents. Any new mitigatory measures that can be used to mitigate such risks, proposed during these analyses are applied to all operating units of the Bank.

Training on Anti-Corruption Policies and Procedures

The Bank's Anti-Money Laundering Department continued to educate staff on the requirements of the Prevention of Money Laundering Act. There were no training programmes conducted in Sri Lanka in 2012. However, three such programmes were conducted in Bangladesh during 2012, which trained 32 participants from various business units.

Programme/Session Title	2012			2011		
	No. of Programmes	No. of Participants	Person Hours	No. of Programmes	No. of Participants	Person Hours
Sri Lanka						
Junior Executive Assistant orientation - Know your customer	-	-	-	5	272	544
Banking Trainee 18-month refresher training - anti-money laundering	-	-	-	3	124	217
Total	-	-	-	8	396	761
Bangladesh						
Prevention of money laundering and terrorist financing	1	1	16	-	-	-
Anti-money laundering/combat against financial terrorism	1	1	8	-	-	-
Anti-money laundering	1	30	90	-	-	-
Total	3	32	114	-	-	-

Actions Taken in Response to Incidents of Corruption

During the year 2012, there were no incidents of corruption which were detected and brought to the notice of the Executive Integrated Risk Management Committee of the Bank via its monthly meetings by the Integrated Risk Management Department. It is the Bank's practice to table the details of such frauds at the quarterly meetings of the Board Integrated Risk Management Committee, in the event that the financial loss caused due to a fraud exceeds that of a pre-determined threshold.

Following any such event, lapses in the internal control system which led to such incidents are identified and steps are taken to avoid a recurrence. In addition, further follow-up action is taken by way of an issue of circulars to all staff to educate them and to improve the effectiveness of existing internal control mechanisms. In addition, disciplinary actions are initiated against the staff involved in such incidents.

Public Policy

Public Policy Positions and Participation

The Bank actively participates at discussions on the development of public policy. The Bank is customarily invited by the Government of Sri Lanka to submit proposals for consideration when the annual national Budget is being formulated. Further, the Bank is engaged in formulating labour policy via various forums established by the Department of Labour.

In Bangladesh, we participate in providing suggestions through trade chambers operating in the market, while the national budget is formulated. Further, the Bank participates in various surveys conducted by the Bangladesh Bank (Central Bank of Bangladesh) in the process of policy formulation with regard to banking sector.

Contribution to Political Parties and Politicians

The Bank did not fund or make contributions in kind to political parties, politicians and/or related institutions during the year under review.

A Greener Bank

The Bank is well aware of its obligations towards the environment and has taken several steps in its road map to become a 'Greener Bank'. The following are some of these initiatives:

Waste Management

- The introduction of a new online Loan Origination System greatly reduced the usage of paper.
- The Bank has a programme to return used IT equipment to suppliers/vendors who follow environmental-friendly guidelines in disposing them as per international standards followed by their principals. During the year, the Bank received a certificate from a supplier confirming that they have disposed used IT equipment returned by the Bank weighing approximately 13,200 kg according to the rules and regulations of the Environmental Authority of Hong Kong/China and Basel Convention.

- The Bank operates a waste-sorting system prior to disposal. All staff members attached to Head Office and Branches have been educated and advised to segregate waste in to separate colour-coded bins for paper, plastic and bio-degradable materials.
- The paper-management system ensures that waste paper is recycled and reused wherever possible.
- The Bank continues to enhance awareness among staff to promote the 'Paperless Office Concept', discouraging the unnecessary printing of documents, e-mails, etc.
- The provision of 'iPads' to all members of corporate management has significantly reduced use of printed documents.
- The Bank has provided an array of products to customers known as 'green eco-friendly banking' with a view to reducing paper usage. These products and services encompass: Online banking, e-statements, Mobile banking, e-Exchange, Paymaster, Oracle e-business Suite and the Bank's intranet.
- The Bank's Annual Report is provided as a hard copy only to those shareholders who specifically request for it in that format. This initiative has reduced the number of hard copies printed by over 75%. This initiative has saved costs in terms of printing, mailing, supervision, overtime, etc. whilst the resultant reduction in paper usage helps to minimise ill effects to the environment.
- The decision of the Bank to levy a nominal fee on those customers who request for a print out on balance inquiries through ATMs has reduced the number of such print outs during 2012.

Energy Management

- The Bank commenced measuring the total energy consumed by primary sources in 2012 and it was observed that a total of 16.235 Mn. kwh were consumed during the year. The Bank is hoping to take action to reduce energy consumption via several measures.
- The Bank continued to encourage its customers to adopt energy-efficient practices in their businesses by providing loans for such purposes. The Bank also carries out training programmes on this subject through its e-Friends refinance scheme.
- The Bank's own buildings use environment friendly technologies wherever possible. Among these are variable air volume units to control temperature, ventilation systems with energy-saving features, etc. Air conditioning use at the Head Office and branches is limited to normal working hours. These measures are expected to reduce the electricity consumption by over 10% on average.

Green IT Initiatives

- The Bank purchased 51 ATMs (50 ATMs in 2011) conforming to RoHS (Restrictions on Hazardous Substances) standards during the year, reiterating our commitment to investing in Green IT.
- The Bank continued its policy of replacing old, less energy efficient equipment with new energy efficient equipment. During the year 2012, the Bank purchased 680 Personal Computers, 259 Validators and 155 Laser Printers, the breakdown of which is as follow:

	Personal Computers	Validators	Laser Printers
New branches	105	74	42
Expansions	75	85	70
Replacements	529	100	40
Total	680	259	155

Note: Out of 40 laser printer replacements, 30 are of the dot matrix variety.

- The Disaster Recovery Data Centre was moved to an ISO27001 certified co-location facility. In addition to the improved facilities management offered by the new location that includes a Faraday Cage, sharing of power and cooling infrastructure with other co-located tenants contributes towards cost efficiencies and increased environmental consciousness reducing the overall carbon footprint.
- Disaster recovery was enhanced with the installation of a new IBM Series i and migration to MIMIX data mirroring. A cutover from Primary to Backup systems in the event of an emergency is now possible within 30 minutes. This resulted in a total power saving of 2.25KVAs and accounted for reduction of 30% in the usage of power.
- Customers were actively encouraged to move away from hard copy statements to e-Statements.
- An ipad based system was introduced for the agenda and minutes of all Corporate Management meetings, greatly reducing the use of paper.

Water Management

The Bank commenced measuring the total water consumed by primary sources in 2012 and it was observed that the totals of 3.523 Mn. litres were consumed during the year. The Bank is hoping to take action to reduce water consumption via several measures. As part of its water management efforts, the Bank attempts to minimise waste and recycle waste water at its Head Office. The Head Office relies mainly on groundwater resources in order to reduce its dependence on the national water supply system.

Environmental Protection

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

Further, the Banks duly obtains relevant approvals from regulatory authorities such as the Central Environmental Authority before commencing construction of any facility. We do not locate our branch buildings and premises close to or adjacent to legally protected areas. By doing so we ensure that we do not create any impact on biodiversity and hence do not require to take any action to avoid mismanagement or pose a threat to endangered plant and animal species.

Please refer to the Section on 'Impact on Performance Due to Climate Change' on page 52 for the Bank's strategies, current position and future plans towards minimising impacts on biodiversity.

Products and Services

The Bank's 'green loans' provide concessionary funding for entrepreneurs who adopt environment friendly technologies, and ensures that clients obtain necessary environmental clearances as and when required. Qualification for lending includes the conduct of an environmental impact assessment of the project. Staff members are instructed to check on clients' compliance with these requirements during the annual credit review. During 2012, the Bank continued to support such projects in Sri Lanka.

In 2012, our Bangladesh Operation formulated and adopted a 'Green Banking Policy' in line with Bangladesh Bank's (Central Bank of Bangladesh) guideline across all operational areas side by side practicing green banking through in-house performance. This process was carried out in two phases. Under phase one of Green Banking, we have adopted a Environment Risk Management (ERM) policy. The following actions are to be taken under Phase-I and Phase-II:

Phase One

- Policy Formulation and Governance
- Incorporation of Environment Risk in Customer Relationship Management (CRM)
- Initiating In-house Environment Management
- Introducing Green Finance
- On-line Banking
- Disclosure and Reporting of Green Banking Activities through Intranet

Phase Two

- Formulation of Sector Specific Environment Policies
- Green Strategic Planning
- Setting up Green Branches
- The Initiatives taken so far by our Bangladesh Operation are listed below:

Description of the initiatives	Results and remarks
Real Vision Image (RVI)	Introduced RVI to reduce paper consumption
Energy Saving Bulbs	Replaced tube lights with energy saving bulbs to reduce electricity consumption by 75%. All new branches opened/to be opened will only have energy saving bulbs.
Environment Friendly Air Conditioners	Fixing energy saving (inverter type) air-conditioners at our existing outlets/locations
Solar Panel	Installed a 5.4 kw Solar Power Energy system in February 2013 at our new Tejgaon branch, which is expected to reduce total electrical consumption of the branch by 20%.

Although, we are unable to quantify the impact of the above initiatives at the moment, we have made arrangements to gather and quantify the impact of the above initiatives in our future reports.

Future Outlook

- The Bank intends to subsume new products under the 'green eco-friendly banking' scheme. We plan to introduce electronic statements for current and credit card accounts. Moves are also afoot to increase the online conduct of transactions among staff members.
- We are continuing with our server virtualisation and other green IT initiatives in order to accrue the desired benefits.
- In our procurement process, we will require Energy rating data to be included as a selection criterion in respect of IT equipment.
- The Bank is looking at the possibility of reporting the performance-related indicators on energy, water, carbon and waste in future reports.

Product and Service Information and Labelling

Given the nature of business we conduct, it is incumbent on us that we as a Bank, behave, operate and live according to the highest morals. Had we not been a bank, nothing would have changed...for our ethos has been rooted since inception, in solid moral and ethical terrain.

This segment is all about acting responsibly and with the highest of ethics.

Designing of Banks' Products and Services

The Bank is scrupulous in ensuring that product design, advertisement and promotion with all its attendant material does not infringe or plagiarize, either knowingly or unknowingly, the intellectual property of another entity. All material we produce is registered with relevant authorities who safeguard National Intellectual Property rights. We thus affirm that such work is unique to the Bank and their rights are owned by the Bank.

We ensure that the products and services of the Bank are not detrimental to the safety and health of our customers.

The Bank has not transgressed in this respect neither has it experienced any incidents of non-compliance with regard to regulations or voluntary codes pertaining to the health and safety impact of any of our products or services during the year under review.

Further, there were no fines imposed or paid by the Bank for non-compliance with laws and regulations concerning the provision and use of products and services during 2012.

Also the Bank ensures, it provides all necessary information to customers about the products and services offered by the bank by way of,

- Application forms and detailed terms and conditions provided for products
- Brochures, pamphlets and other documents which provide details of the products.
- Web site content detailing the products and services offered by the bank
- Operation of a 365 day call center for customers to obtain information.

The Bank's staff are fully apprised of products and services through product manuals and operations manuals. Staff can also contact the Operations Department of the Bank to receive additional instructions should they require it, to offer information and service to customers.

There were no incidents of non-compliance with regulations or voluntary codes pertaining to product/service information and/or labelling during the year.

Customer Satisfaction Surveys

Customer Satisfaction is a vital barometer of the Bank's performance. The results of customer satisfaction audits by independent research authorities are carried out on an annual basis in addition to bi-annual corporate brand health measurements.

The objectives of the Bank's customer satisfaction survey are - to assess the needs, requirements and expectations of customers; to assess current satisfaction levels amongst the Bank's customers against key expectations; to determine the relative impact of each of these expectations on the overall loyalty of the customer; to provide strategic direction for improvement in critical areas and to identify opportunities to be leveraged and to provide a baseline for future progress monitoring.

The measurement was carried out through a questionnaire with a sample size of over 1,100 respondents across all regions. Randomly selected Savings and Loan customers of the Bank and five other competitor banks were contacted through a quantitative questionnaire.

The conceptual framework in determining customer satisfaction was done through four key spheres, namely transactions and experience, perception and attitudes, loyalty and the ultimate linkage of these aspects to business success. This framework provides a reliable basis for understanding the determinants of customer satisfaction and identifying key priorities towards achieving higher levels of customer commitment and loyalty.

The findings are thereafter categorized into critical improvement areas, secondary improvement areas and strengths to be leveraged to impart enhancement or improvement into different process areas such as savings account opening, branch ambience, other channels (such as ATM operations, Online Banking), impact of communications among others.

Customer Satisfaction Research is conducted once a year.

However, in Bangladesh as the current customer base of the Bank is comparatively small, it enables the Bank to have a better customer interaction at the branch level and receive immediate feedback. Further, the interactions with customers at other formal and informal forums provide the opportunity to the Bank to understand the level of customer satisfaction.

Marketing and Communications

Adherence to laws, standards, and voluntary codes related to marketing communication

Commercial Bank advocates marketing communication in two forms; namely, External Communication and Internal Communication.

External communication supports the Bank in pursuing the overall goals as described in its Vision and Mission and Corporate Plan. Customer relations (branding, product and service lead marketing) and investor relations (corporate name recognition, Commercial Bank as top-rated institution) play a vital role in the external marketing aspects, while also promoting the overall knowledge and awareness of Commercial Bank among different stakeholders, providing factual, accurate and timely information to the public through the news media and its online channels.

The main goal of the Bank's internal communication is to support the organization in achieving the overall goals as specified in the Bank's Vision, Mission and Strategy whilst strengthening the organisational culture and feeling of commitment among the staff where they act as a key medium in reaching other stakeholders.

The Bank always follows the guidelines of the Central Bank of Sri Lanka and other authorities when creating and placing advertisements. The Bank ensures that all ethical standards of advertising are strictly followed to avoid overpromising and misleading customers whilst the communication is done in the most transparent manner.

Further, the Bank always obtains necessary local authority approvals and strictly adheres to the laid down rules and regulations on display materials, sounds, branding etc. when conducting promotions and follows laid down policies and procedures with regard to marketing communications to ensure accuracy, timeliness and uniformity of such communication.

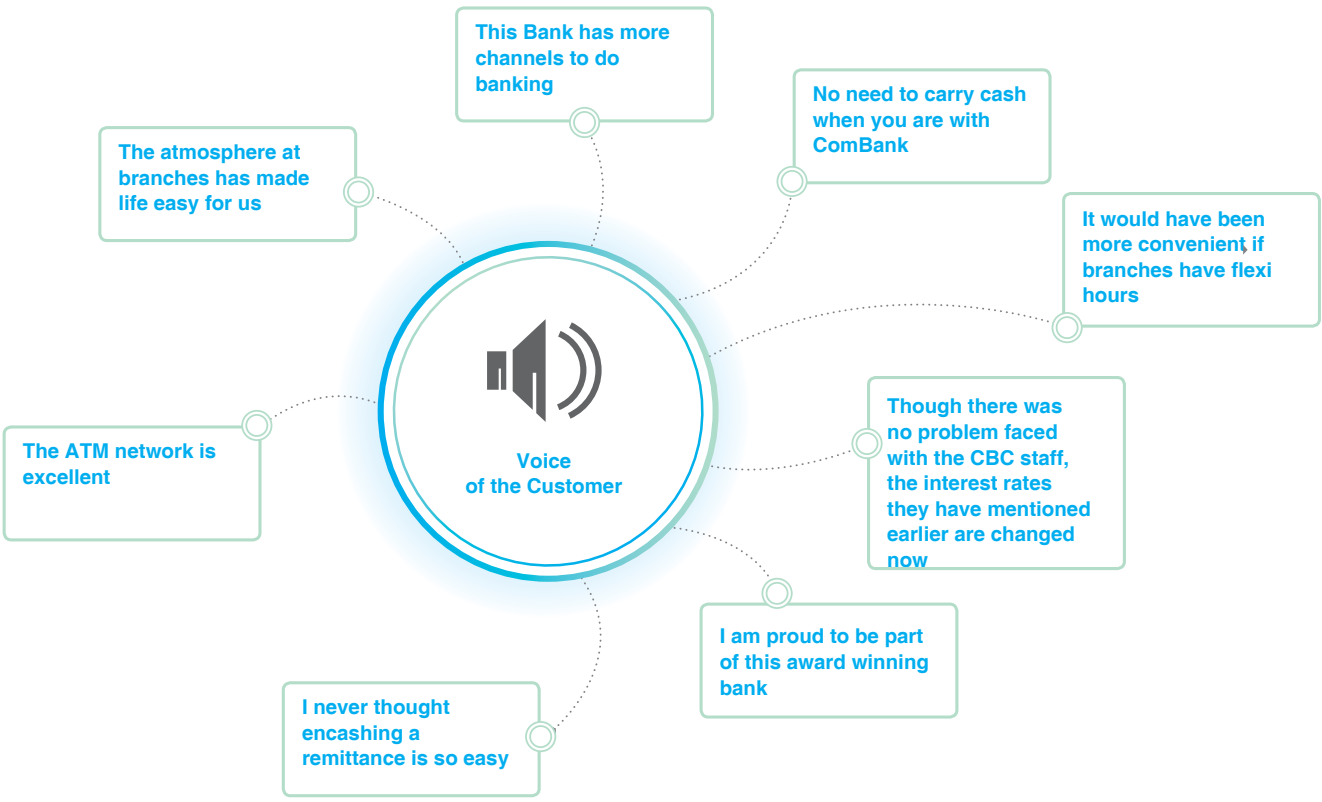
Whilst the content of all marketing communications material adheres to corporate and information security policies reflecting the corporate image and branding of the bank, the Bank also ensures that no aspect of the communication (content) consists of racial bias or inappropriate imagery and data.

The Bank also guarantees that the said material does not expose the institution to any litigation and ensures the utmost quality in conceptualization and production at all times.

There were no incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship during the period under review. (PR 7)

Customer Privacy

As reported earlier safeguarding the customer's privacy is of fundamental importance to the Bank and its governance structure ensures that every effort is made to ensure that its people and internal controls systems strictly adhere to the Secrecy Policy. There were no substantiated complaints regarding breaches of customer privacy and loss of customer data during the reporting period.



Anti-Competitive Behaviour

The Bank did not encounter any legal action for anti-competitive behaviour, anti-trust and monopolistic practices during the year 2012. Further, the Bank always obtains necessary local authority approvals and strictly adheres to laid down rules and regulations concerning display materials, audio/video materials, branding among other factors, when conducting marketing or sales promotional activities.

Compliance: Significant Fines and Non-Monetary Sanctions

The Bank was not subject to any fines or sanctions during the year for breach of laws and regulations.

Fines and Sanctions

The Bank has not been involved in, nor been party to, any instance of non-compliance with environmental standards; thus, it was not called upon to pay fines or accept any non-monetary sanctions for non-compliance with environmental laws and regulations.

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

Description	Page Reference
Annual Report of the Board of Directors	218-227
Statement of Directors' Responsibility	297
Managing Director's and Chief Financial Officer's Responsibility Statement	302

Although there are pending legal actions initiated against the Bank, none of these are environmental related. The details on 'Litigation against the Bank' are given in Note 49 to the Financial Statements on pages 402 and 403.

The Global Economy

The global economy although still beset by the fall out in recent times, is expected to grow by 3.5% in 2013. This growth will be powered by the emerging and developing economies, largely based in Asia. World commodity prices will fall in 2013 as middling economic growth will fail to stir enough demand to keep pace with raw material production.

The Local Economy

Sri Lankan economy is expected to continue its growth momentum in 2013 as well. Country's growth prospects are likely to improve whilst the rate of inflation will remain at single digit level. Ensuring that inflation stays on course to remain in mid-single digit territory over the next 5 years is a priority for Sri Lanka to achieve the medium term growth targets.

The Banking Sector

The following developments/changes will have a considerable impact on the banking landscape of the country in the ensuing year.

Streamlining SLFRS Implementation

The Bank has prepared the Financial Statements on SLFRS as at December 31, 2012 being the first year after migration to new accounting standards. As expected, many areas need to be refined and fine tuned; assumptions need to be validated and back tested. The banking fraternity need to invest resources to implement the standards to its true spirit in the years to come.

Overseas Borrowing

In the wake of budgetary relief to the corporate sector permitting foreign currency borrowings, it is likely that a majority of banks may resort to this method to tap the overseas market for low cost borrowings to supplement deposit mobilisation efforts. Banks are encouraged to access stable wholesale funding sources without relying only on short term customer deposits. Therefore, banks are expected to raise significant Tier I and Tier II capital from foreign sources by building strong Balance Sheets.

Mergers and Acquisitions

According to CBSL's Road Map for Sri Lanka the country is targeting the achievement of a US \$ 100 Bn. economy by the year 2016. Banks will have a critical role to play in this endeavour. The size of the Balance Sheet of even the larger domestic banks is still smaller than those of regional banks and not in comparable terms with major international banks. In the Sri Lankan banking sector, only two banks appear in the rankings of the 1000 best banks in the world as ranked by the Banker Magazine. In fact, Commercial Bank is one of them. Since there are several small banks in the sector, the competitive edge for them would lie within the concept of mergers with larger players in the market.

Implementation of ICCAP

The Banks in the country are expected to implement ICCAP, part of the supervisory review process under Pillar II of Basel II with effect from 2013. In addition to the Credit, Market and Operational Risk under Pillar I of Basel II, the banks are required to carry out capital computation incorporating a host of other risks such as residual risk, credit concentration risk, interest rate risk in the banking book, liquidity risk, reputational risk and strategic risk. Further, the banks are required to carry out stress testing to gauge the impact of adverse economic conditions on their CAR. It is expected to have a 2% - 3% reduction in the CAR as experienced by the countries who have complied with the Pillar II requirements.

Migrating to the Advanced Approaches of Basel II

Banks are being encouraged to move into the advanced approaches of Basel II, more specifically to adopt internally developed models for credit and market risk. Further, the CBSL has issued guidelines for the implementation of operational risk under the Standardised method which should be effective from 2013. Instead of calculating the operational risk-based on the gross average turnover, banks are required to identify the income-based on eight business lines as defined in Basel II and calculate the operational risk-based on the beta factor of each business line provided by the Basel guidelines.

Development of Debt Market

Interest income earned from a listed corporate debt has been exempted through provisions contained in the National Budget for 2013. The measure was introduced to promote the debt market in the country. This is a long felt grievance of the investment community and with this move, the Government expects a sound debt market to operate, allowing corporates to go for direct borrowing bypassing the banking system.

Special Levy Imposed on Financial Institutions

A Special Levy of 1% is to be imposed on the profits of all Banks, Insurance and Financial Institutions. This levy is to be directed towards implementing a crop insurance scheme for farmers through a National Trust Fund.

Income Tax and Other Exemptions for SMEs

The Government has announced a host of concessions to promote the SME sector with numerous tax concessions. These benefits are intended to promote the SME sector, which makes the highest contribution to the economy, while employing the largest number of people in the country. The growth of this sector would augur well for the economy and the banks in particular.

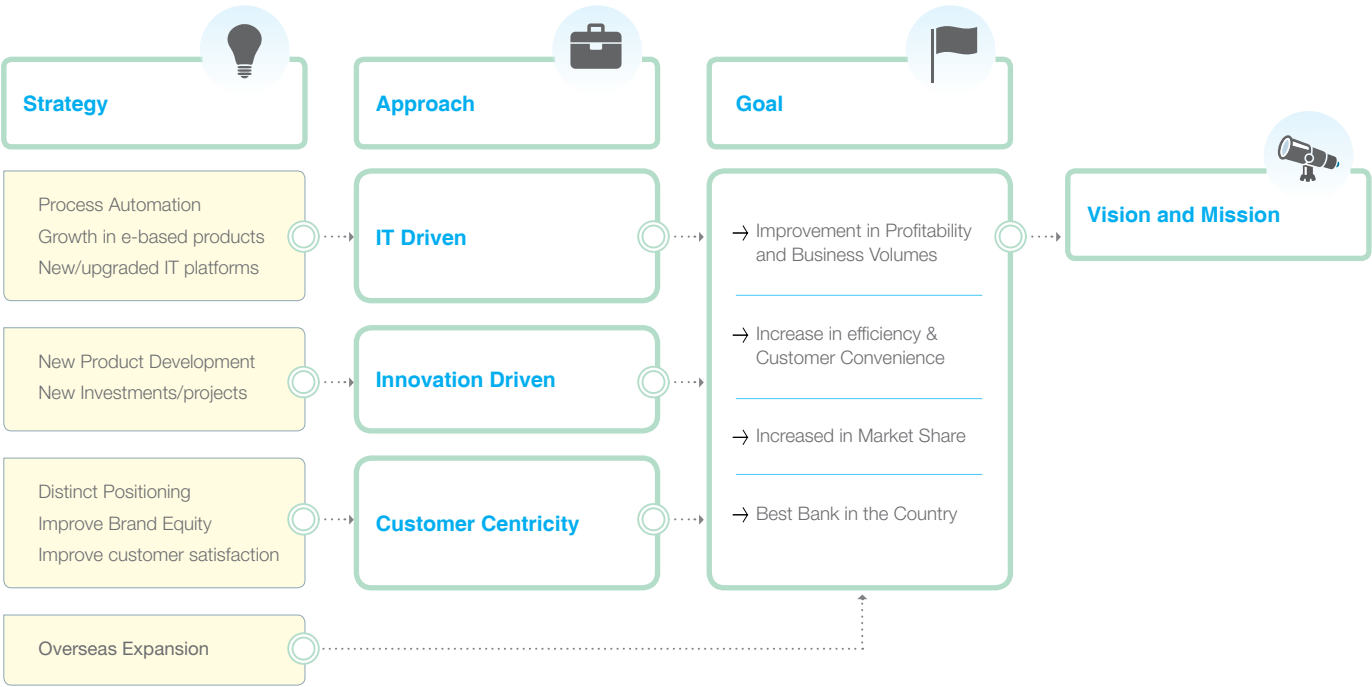
Strategic Direction of the Bank

The Commercial Bank, has evolved from a specialised trade financier catering to the business community, to a truly national bank, offering a gamut of services and products to the widest of clientele from high end corporate to the micro sector entrepreneur.

The Bank considers its Corporate Plan and Budget to be the quintessential guide to its positioning and performance. The objectives, targets and key performance indicators enshrined in these documents have helped lift the Bank to its present position and instilled a target-driven culture throughout its operations.

The Corporate Plan and Budget for 2013 through 2017 comprehensively details the Bank's present status and maps out strategies to consolidate its niche position in the private sector banking market while capitalising on future opportunities. The plan also incorporates measures to enhance the Bank's brand identity with a view to consistently improving the market share of its business lines. SWOT analyses and goals with specific time frames are presented for the principal strategic business units: Personal Banking, Corporate Banking, Treasury, Bangladesh Operations which are supported by Information Technology, Human Resources, Integrated Risk Management and Marketing.

The Bank's Strategic Map



Strategies to the Future

The Bank has formulated several core strategies from which other specific strategies emanate; all are geared to advance into the future with confidence and success coinciding with the country's core economic strategies.

Core Strategies

- The Bank will pursue the adoption and deployment of the latest technology which will manifest itself through significant investment in IT, leading to upgraded IT platforms, more process automation, growth in e-based products and channel migration among others.
- We will encourage and deploy high levels of innovation in terms of increasing volume growth from new products and pursuing new investments while improving the operational efficiency.
- Another core strategy is customer centricity. The desired outcomes would be - distinct positioning and building of brand equity, enhancing customer satisfaction levels, reducing customer complaints and stimulation of new products to satisfy different customer segments.
- An important strategic requirement will be the pursuit of overseas expansion in terms of regional expansion, investment made outside the country, growth of business and profits from overseas operations and placement of more BPOs to handle remittances, all these initiatives would reduce the dependence on Sri Lankan economy.

Specific Strategies

These will include strategic analysis and rationalisation of the branch network, particularly the opening of new branches, leveraging technology to automate and enhance capacities of automated systems thereby offering customers greater convenience, improving online credit monitoring systems to minimise NPAs, completing Treasury automation, enhancing loan approval process and data management by completing Loan Originating System, implementing mobile bank and inter-bank payments, improving brand loyalty and promoting one-bank-one-family concept.



Shareholders

Number of shareholders

13,588

Dividend per share

Rs. 6.50

Dividend payout ratio

54%

Gross dividends to ordinary shareholders

Rs. 5.4 Bn.



**BANKING
ON YOU**



The Bank continued to be recognised through an array of awards and accolades both internationally and locally during the year. Listed below are significant awards and accolades received by the Bank in 2012.

International awards

- Selected as one of the 'Top 1000 Banks in the World' by 'the Banker' magazine for the second consecutive year. The Commercial Bank is the only Sri Lankan Bank to receive this prestigious recognition three times; the first being in 2008
- 'Best Bank in Sri Lanka' by the 'Global Finance' Magazine (USA) for the 14th consecutive year
- Best Bank Award by 'Euro Money'
- 'Sri Lanka's Best Bank in 2012' by the 'Finance Asia' Magazine
- 'Best Sri Lankan Trade Bank' by the 'Trade Finance' Magazine
- 'Most Productive Network in South Asia in 2011' by 'MoneyGram'

Local Awards

- 'Honoured Citizen 2012' by the Municipal Council of Colombo in recognition of the valuable contribution towards city development, making payments of Municipal Rates and Taxes on time during the past five years.
- Gold award for "Best CSR Project Award 2012 - Education" hosted by the Ceylon Chamber of Commerce of Sri Lanka
- The Bank's Annual Report 2011 won the following awards at the Annual Reports Awards Competition organized by The Institute of Chartered Accountants of Sri Lanka
 - Gold award in the Banking Institutions category for Excellence in Annual Financial Reporting
 - Bronze award (Joint) in the Overall category
 - Silver award for Corporate Governance Disclosures
- Gold award at 'National HRM Awards' presented by the Association of Human Resource Professionals
- The Bank with the Highest Growth' in 'High Volume Bank Category' among the Banks using the Sri Lanka Inter Bank Payment System (SLIPS) in 2011-12 by the Lanka Clear (Pvt) Ltd.

A snapshot of the awards and accolades won by the Bank during the past decade is given in Annexes on page 458.



138	—	142	—	144	—	145	—	206	➔
Board of Directors		Corporate Management Team		Senior Management Team		Corporate Governance		Board Committee Reports	
218	—	228	—	229	—	269	➔		
Annual Report of the Board of Directors		Directors' Interest in Contracts with the Company		Managing Risk at Commercial Bank		Investor Relations			

Stewardship





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 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 pro-actively 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 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 26,017 Voting Shares.

2

K.G.D.D. Dheerasinghe

Deputy Chairman

Dharma Dheerasinghe, an eminent Economist with a distinguished career of over 38 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 and Board Credit 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 globalization 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 20,000 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 is a Director of Commercial Development Company PLC., a Subsidiary of the Bank. He is also a Director of Commercial Insurance Brokers (Pvt) Ltd. He possesses substantial professional experience in Banking, out of which 17 years as a member of Corporate Management. He holds a Degree in Law (LL.B.) and is a Fellow of the Chartered Institute of Bankers (London). He is also a Hubert. H. Humphrey Fellow.

He is a Committee Member of the Ceylon Chamber of Commerce and Council Member of the Employers' Federation of Ceylon.

He holds 685,123 Voting Shares.

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 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 Peiris & Co. (Plastic Sector), Ceylon Cold Stores PLC and Talawakelle Tea Estate PLC. He is presently the Director and Chairman of the Board of Management of the PIM. He possesses 19 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 Media Centre for National Security, 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 Vice-Chairman of Ceylon Fisheries Corporation (2006-2010), Consultant to the Minsitry 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). 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 is the Managing Director/CEO of 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 in Sri Lanka and abroad. 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 the Chairman of Ceylon National Chamber of Industries and a Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

7

S. Swarnajothi

Sembakuttige 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 Managements 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.

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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 7 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 Bachelors Degree from the University of Peradeniya.

He holds 309,782 Voting Shares.

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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.

Acknowledgements

The Chairman and the Board of Directors would like to acknowledge the yeomen service rendered by the former Managing Director Mr. A L. Gooneratne, who served the Board from January 1997 to April 2012 and warmly welcome Messrs S. Swarnajothi and J. Durairatnam to the Board.

Corporate Management Team →



Chinthaka Dharmasena
Assistant General Manager
Procurement

Felician Perera
Assistant General Manager
Recoveries

Shantha Balasuriya
Head of Global Treasury

Richard Rodrigo
Assistant General Manager
Plan Implementation

C.M. Abeysekera
Assistant General Manager
Corporate Banking II

Prins Perera
Head of Global Markets

Carmelita De Silva
Assistant General Manager
Corporate Banking I

S. Renganathan
Deputy General Manager
Personal Banking

Rohan Muttiah
Chief Information Officer

Nandika Buddhipala
Chief Financial Officer

Marion Abeywardena
Deputy General Manager
Corporate Banking

Nimal Luxshman
Deputy General Manager
Management Audit



* Since retired

Senior Management Team

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Operating Highlights	Annual Report 2012
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Management Discussion and Analysis	
✓ Stewardship	
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Senior Management Team - Personal Banking				
1. Nugent Kapuwatte Head of Leasing & Personal Loans	5. Ivan Fernando Regional Manager - Colombo Metro	9. Priyantha De Silva Head of Branch - Credit Monitoring Department	13. Delakshan Hettiarachchi Chief Manager - Development Credit	17. Sripadmanathan Rajievan Regional Manager - Northern
2. Niran De Costa Senior Regional Manager - Colombo Inner	6. Leel Rodrigo Senior Regional Manager - North - Central - Eastern	10. Saman Kalansuriya Chief Manager - Leasing & Factoring	14. Thusitha Suraweera Chief Manager - Card Centre	18. Darshanie Perera Regional Manager - Colombo North
3. Selva Rajasooriyar Senior Regional Manager - Colombo South	7. Ajith Naranpanawe Regional Manager - Central	11. Siva Sivakumar Chief Manager - Business Promotion	15. Athula Samarasinghe Regional Manager - Wayamba	19. Mithila Shamini Chief Manager - City Office
4. Roshan Perera Senior Regional Manager - Greater Colombo	8. Chanura Wijetillake Regional Manager - Uva - Sabaragamuwa	12. Chirath Manukulasuriya Regional Manager - Southern	16. Yasmin Weerasuriya Regional Manager - South Western	20. Pradeep Banduwansa Chief Manager - eBanking
Senior Management Team - Corporate Banking				
1. Naveen Sooriyarachchi Head of Corporate Finance	3. Colvin Karunaratne Head of Exports	5. B.A.H.S. Preena Chief Manager - Corporate Banking II	7. Eric Bastian Chief Manager - Exports	9. Kelum Amarasinghe Chief Manager - Travels & NFRC
2. Risijaya Srikantha Head of Imports	4. Ranjan Ediriweera Chief Manager - Corporate Banking I	6. G.R. Genevieve Liyanage Chief Manager - Off-Shore Banking Centre	8. Sidath Pananwala Chief Manager - Corporate Banking III	
Senior Management Team - Treasury and Back Office				
1. Asela Wijesiriwardena Chief Dealer - Assets & Liabilities Management				
Senior Management Team - Support Services				
1. R.R. Dunuwille Company Secretary	4. Amitha Munasinghe Chief Manager - Information Systems Audit & Business Continuity Planning	7. Esala Silva Chief Manager - Central Clearing	10. Sujeewa Ranasinghe Chief Manager - Human Resource Management	12. Kapila Hettihamu Chief Manager - Risk
2. Vajira Thotagammana Head of IT Operations		8. Bindu Perera Chief Manager - Premises & Engineering		13. John Premanath Chief Manager - Inspection
3. S. Yoganandasivam Head of IT - R&D	5. S. Shanmugarajah Chief Manager - ICBS Unit	9. Thayalan Gnanapragasam Chief Manager - Central Administration	11. M.P. Dharmasiri Chief Manager - Finance	14. Priyanthi Perera Chief Manager - Operations
	6. M.Z. Careem Chief Manager - Inspection			
Management Committee - Bangladesh				
1. S. Prabagar Country Manager - Bangladesh	4. S. Kutubuddin Ahmed General Manager - Risk, Compliance and Corporate Affairs	6. Binoy Gopal Roy Deputy General Manager - Finance and Accounts	8. Mostafa Anowar Sohel Assistant General Manager - Human Resources	
2. D. Das Gupta Senior General Manager		7. Mahmood Rashid Senior Assistant General Manager - Internal Control and Compliance	9. Reaz Wahid Assistant General Manager - International Trade	
3. Dilan Rajapakse Chief Operating Officer	5. A.K. Nandy Senior Deputy General Manager - Chittagong			

The division wise breakdown of the Senior Management Team is found on pages 64,76,81,85 and 90.

CHAIRMAN'S STATEMENT

Dear Stakeholder,

One of the most vital aspects of conducting the business of the Bank is ensuring that it enacts the highest standards of governance.

In 2012, the Bank's Corporate Governance regime met and often exceeded all criteria of measurement testifying to the most effective governance practice being in place and desired results being achieved.

The Governance Structure of Commercial Bank is aimed at satisfying the legitimate claims of all stakeholders and to fulfill the Bank's economic, environmental and social responsibilities in an accountable and transparent manner. Guided by this structure, your Board ensures that the right strategy and controls are in place in order to deliver value to shareholders, employees and the community.

Our Corporate Governance ethos is firmly embedded in our culture and the manner in which we conduct our enterprise and informs all efforts to align our business practices with the best interests of all stakeholders, in a climate of transparency, timely disclosure and comprehensive financial reporting.

The governance framework of the Bank provides for effective decision-making on the affairs of the Bank. As the Chairman of the Bank, I reiterate to all stakeholders, that your Board of Directors is fully committed to raising the bar to realise the Bank's strategy while nurturing ethical behaviour and promoting good governance practices across all units of the Bank.

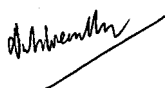
This Section of the Annual Report details the Corporate Governance framework in place at the Bank and the manner in which it ensures adherence to the requirements of the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) and the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka and subsequent amendments thereto.

The material contained in this Section of our Report will speak to the continuous efforts the Bank makes to improve both its Corporate Governance Philosophy and its enactment.

As always, we welcome your valuable feedback which will assist us in our ongoing evolution of governance precepts as well as its enactment together with our commitment to maintain the highest of standards across every facet of the Bank.

In conclusion, 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 said Codes issued jointly by the ICASL and the SEC and the Direction of the Central Bank of Sri Lanka.

Yours Sincerely,



D.S. Weerakkody
Chairman

February 27, 2013

Highlights in 2012

1. Mr. D.S. Weerakkody, a member of the Board since 2005 and Chairman of the Bank effective from December 30, 2011, was re appointed as a Director and the Chairman of the Board upon his re-election at the Annual General Meeting held on March 30, 2012.
Mr. D.S. Weerakkody is an Independent Non-Executive Director.
2. Mr. K.G.D.D. Dheerasinghe, appointed as the Deputy Chairman of the Bank effective from December 31, 2011, was reappointed to the Board and as the Deputy Chairman upon his re-election as a Director at the Annual General Meeting held on March 30, 2012.
Mr. Dheerasinghe is an Independent Non-Executive Director.
3. The Bank further strengthened the Board by appointing Mr. Jegatheesan Durairatnam as an Executive Director to the Board with effect from April 28, 2012 and Mr. Sembakuttige Swarnajothi as a Director effective from August 20, 2012.
Mr. Swarnajothi is an Independent Non-Executive Director.
Mr. Durairatnam also functions as the Chief Operating Officer of the Bank while Mr. Swarnajothi functions as the Chairman of the Board Audit Committee.
4. The Bank appointed Messrs KPMG as the external auditor of the Bank in 2012 in compliance with the auditor rotation policy applied by the Bank.
5. The Bank engaged the services of Messrs KPMG to seek their assessment of the Bank's compliance with the requirements of the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka and subsequent amendments thereto.
6. The Bank also engaged the services of Messrs KPMG to seek an assurance on the Bank's level of adherence to the Internal Controls and their Assurance Report on Internal Controls together with Directors' Statement on Internal Controls are found on pages 301 and 299 respectively.

Statement of Compliance

The Bank is fully compliant with the requirements of 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. See the Tables on pages 167 to 181 for the requirements of 'Corporate Governance Principles' and the responses of the Bank on its adherence to the said requirements.

In addition, Tables appearing on pages 182 to 203 demonstrate your Bank's adherence to the requirements of the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for the Licensed Commercial Banks in Sri Lanka' issued by the Central Bank of Sri Lanka and subsequent amendments thereto.

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.

Further, the Board of Directors to the best of their knowledge and belief is 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 Governance Code issued jointly by the ICASL & the SEC and the Direction No. 11 of 2007, amendments thereto of the Central Bank of Sri Lanka.

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.

Summary of Requirements as per the joint Code of the ICASL and the SEC	Disclosed
Chairman and Chief Executive Officer	✓
Board Balance	✓
Appointment of New Directors	✓
Nomination Committee	✓
Appraisal of Board Performance	✓
Board-Related Disclosures	✓
Disclosure of Remuneration	✓
Major Transactions	✓
Audit Committee	✓
Code of Business Conduct and Ethics	✓
Going Concern	✓
Remuneration Committee Report	✓
Directors' Report	✓
Financial Statements	✓
Management Report	✓
Corporate Governance Report	✓
Audit Committee Report	✓
Summary of Requirements as per the Directions of the Central Bank of Sri Lanka	Disclosed
Responsibilities of the Board	✓
The Board's Composition	✓
Criteria to assess the Fitness and Propriety of Directors	✓
Management Functions Delegated by the Board	✓
Chairman and Chief Executive Officer	✓
Board Appointed Committees	✓
Related Party Transactions	✓
Disclosures	✓
Transitional and Other General Provisions	✓

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

Reference Web Links for further Information

- Companies Act: [http://www.drc.gov.lk/App/ComReg.nsf/200392d5acdb66c246256b76001be7d8/\\$FILE/Act%207%20of%202007%20\(English\).pdf](http://www.drc.gov.lk/App/ComReg.nsf/200392d5acdb66c246256b76001be7d8/$FILE/Act%207%20of%202007%20(English).pdf)
- 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

Governance, Commitments and Engagement

The business activities of the Bank are conducted by adhering to the highest standards which are based on the best contemporary principles and practices whilst conforming to all applicable laws and regulations. Policies are drafted, plans and day-to-day operations are undertaken terms of corporate governance principles that define the structure and

responsibility of the Board of Directors, ensure legal and regulatory compliance, help protect stakeholder interests, and govern the quality of information disseminated and the practice of assessing and managing corporate and business risks.

Governance Structure of Commercial Bank

As exhibited in the diagram on Governance Structure on page 148, the Board of Directors being the highest governance body of the Bank ensures alignment of the Bank's business strategy to sustainable business performance by providing directions for effective engagement and communication with all stakeholders.

There has never been a time when systems of Corporate Governance and controls have been under greater scrutiny than they currently are. The need for effective and efficient procedures to be in place is high on the agenda of all corporates today.

It is virtually impossible to devise a system of Governance and Control which will satisfy completely the multifarious requirements demanded by the statutory framework of a country. However, we at Commercial Bank strive to build a Governance framework to deliver sustainable value whilst enhancing a culture of business integrity and investor confidence.

The Corporate Governance Framework of the Bank casts responsibility on the Board of Directors on the following:

- **Strategic and operational planning** - Maintain a strong Governance practice which presents strong commercial advantages by lowering the cost of capital and increase returns to stakeholders, both institutional and individual, through strengthened stakeholder and investor confidence and to act in the best interest of the Bank and its stakeholders in fulfilling the stewardship obligations.
- **Risk management and compliance** - Operate within the risk appetite set by the Board to carryout proactive discussions with relevant regulatory bodies to facilitate the implementation of matters of governance and other business reforms.

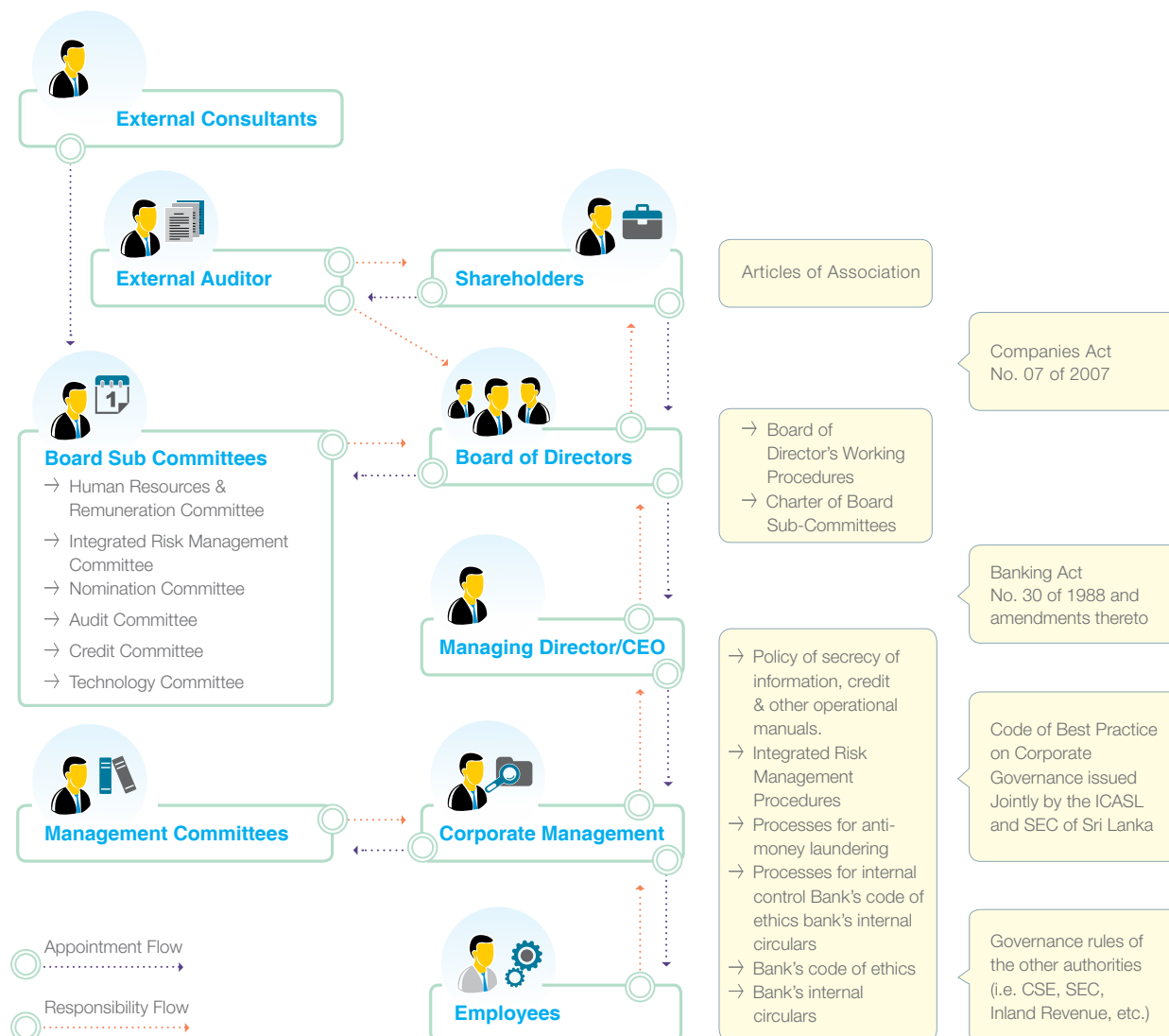
- **Financial management and external reporting** - Facilitate business decisions and resource allocation in an efficient and timely manner, within a transparent reporting framework which ensures ethical dealings which are compliant with the laws and regulations of the country and standard of governance expected by the stakeholders.
- **Succession planning and sustainable performance** - Carry out business operations with appropriate succession planning with the focus on sustainable performance in all areas of operations.

The following events that took place during the year 2012 further displays the Board's commitment to uphold a strong Governance Framework:

- The appointment of an Independent Non-Executive Director to the Board during August 2012 thereby increasing the number of Non-Executive Directors of the Bank to four.
- Re-appointment of an Independent Non-Executive Chairperson and an Independent Non-Executive Director as the Deputy Chairperson of the Bank.
- Restructuring the Board and Board Sub-Committees in compliance with the directives issued by the Central Bank of Sri Lanka.
- A new Board Sub-Committee for Technology Governance commenced its functions to strengthen the governance procedures in place at the Bank.
- Enhanced the scope of internal audit process and MIS Audit to ensure that strategic and key operational lapses are identified and rectified in a timely manner.
- Refining the self-assessment process of the Directors.
- Seeking independent legal and professional advice when required to do so.

Governance Structure

The Bank's Governance Structure portrayed below demonstrates the linkage mechanism that ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub-Committees and Management. This mechanism assures that the Bank sustains its potential to deliver its promised value to the stakeholders.



As at December 31, 2012, the number of Directors on the Board stood at eight and the chair of the Board is an Independent Non-Executive Director while the Managing Director/Chief Executive Officer of the Bank was a Non-Independent Executive Director. The members of the Board consist of persons with multiple industrial and financial backgrounds in which they have achieved eminence, who contribute effectively for Board discussions and decisions through their ability, experience and specialist knowledge to guide the Bank towards achieving excellence in terms of triple bottom line performance. The profiles of the Board of Directors which evident their expertise in varying disciplines appear on pages 140 and 141. The Bank's Board Nomination Committee assesses the qualifications, experience and abilities of Board members and key management executives. The Bank's strategic, economic, environmental and social objectives are adequately taken into account during the assessment process.

The Bank has in place a number of mandatory and voluntary Board Sub-Committees to fulfil 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 table below:

Information on composition, Charter/mandate and activities of all Board Sub-Committees are given on pages 206 to 215

The Board's Engagements with Shareholders and Employees

Engagement with Shareholders

The shareholders of the Bank have multiple ways of engaging with the Board including the following:

- Annual General Meetings and Extraordinary General Meetings to deliberate on matters which are relevant and of concern to the general membership.
- Access to the Board and the Company Secretary.
- Written correspondence from the Company Secretary to inform shareholders of new regulatory developments and other relevant matters.
- The Bank's website which is accessible by all stakeholders and the general public.
- Investor presentations.
- Investor comments through the Feedback Form found in the Annual Report.
- Road shows and one-to-one discussions with key shareholders.
- Interim reportings.

Composition of Main Board and Board Sub-Committees as at end 2012

Name of Committee	Executive Members	Non-Executive Members	Independent Members	Non-Independent Members	Gender		Age Group	
					Male	Female	30 - 50 Years	Over 50 Years
Main Board	02	06	04	04	08	Nil	01	07
Board Human Resources and Remuneration Committee	01*	03	02	02	04	Nil	01	03
Board Integrated Risk Management Committee	02	05	03	04	07	Nil	Nil	07
Board Nomination Committee	01*	03	02	01	03	Nil	01	02
Board Audit Committee	Nil	05	03	02	05	Nil	01	04
Board Credit Committee	01	02	01	02	03	Nil	Nil	03
Board Technology Committee	02	01	Nil	03	03	Nil	Nil	03

* By invitation

These mechanisms provided opportunities for shareholders to discuss matters relating to the Bank's performance, their return on investment, future direction of the Bank, CSR activities conducted via the Bank's CSR Trust Fund and other special requests of shareholders, etc.

Engagement with Employees

The following channels provide opportunities to deliberate on matters connected to performance of the Bank, compensation and benefits, CSR initiatives, etc.:

- The Board of Directors of the Bank includes two employee Directors, namely, the Chief Executive Officer and the Chief Operating Officer, who bridge the communication gap between the rest of the employees and the Board.
- The Bank's Board of Directors and Board Sub-Committees conduct effective dialogue with the members of Corporate Management on matters pertaining to the overall strategic direction of the Bank.
- All Executive Officers of the Bank are subjected to an annual performance appraisal based on the pre-set targets agreed at the beginning of each year. This has been a well established process in the Bank and has become an ideal forum for the Staff to get engaged in aligning with strategic objectives of the Bank.
- The annual Managers' Conference, which is attended by all Executive Officers in the Manager Grade and above, provides an ideal forum for employees to discuss matters of concern before the Board and Corporate Management.
- The two employee associations maintain regular dialogue with the Board and the management of the Bank on matters of interest to both parties.
- The members of the Cross Functional Teams consisting of Senior Managers are provided with opportunity to bring their innovative ideas before the Board.
- The Bank's Code of Ethics and Whistle-Blowers' Charter encourages all members of staff to resort to whistle-blowing if they suspect wrong doings or other improprieties.
- The grievance handling process in place ensures that all issues referred to the Human Resource Department or the designated email address is adequately addressed with strict confidentiality.

Above mechanisms provided opportunities for employees and employee associations to discuss matters relating to the Bank's performance, matters relating to employee perks and welfare, future direction of the Bank, CSR activities conducted via the Bank's CSR Trust Fund and other special requests of employees.

Connecting Compensation to Performance

The Bank has a well established target driven culture linked to achievement of goals set out in its Corporate Plan. Executive Directors who are members of the highest governing body, key management personnel and all executive officers are remunerated based on their level of achievement of the pre-set targets with mutual agreement. Criteria for determining the performance based compensation, including succession arrangements, are detailed in the 'Board Human Resources and Remuneration Committee Report' which appears on pages 206 and 207.

The executive officers responsible for implementation and monitoring of the Social and Environmental Management System (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.

Avoiding Conflicts of Interest

The Governance Structure of the Bank ensures that the Directors take all necessary steps to avoid conflicts of interest, or the appearance of conflicts of interest, in their activities with and commitments to, other organisations or related parties. If a Director of the Bank has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, such matters are disclosed and discussed at the Board meetings, where Independent Non-Executive Directors who have no material interest in the transaction, are present. Further, Directors abstain from voting on any Board resolution in relation to which such Directors or any of their close relation/s or a concern in which such Directors have substantial interests, and/or are interested in. Further their votes are not counted in the quorum for the relevant agenda item at the Board meeting.

In pursuance of the requirements under the Sections 192 and 193 of the Companies Act No. 07 of 2007, the Directors have duly disclosed the financial accommodation obtained/deposits made by the entities where such Directors function as Chairman or Director with the Bank, as appearing in the Section on 'Directors' Interest in Contracts' with the Company on page 228. Further disclosures have been made under the Note 53 to the Financial Statements on 'Related Party Disclosures' on page 411 as required by the Sri Lanka Accounting Standards.

In addition, the Bank actively seeks to avoid conflicts of interest among multiple stakeholders via several mechanisms including -

- Complying with the Codes of Best Practice on Corporate Governance issued jointly by the Central Bank of Sri Lanka, The Institute of Chartered Accountants of Sri Lanka, the Securities Exchange Commission of Sri Lanka and the Colombo Stock Exchange;
- Retaining a Compliance Officer, a member of the Corporate Management of the Bank, who reviews and ensures the Bank's compliance with the requirements of statutory bodies such as the Central Bank of Sri Lanka on a monthly/quarterly basis;
- Setting up performance targets for every executive officer in a transparent manner and rewarding them based on a predetermined reward scheme; and
- The Bank has issued a comprehensive Circular to all staff members requiring them not to engage in any activity in connection with 'insider trading' of Bank's shares.

Sustainability Focused Internally Developed Statements

The well defined and clearly articulated values, principles and rules on which the Bank operates drive the conduct of its Board of Directors, key management personnel, executives and other staff in all foreseeable situations. This has enabled the Bank to assess economic, social and environmental impacts of its actions and thus effectively mitigate any risks. These values, principles and rules are articulated through a variety of means, including the following:

- Making each and every staff member aware of the Vision and Mission statements of the Bank as appearing on page 7 and in the Bank's website: www.combank.lk.
- Ensuring that all large credit proposals and those initiated by Corporate Finance Unit of the Bank are evaluated against the criteria specified in the Social and Environmental Management System (SEMS) of the Bank which is based on the parameters set by the International Finance Corporation (IFC).
- Ensuring that the Corporate Plan of the Bank sets out annual performance targets in terms of a number of indicators, including those relevant to sustainability aspects.
- Ensuring that the Oath of Secrecy is signed by each and every staff member of the Bank from the time of recruitment and is adhered till their departure from employment.
- Making every staff member aware of the requirements of the Code of Conduct at induction programmes that binds every Bank employee from the time of recruitment, and continuing right through their term of employment.
- Practicing a Whistle-Blower's Charter, which was adopted by the Bank based on the guidelines issued by the International Chamber of Commerce.

Monitoring and Evaluation by the Board

It is customary to carry out an in-depth analysis of Strengths, Weaknesses, Opportunities and Threats (SWOT) including sustainability related issues as part of deliberations leading to the preparation of the Corporate Plan which sets the Bank's strategic direction. Further, heads of the four main business divisions of the Bank make presentations on how they intend achieving performance targets set including challenges pertaining to economic, environmental and social aspects, the outcome of which is communicated to the Board of Directors for their consideration and strategy development.

The following mechanisms are in place for the Board to oversee the accomplishment of the targets set in the Corporate Plan:

- Review of the Bank's performance at the monthly Board meetings with a view to reviewing achievement of economic, environmental and social targets.
- Seeking recommendation through the Board appointed Sub-Committees on governance including compliance with internal controls, matters pertaining to human resources and remuneration, risk management, credit appraisals and role of Information Technology.
- Review of statutory and other compliances through a quarterly paper on compliance submitted to the Board covering the operations of the Bank including Bangladesh. The content of this Board Paper is validated by the Internal Audit Department of the Bank by carrying out test checks on random basis on all areas reported.
- Particular attention is drawn to social and environmental issues through a dedicated Social and Environmental Co-ordinator and a team being tasked by the Board of Directors to identify and manage the Bank's economic, environmental, and social performance, including relevant risks and opportunities, and compliance with internal circulars and regulatory requirements.
- Having Board representation in the Bank's Social Responsibility Trust Fund with a view to link the Bank's strategy into the activities carried out via the CSR Trust Fund and vice-versa.

Board Evaluation

As required by the Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' and amendments thereto, the Bank has put in place a well defined system to evaluate the performance of the Board based on the effectiveness of the Board's Governance Practices. One of the key expectations of the Board is to ensure that the activities of the Bank are carried out in a transparent manner while ensuring that the triple-bottom line principles are adequately addressed. The Board intends to expand the assessment areas to cover the contemporary topics as needed.

Addressing the Principle of Precaution

Business of a Bank demands independent decision making, ethical behaviour, transparency, effective risk management and long-term business planning in order to have an ethical, legal and compliant organisation at every layer, as well as to ensure that no illegal or unethical business activities are undertaken. Hence, Bank has taken steps to ensure that all critical processes and procedures are well-documented to ensure smooth functioning and to avoid multiple interpretations.

Towards achieving the above objective, the Bank prepared a Business Continuity Plan (BCP) in 2006 which was sanctioned by the Management and validated by the Board of Directors. The Bank also has a Business Continuity Management Steering Committee (BCMSC) comprising members of the Corporate Management and the Senior Management who drive the Business Continuity Management efforts at the Bank. The BCMSC also provides overall guidance to the BCP Committee which consists of a group of Business Champions whose mandate is to develop and update the BCP covering all aspects of services offered by the Bank. The Bank also has a Disaster Recovery Plan to supplement the BCP and to ensure the continuity and functionality of the Information System.

BCP includes a Staff Succession Policy, Crisis Communications Policy, Staff Travel Policy, Supply Chain Management Policy, Awareness and Training Policy.

Further, the Bank's Integrated Risk Management Department analyses and reports on all types of risks associated with the operation of the Bank. The report on 'Managing Risk at Commercial Bank' which detail the structure, role of the risk management and challenges appear on page 229 to 268.

In addition, the management of the Bank has established several committees making them accountable to carry out market surveys, new product development, reviewing of existing products and analysing customer expectations and behaviours, to ensure the sustainability of its business. Further, there are specialised departments that continuously update staff at all layers with development in the financial markets, conduct peer review for the information of the Board and the Management.

Commitment to External Charters

The Bank has already committed to a number of external charters, codes and standards within which its operating values, principles and commitments to stakeholders and to society at large is embraced. Please see the table below for details.

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
Codes of Best Practice for Corporate Governance issued:					
By the Colombo Stock Exchange	Various and on going	Sri Lanka	Multi-stakeholders		✓
By the Central Bank of Sri Lanka					
UNGC principles	2003	Sri Lanka	Multi-stakeholders		✓
IFC guidelines and performance standards that spell the Bank's Social and Environmental Management System	2010	Sri Lanka	Multi-stakeholders		✓
ISO 27001 certification on information technology and operations of the card centre and e-banking centre	2009 and re-certified in 2012	Covers Sri Lankan operations only. Although the operations in Bangladesh are not certified their central systems are covered under the IT certification, and the desktops have MS Active Directory installed, complying with ISO 27001 information security policies of Sri Lanka.	Multi-stakeholders		✓

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
Jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka	Various and ongoing	Sri Lanka	Multi-stakeholders		✓
The requirements of the Central Banks on single borrower limits, capital adequacy ratios, classification into non-performing loans and advances, provision for loan losses, statutory/ cash reserve ratio, liquid asset ratio, etc.	Various and ongoing	Sri Lanka and Bangladesh	Multi-stakeholders	✓	

Memberships in Associations

The Bank has memberships in a number of sectoral, industrial and professional organisations and associations which are listed below.

- 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

The Managing Director of the Bank is an active member of the Ceylon Chamber of Commerce, Sri Lanka.

Stakeholder Engagement

The Bank considers any person or an organisation, both internal as well as external, as a stakeholder if such person/organisation is affected or expected to be significantly affected, directly or indirectly, due to the activities of the Bank or due to their engagement with the Bank.

The governance structure in place also demands the Bank to consider engagement with stakeholders with paramount importance as failure to do so would undoubtedly affect its achievement of the goals and objectives stemming from its mission. The Board having well understood the importance of properly executing stakeholder engagement, uses results of such engagements in raising accountability towards stakeholders. The Bank believes that this process strengthens mutual trust between the Bank and its stakeholders and enhances stakeholder receptivity.

Connecting with our many stakeholders is a vital aspect of our operations. Maintaining and opening a constructive dialogue with our stakeholders helps to understand expectations and contributes to risk management, learning and innovation. It also helps us to identify emerging issues and opportunities for creating new products and services and improving our performance. It's a value creating activity as depicted in the governance structure that appear on page 148, the Board of Directors welcomes suggestions, recommendations, advice or any other form of constructive engagements from any stakeholder or stakeholder group. Commercial Bank always maintains regular dialogue with key stakeholder groups and their reasonable expectations and interests are given due respect in making decisions by integrating them to the reporting process. The Bank has also established a number of avenues to ease the effective communication with its stakeholders.

Stakeholder Engagement Process

The following diagram illustrates the stakeholder engagement process in place at the Bank which clearly demonstrates process of identifying key stakeholders and mechanisms in place addressing their reasonable expectations and interests as part of stakeholder inclusiveness.



The stakeholders identified on the basis enumerated in the stakeholder engagement process above together with mode of engagement, frequency, key topics and concerns raised and the methodologies employed in responding are tabulated below.

Mode of Engagement	Frequency of Engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Shareholders, Investors and Analysts			
- Annual Reports - Annual General Meeting - Extraordinary General Meeting - Interim Financial Statements - Press Conferences and Media Releases - Investor presentations - Announcements made to the Colombo Stock Exchange - One-to-one Discussions - Road Shows - Corporate website: www.combank.net www.combank.lk	→ Annually → Annually → As and when required → Quarterly → Ongoing → Ongoing → Ongoing → Ongoing → Ongoing → Ongoing	- Plans to improve Dividend per share, capital adequacy ratio, cost income ratio - Business expansion plans both locally and internationally - Plans on maintaining liquidity - Means of further improving the services rendered by the Bank - Sustainable performance of the Bank - Board governance	Concerns of shareholders are addressed provided such concerns are not related to commercial secrets to complement the effective dialogues process with shareholders and prospective investors. Principles of transparency, accountability and look for regular briefings are among our top priorities.
Customers			
- Branches - Relationship Managers' engagement with corporate customers - Mobile banking - Complaint Resolution Officer - Customer satisfaction survey - Customer relations workshops - Call Centre - Corporate website: www.combank.net www.combank.lk	→ Ongoing → Ongoing → Ongoing → Ongoing → Annually → As and when required → Ongoing → Ongoing	- Customer service excellence - Customer satisfaction and relationship management - Innovation in products and services - Interest rate trends, securities, terms and conditions etc. - Fees and charges - Factors leading customer convenience including branch layout, availability of a wide range of products and services, adequacy of staff, etc. - Services available through on-line banking - Amicable resolution of customer disputes	Prompt communication of interest rates, terms and conditions of banking products to staff at all levels through Internal Circulars making them equipped to handle various requests of customers. Conducting periodic surveys to obtain feedback on the level of customer satisfaction to seek their views on improvements required for the existing services. Opinions and multiple expectations of customers gathered through variety of engagements with them are embedded in to the new products and services added to our portfolio. Other mechanisms in place to delight customers include improving information security to responsible marketing communication, innovative and environment-friendly products, and being a part of customers' business development process. With the objective of satisfactorily resolving of complaints of customers, a member of the Corporate Management has been appointed as the Compliant Resolution Officer of the Bank as a part of the voluntary scheme entitled 'Financial Ombudsman, Sri Lanka' set up by the Central Bank of Sri Lanka.

Mode of Engagement	Frequency of Engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Employees and Employee Associations			
- Managers' Conference - Regional review meetings - Relationship building exercises with employee associations - Negotiations with employees and their associations - Internal circular instructions - Operational updates to staff via email - Internal newsletter, "Com Pulse" - Intranet site of the HR Division - Feedback of cross functional training programmes - Special events such as quiz contests, staff children's party, art and sports competitions, etc.	→ Annually → Quarterly → Annually → Ongoing → Ongoing → Daily → Quarterly → Ongoing → As and when required → Annually	- Values aligned culture - Remuneration including performance based compensation - Staff welfare measures - Compliance with national regulations - Updates on the Central Bank's Rules and Regulations - Implementing and managing the 'Social and Environmental Management System' (SEMS) at the Bank - Future plans of the Bank - Diversity and inclusion - Whistle-Blowing Mechanism	Performance driven culture of the Bank which rewards employees based on the extent of achievement of the pre-set targets for both the Bank and the individuals, assure the effective and efficient attainment of goals of both. In addition, the Bank organises training and awareness sessions and sends circular instructions with a view to increase the awareness of its employees on various matters including sustainability related issues embedded in the SEMS.
Legislators and Regulatory Bodies*			
- Meetings - Directives and circulars - Filing of returns - Consultations - In areas of socio-economic sensitivity, engagement is dictated by the issues raised - On-site surveillances by the regulator - Press releases - Corporate website: www.combank.net www.combank.lk	→ As and when required → Ongoing → Ongoing → Ongoing → Ongoing → As and when required → Ongoing	- Central Bank of Sri Lanka's Regulations pertaining to the Licensed Commercial Banks - Compliance with Codes of Best Practice 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, the Colombo Stock Exchange and Sri Lanka Banks' Association (Guarantee) Ltd. - International financial developments - SMEs' access to finance - Other Government regulations including taxes - Various issues that affect the well-being of Bank employees	The Bank maintains regular dialogue with regulators and has put in place systems and procedures with a view to assuring regulatory compliance and strengthening the relationship with other public and professional institutions.

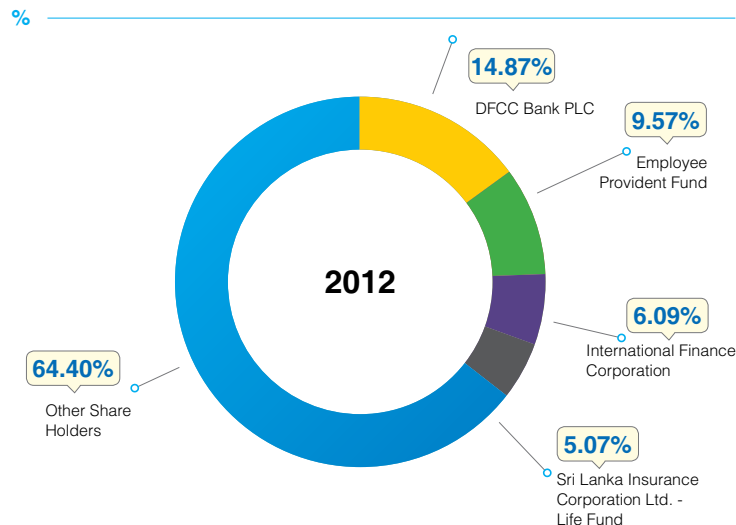
* Legislators and Regulatory Bodies include the Central Bank of Sri Lanka, the Department of Inland Revenue, Ministry of Finance, Registrar of Companies, Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka, Ceylon Chamber of Commerce, External Auditors, Sri Lanka Accounting and Auditing Standards Monitoring Board, Professional Organisations including The Institute of Chartered Accountants of Sri Lanka and other Government organisations.

Mode of Engagement	Frequency of Engagement	Key topics discussed and concerns raised	Methodologies employed to respond
Suppliers			
- Supplier relationship management - On-site visits and meetings	→ Ongoing → As and when required	- Responsible Procurement opportunities offered by the Bank - Engagement and registration on preferred supplier database - Contractual performance	The Bank maintains a list of registered suppliers with whom it engages in the ordinary course of business. Regular dialogues are conducted with them to ensure that value for money is created for both the Bank and the suppliers. Reliability and mutual trust plays a vital role in building relationship with suppliers.
Media and General Public			
- Press conferences and Media briefings - Press releases - Informal briefings and communication - Media Advertisements	→ Ongoing → Ongoing → Ongoing → Ongoing	- Media briefings - Interim and annual results - Recognition for excellence by various external parties - New products, services and outlets - Micro financing and SME development - CSR initiatives - Staff recruitments - Communication to the General Public	The media plays a vital role in building regular communication with our stakeholders. Having realised the value of continuous dialogue with the media, the Bank takes every endeavour to inform the media timely and accurately with our press releases and share opinions with opinion leaders at press conferences.
Communities and Youth			
- Widespread network of delivery channels - Conferences - Press release - Scholarships - Sponsorships - Public events - Call Centre - Corporate website: www.combank.net www.combank.lk	→ Ongoing → As and when required → Ongoing → Ongoing → As and when required → As and when required → Ongoing → Ongoing	- Corporate social responsibility initiatives - Responsible finance - Providing access to fair and affordable banking - Community investment - Financial inclusion - Cost effectiveness of CSR initiatives - Scholarships for university students - Youth targeted sponsorships - International profiling of the brand through sports and arts	The Bank contributes to local economic development through our widespread Branch and ATM network scattered all over the country. Being transparent in all of its activities, the Bank keeps the public informed of its sustainable performance and new developments on an ongoing basis. By supporting needy niches of the society sponsorships and activities of its CSR Trust Fund including scholarships offered to underprivileged students, the Bank aspires to reach local communities.

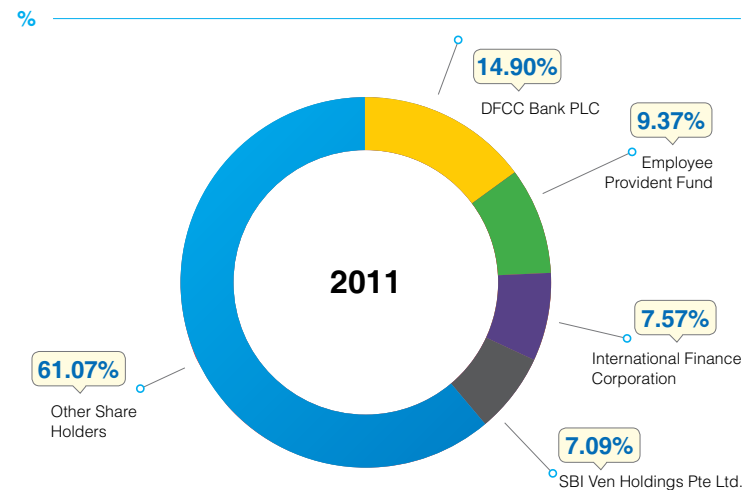
Furthermore, any shareholder is free to communicate through the Investor Feedback Form annexed to the Annual Report and via the Bank's e-mail address, email@combank.lk

Ownership Structure

Ownership Structure 2012



Ownership Structure 2011



As per the share register at year end 2012, the Bank had a total of 9,509 voting shareholders (9,299 voting shareholders as at end 2011). DFCC Bank PLC continued to be the largest shareholder, with a stake of 14.87% of the Ordinary Voting Shares of the Bank (14.90% in 2011). The top 20 voting shareholder of the Bank accounted for 67.43% of the total shareholding of the Bank (69.42% in 2011). These statistics amply demonstrates the strong confidence these shareholders have placed in the Bank. Details of the ownership structure are found on Item 10 of the section on 'Investor Relations' on pages 269 to 285 including the names of the Twenty Largest Shareholders of the Bank as at end 2012.

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 2012

The Bank's 43rd Annual General Meeting (AGM) was held on March 30, 2012. At the AGM 357 (333 in 2011) voting shareholders and 149 (129 in 2011) non-voting shareholders were presented by person or by proxy.

The following resolutions were passed at the last Annual General Meeting:

- 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, 2011 and the Report of the Auditors thereon.
- Approval of a Final Dividend of Rs. 3.50 made for 2011 (Satisfied by way of Rs. 1.50 in cash and Rs. 2/- in shares)
- Re-appointment /re-election of six 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 2012 and to authorise the Directors to approve their Remuneration.
- Authorisation the Board of Directors to determine donations for 2012.

Extraordinary General Meeting 2012

There was one Extraordinary General Meeting (EGM) held during 2012 to deal with the matter given below:

Date of EGM	Matters Tabled	Attendance
March 30, 2012	Adoption of the Amended Articles of Association of the Bank	326 voting shareholders and 137 non-voting shareholders

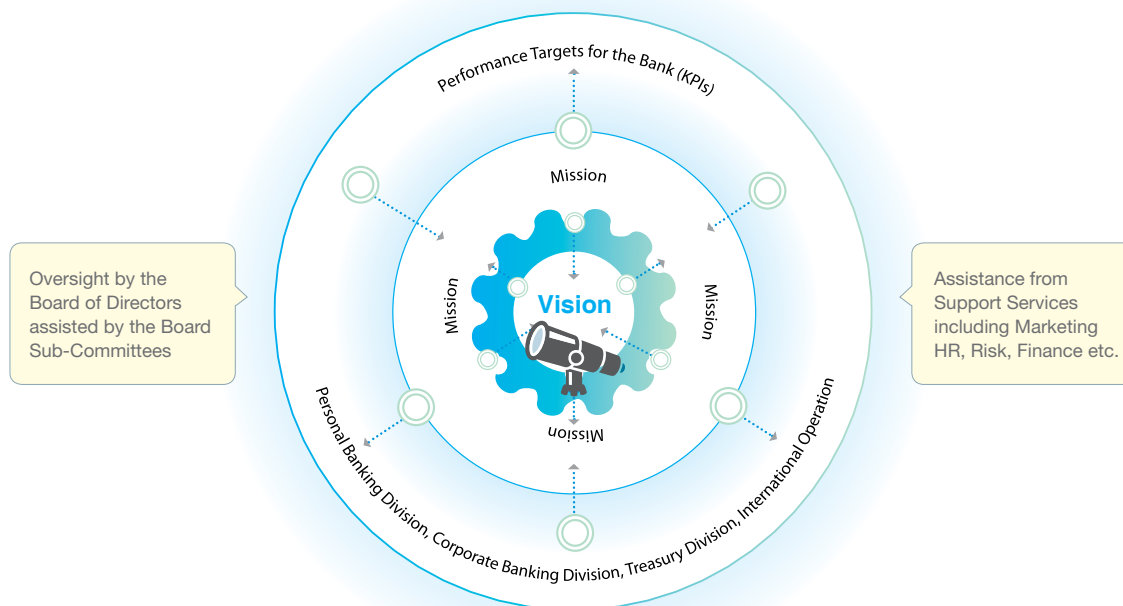
Performance Governance

‘Performance governance is about creating the structure to whom responsibilities are allocated whilst working independently under the control of the Board’

Governance and Compliance Organisation, England

Performance governance at the Bank stemmed from the strategic direction drilled down to corporate objectives. By efficiently and methodically implanting the performance governance ethos, the Bank strives to develop a framework that delivers breakthrough corporate results while taking account the expectations of all stakeholders of the Bank.

The Chairman and the Managing Director together with their respective teams review the strategic plan and budgets against the actual performance on a monthly basis and at more frequent intervals, as needed. Progress made by the four Key Strategic Business Units of the Bank in terms of the pre-set Key Performance Indicators (KPIs) are continuously reviewed to ensure the correct alignment with the overall strategy of the Bank, as depicted in the diagram below:



Strategic Business Unit	KPIs set for 2012	Extent of Achievement
Personal Banking	- Enhance the contribution to Bank's advances portfolio. - Maintain No. 1 position in Deposits among private Commercial Banks. - Expand delivery points and channels to become the most sought after network among the Banking Industry. - To maintain the NPA below the industry norms. - To groom a knowledgeable team who can take the Personal Banking Division in the right direction in the long run.	See the section on 'Performance by Division - Personal Banking' on pages 63 to 74 of the 'Management Discussion and Analysis' for detailed explanations.
Corporate Banking	- Maximise profit while maintaining a substantial growth in the lending portfolio and also maintaining a quality loan book. - To achieve and maintain the best financial ratios in the industry. - To continue to maintain the most preferred bank status for trade finance. - To expand our rated customer base. - To achieve a high standard in processes and internal control in credit operations. - To expand off-shore lending in the South Asian Region. - To revisit and redefine the customer convenience and satisfaction in all operations. - To take advantage of the lending opportunities that have arisen with the post war development work now taking place in the country. - Actively pursue investment opportunities in listed entities.	See the section on 'Performance by Division - Corporate Banking' on pages 75 to 80 of the 'Management Discussion and Analysis' for detailed explanations.
Treasury	- Achieve budgeted FX profit through increasing business volumes. - Improve fixed income operations in order to enhance profitability. - Improve the efficiency of the Treasury through operational excellence. - Managing proprietary trading portfolio with clearly defined targets - Streamline Bangladesh Treasury Operations and take the control directly under the Group - Achieve the status of "Most Preferred Treasury Solution Centre" in the market. - Management of the Bank's financial assets and liabilities in consultation with the ALCO. - Managing Treasury related risks within the approved limits. - Managing the Bank's funds while conforming to statutory and internal regulatory requirements. - Enhance Treasury business volumes along with the Bank	See the section on 'Performance by Division - Treasury Banking' on pages 81 and 83 of the 'Management Discussion and Analysis' for detailed explanations.
International Operations	- To achieve the pre-eminent position of being the 3rd most profitable foreign bank amongst the foreign banks operating in Bangladesh. - To establish the Bank as a preferred retail banker providing superior customer service at affordable rates. - To provide the best service in fixed income and FX products in the market.	See the section on 'Performance by Division - International Operations' on pages 84 to 89 of the 'Management Discussion and Analysis' for detailed explanations.

The strategy adopted by the Bank provides an integrated and dynamic approach to its strategic issues and ensures that the strategy is discussed at Board level on a regular basis. Alignment of the performance targets of the individuals to the Key Performance Indicators of the Bank has been highly successful over the years.

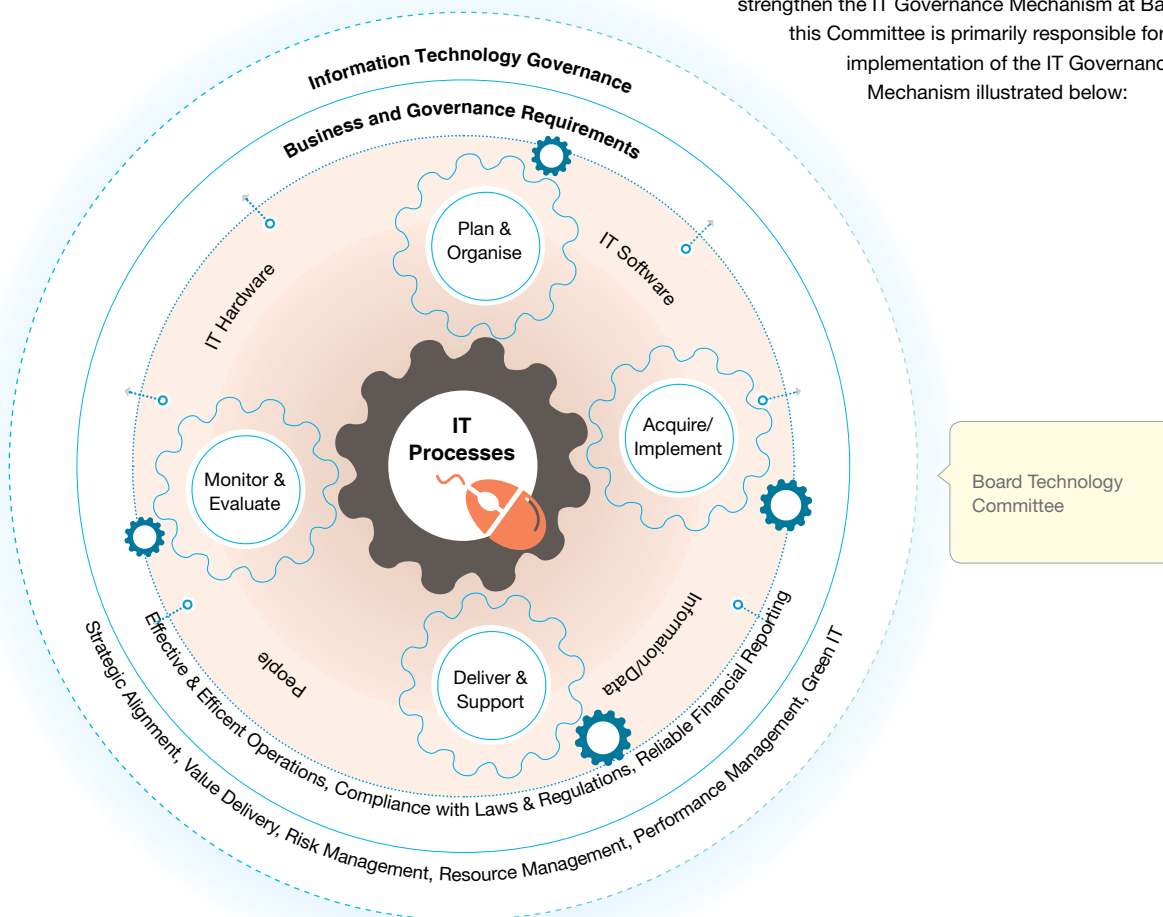
The Bank strongly believes that good corporate governance on its own cannot make the Bank successful and as such it always strives to strike a balance in conformance with performance. The Board appointed Sub-Committees play a key role in assisting the Board in this regard and the reports of the four mandatory Board Sub-Committees and two other voluntary Board Sub-Committees appears on pages 206 to 215 which gives a brief descriptions on their compositions, mandates and methodologies adopted.

IT Governance

In doing business, especially in banking, information technology has become the backbone for conducting 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 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 Banks 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	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	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 for financial reporting.
Reliable Financial Reporting	Close integration of the different IT systems used by the various functional areas of the Bank. Use of a world renowned external resource planning system for financial reporting.
Information Security Management	Achieving the ISO/IEC 27001:2005 Information Security Management Systems certification in 2010 with re-certification in 2012 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	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 - Procurement, Chief Information Officer, the Chief Operating Officer and the Managing Director.
Customer Convenience	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.

Objective	IT Governance Mechanism in place at Commercial Bank
IT Risk Management	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	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

The Bank's Risk Governance and policy framework 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 strives 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, coordinates 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 committee is found on pages 208 and 209.

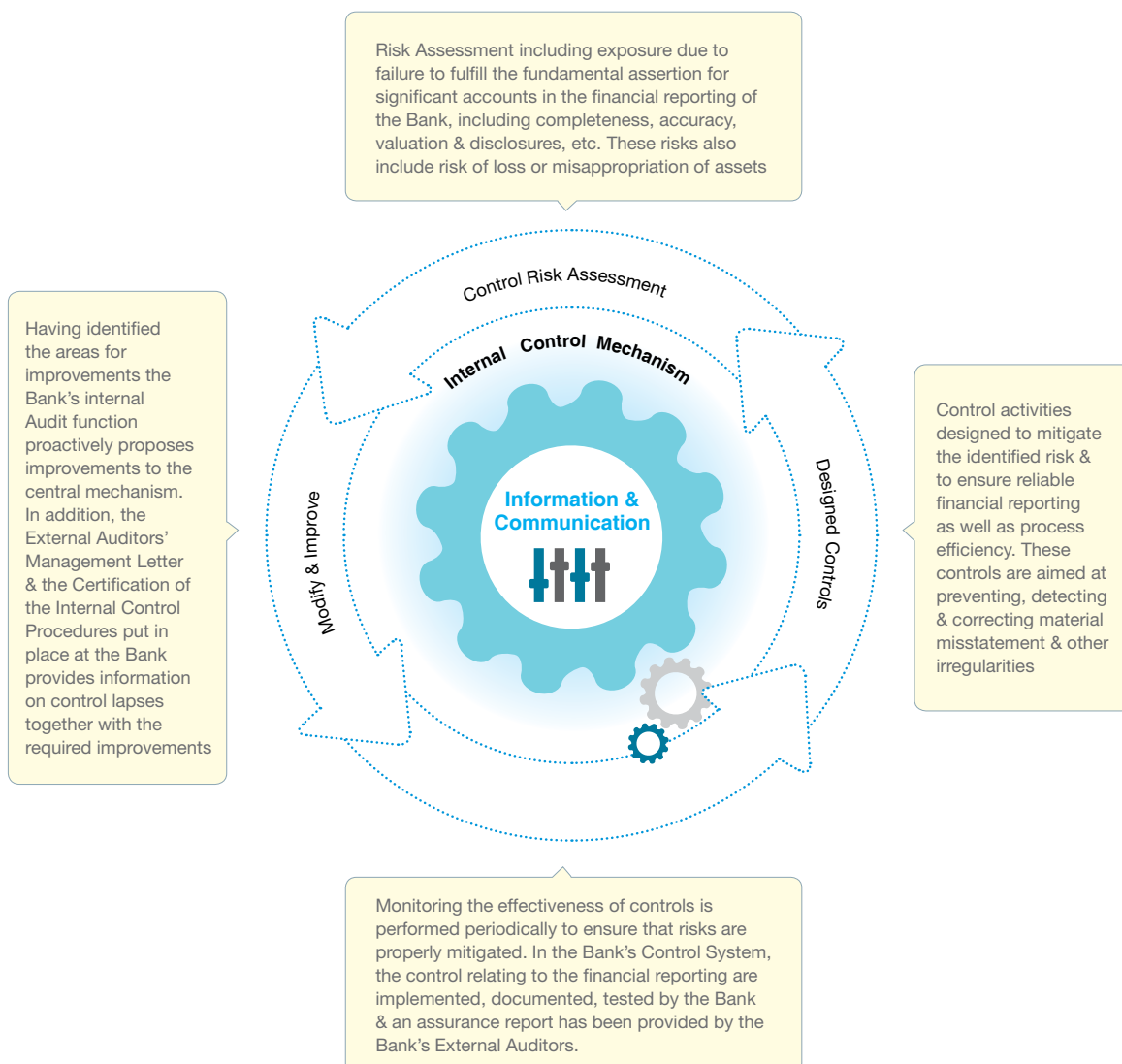
A full report on the Bank's Risk Management Mechanism including the developments that took place in 2012 are found in the section on 'Managing Risk at Commercial Bank' on pages 229 to 268 of this Stewardship Report.

Internal Controls Mechanism

The Bank's Internal Control Framework which is an integral part of the governance structure ensures that the management has a better control and provides 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 laws and regulations and reliable financial reporting. The communication of information through the Bank's internal control mechanism, diagrammatically presented below, encompasses assessing the degree of control risks, evaluating the level of existing controls, monitoring the effectiveness of their implementation and integrating new or modified controls to bridge any control lapses.

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 on internal control mechanism, in order to systematically evaluate and propose improvements for more effective internal control processes and governance. Findings at internal audits are tabled at the Board Audit Committee meetings of the Bank in furtherance to the effectiveness of internal control mechanism.



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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' Assurance Report and management letters also provide the Board with the evidence that enables it to conclude whether the Bank's internal control mechanism is appropriately designed and operating effectively.

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 secure, 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, like any other organisation.

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 issue
- 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 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 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')

"Corporate Governance is concerned with ensuring the Firm is run in the interests of Shareholders" (Franklin Allen, 2005). Hence, a good Corporate Governance Code needs to address the needs of both the Company (the Bank) and its Shareholders. In this regard, it is pertinent to mention that the "Code of Best Practice on Corporate Governance" issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) focuses adequately on fulfilling the aspirations of both parties mentioned above.

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 167 to 181)

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 page 182)

Section 1: The Company (The Bank)

Corporate Governance Principle	Reference to Code	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 <i>inter alia</i> 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. Profiles of Directors are given on pages 140 and 141.			
Board Meetings	A.1.1	Complied with	Board Meetings are held monthly mainly to review the performance of the Bank and its subsidiaries and other routine matters referred to the Board by the Heads of respective divisions, while Special Board Meetings are convened whenever necessary. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders.
See 'Number of Meetings Held and Attendance' on page 205.			

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Responsibilities of the Board	A.1.2	Complied with	The Board is responsible for providing strategic direction, ensuring execution of strategies, monitoring performance and providing oversight for the Bank. The Board is assisted in this task by the Corporate Management headed by the Managing Director. The Board Nomination Committee assists the Board in setting the criteria and key attributes required for the posts of Managing Director and the Key Management Personnel. It also ensures the succession arrangements for retiring Directors and Key Management Personnel. The Board takes necessary steps to fulfil the duties entrusted to it by securing the integrity of the information, managing risks and implementing an effective internal control system. In this process, compliance with all applicable laws and regulations and also adherence to the Bank's ethical standards and corporate values are of utmost importance in order to ensure that the interests of all stakeholders are taken into consideration in the corporate decision making process ensuring that the Company's values and standards are set with an emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations are also the responsibility of the Board. Responsibilities of the Board are clearly indicated in the Board Charter of the Bank. See 'Directors' Statement on Internal Control' that appears on page 299 for details on compliance on above aspects.
Seeking Independent Professional Advice	A.1.3	Complied with	The Directors are permitted to seek independent professional advice as and when required. The Company Secretary takes required initiatives in this connection. In addition, the Board is assisted by several Board Sub-Committees on various matters under their purview. See pages 206 to 215 for Reports of all Board appointed Sub-Committees for further details.
Advice and Services of the Company Secretary	A.1.4	Complied with	All legal matters for which clarification is needed by the Board are referred to the Company Secretary who is an Attorney-at-Law and a Chartered Secretary. She provides all required information after obtaining necessary professional advice, whenever required to do so. 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. 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 judgement in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Dedicating Adequate Time and Effort by the Directors	A.1.6	Complied with	All Directors of the Bank dedicate adequate time and effort to fulfill 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 204) 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 205.
Training for New and Existing Directors	A.1.7	Complied with	Both new and existing Directors of the Bank are provided 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.

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	The positions and functions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision making being vested with a single autonomous entity.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
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	The Chairman ensures proper conduct of Board proceedings to optimise the contribution from Board members through: • Securing effective participation by both Executive and Non-Executive Directors in the decision making process. • Providing leadership to all Directors to make effective contribution within their respective capabilities. • Maintaining a balance of power between Executive and Non-Executive Directors and by ascertaining the views of the Directors on issues under consideration. • Ensuring that the Board is in complete control of the Bank's affairs. • Ensuring that the Board is alert to its obligations to all shareholders and other stakeholders. • Ensuring that all Board members receive appropriate induction, covering terms of appointment, duties and responsibilities. • Ensuring that regular meetings are conducted at least once a month and the minutes of meetings are accurately recorded and adequately secured. • Approving the agenda prepared by the Company Secretary.

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. The Chairman of the Board is an Associate of the Chartered Institute of Management Accountants, United Kingdom and has a Master of Business Administration (MBA) from the University of Leicester, England. He also has over 10 years experience as a Bank Director. The MD/CEO holds a Degree in Law and is a Fellow of the Chartered Institute of Bankers (London), and a Hubert H. Humphrey Fellow. He also has 38 years experience in Banking, out of which 18 years has been in the Corporate Management. In addition, the Chairman of the Board Audit Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, a member of the Institute of Chartered Management Accountants of Sri Lanka and a Member of the Institute of Certified Management Accountants of Australia.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
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	Six out of eight Directors on the Board are NEDs which is well above the minimum prescribed by this Code, which is two NEDs or NEDs equivalent to one-third of the total number of Directors, whichever is higher. This ensures that the views of Non-Executive Directors carry a significant weight in the decisions made by the Board.
Independence of NEDs	A.5.2 & A.5.3	Complied with	Four out of the six NEDs are Independent 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. All four Independent Directors are 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 Declaration by the Board on the independence of Directors	A.5.5	Complied with	The Board has determined the independence of Directors based on the declarations submitted by the NEDs, as to their independence, as a fair representation and will continue to evaluate their independence on this basis annually. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-Executive Directors are: Mr. D.S. Weerakkody Mr. K.G.D.D. Dheerasinghe Mr. L. Hulugalle Mr. S. Swarnajothi
Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions	A.5.6 & A.5.7	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.5.8	Complied with	Chairman meets with the NEDs without the presence of Executive Directors, whenever necessary.
Recording of Concerns which cannot be Unanimously resolved in Board Minutes	A.5.9	Complied with	Concerns of the Directors which can not be unanimously resolved by the Directors if any, and all other important issues raised by the Directors at every Board Meeting during the year, 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.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
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 Time for Board Meetings	A.6.2	Complied with	According to the Articles of Association of the Bank, all Board Members are given a notice of at least 7 days prior to the confirmed dates of meetings and all Minutes of previous meetings, Agenda and Board Papers are normally dispatched within the aforesaid deadlines. Further, adequate notice is given to all Directors prior to emergency/ special Board Meetings. This ensures that the Board members have adequate time to study the related papers and prepare for a meaningful discussion at their Meetings.
A.7 Appointment 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	New appointments and re-elections of Directors to the Board are considered and recommended by the Nomination Committee and based on such recommendations, final decisions are made by the Board in a formal and transparent manner. Further, this Committee annually assesses the composition of the Board to ensure that the combined knowledge and experience of the Board matches the strategic demands faced by the Bank. See page 210 for the 'Board Nomination Committee Report' for the Terms of Reference and the composition of members of this Committee.
Disclosure of required details to Shareholders on new appointments to the Board	A.7.3	Complied with	When new Directors are appointed, a brief resumé of each such Director, including the nature of his or her expertise, the names of companies in which the Director holds directorships, memberships in Board Sub-Committees etc., are informed to the Central Bank of Sri Lanka (CBSL) and the Colombo Stock Exchange (CSE) in addition to disclosing this information in the Annual Report. Further, the required information is published in a few selected newspapers for the information of interested parties. Any changes in the details provided by the Directors are disseminated to the CSE without delay.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
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	Directors to retire at the Annual General Meeting (AGM) 1. Directors who were appointed to fill casual vacancies Messrs S. Swarnajothi and J. Durairatnam who were appointed to fill casual vacancies on the Board during the year 2012 are permitted to hold office only until the following AGM. Hence, they are required to offer themselves for re-election at the next AGM. 2. (i) Directors to Retire by Rotation 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): Mr. D.S. Weerakkody Mr. K.G.D.D. Dheerasinghe Prof. U.P. Liyanage Mr. L. Hulugalle Mr. M.P. Jayawardena (iii) Accordingly, two Directors, out of the above five Directors are required to retire by rotation at the next AGM. (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. Mr. K.G.D.D. Dheerasinghe and Prof. U.P. Liyanage offered themselves for re-election by rotation at the next AGM. 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: (a) Directors to retire by rotation Mr. K.G.D.D. Dheerasinghe Prof. U.P. Liyanage (b) Directors appointed to fill casual vacancies - Mr. S. Swarnajothi Mr. J. Durairatnam Please find a brief resume of the aforementioned Directors on pages 140 and 141.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
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 Sub-Committees and the Board function 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 & Remuneration Committee' on pages 206 and 207 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.			
Disclosures on Directors in the Annual Report	A.10.1	Complied with	The following details pertaining to each Director are disclosed as follows: (a) Brief profile with expertise and experience - pages 140 and 141 (b) Other business interests - page 228 (c) Remuneration - Note 14 on page 344 (d) Status of independence - page 223 (e) Details of Board Meetings and Board Committee Meetings held during the year - page 205
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.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
B Directors' Remuneration			
B.1 Remuneration Procedure			
This principle ensures that the Bank has a well established, formal and transparent procedure in place for developing an effective remuneration policy for both Executive and Non-Executive Directors where no Director is involved in deciding his/her own remuneration to avoid potential conflict of interest.			
Establishment of a Remuneration Committee	B.1.1	Complied with	The Bank has a Board Human Resources and Remuneration Committee which has power to evaluate, assess, decide and recommend to the Board of Directors on any matter that may affect the Human Resources Management of the Bank. See '<i>Board Human Resources and Remuneration Committee Report</i>' for the Terms of Reference on pages 206 and 207.
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 206 and 207 of the ' <i>Board Human Resources and Remuneration Committee Report</i> ' for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.
Determination of the Remuneration of Non-Executive Directors	B.1.4	Complied with	The Board as a whole decides the remuneration of the Non-Executive Directors. The Non-Executive Directors will receive a fee for being a Director of the Board and an additional fee for either chairing or being a member of a Committee, working on Special Committees and/or serving on subsidiary Boards. They do not receive any performance/ incentive payments.
Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee	B.1.5	Complied with	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 Principle	Reference to Code	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.
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 of the Financial Statements on page 395.
Designing the Performance-Related Remuneration of Executive Directors	B.2.6	Complied with	For details see ' <i>Board Human Resources and Remuneration Committee Report</i> ' on pages 206 and 207.
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.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
B.3 Disclosure of Remuneration			
The Code requires the Bank to disclose in its Annual Report the details of the remuneration paid and the Remuneration Policy.			
Disclosure of Remuneration	B.3.1	Complied with	See 'Board Human Resources and Remuneration Committee Report' on pages 206 and 207 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 344 for the aggregate remuneration paid to Executive and Non-Executive Directors.

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 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.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
C.2 Major 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, if entered into.			
Disclosures on proposed Major Transactions	C.2.1	Not applicable	There were no major transactions involving acquisition or disposal of greater than half of the net value of the Bank or its subsidiaries entered into by the Bank during the year. Transactions which materially affect the net assets base of the Bank are/will be disclosed in the Quarterly/ Annual Financial Statements, if any.

D Accountability and Audit

D.1 Financial Reporting

This principle 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	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 297 confirming this position. 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).
Declarations by Directors in the Directors' Report	D.1.2	Complied with	The Directors have made all required declarations in the 'Annual Report of the Board of Directors'. See the 'Annual Report of the Board of Directors' appear on pages 218 to 227 for the required declarations.
Statements by Directors and Auditors on Responsibility for Financial Reporting	D.1.3	Complied with	The 'Statement of Directors' Responsibility' is given on page 297. See 'Auditors' Report' on page 303 for the reporting responsibility of Auditors.
Management Discussion and Analysis	D.1.4	Complied with	See 'Management Discussion and Analysis' on pages 14 to 136
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 page 218 and the 'Statement of Directors' Responsibility' on page 297 for the required declarations.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
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.

D.2 Internal Control

The Code requires the Bank's Board to ensure that an effective system of internal controls, which safeguards the Bank's assets to protect the interest of shareholders is in place.

Directors to conduct an annual review of Internal Controls	D.2.1	Complied with	The Bank obtained the External Auditors' certification on the effectiveness of the internal control mechanism on financial reporting.
Need for an Internal Audit function for Companies with no such function	D.2.2	Not applicable	This is not applicable as the Bank already has its own in-house Internal Audit Department, which is responsible for internal audit function.

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 211 to 213 of the '<i>Board Audit Committee Report</i>' under the heading '<i>Composition of the Committee</i>'.
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.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance
Terms of reference of the Audit Committee	D.3.3	Complied with	Terms of Reference of the Board Audit Committee is clearly defined in the Charter of the Audit Committee approved by the Board of Directors, which was last revised in 2012. 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 211 to 213 under the heading on ' <i>The Composition of the Committee</i> ' and disclosure on the independence of the Auditors is found on page 212 under the Section on ' <i>External Audit</i> ' in the ' <i>Board Audit Committee Report</i> ' on pages 211 to 213.

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 members of the Senior Management of the Bank.

Disclosures on presence of Code of Business Conduct and Ethics	D.4.1	Complied with, for Members of Senior Management	The Bank has an internally developed Code of Conduct for its employees including the Corporate and Senior Management. This Codes addresses conflict of interest, corporate opportunities, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behaviour, etc. Details of the Bank's Code of Ethics, including Governing Principles are found on page 166.
Affirmative Statement by the Chairman	D.4.2	Complied with	See the 'Letter from the Chairman' on page 7 for required details.

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 145 to 205 serves this requirement.

Corporate Governance Principle	Reference to Code	Compliance	Details of Compliance

Section 2: Shareholders

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.

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.

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 before making investing or divesting decisions.

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.

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 for the year ended December 31, 2012 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 any aspect of 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. Commercial Bank of Ceylon PLC 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 2012 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)	The Board shall strengthen safety and soundness of the Bank by ensuring the implementation of the following:	
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	Complied with. 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.
	(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;	Complied with. The Strategic Plan for next 5 years was approved by the Board after discussing related issues in detail with the Corporate Management.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied with. Identifying principal risks, approving overall risk policy and risk management procedures are done mainly through the Board Integrated Risk Management Committee.
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with. A Board approved Communication Policy is available. Annual General Meeting is used to have an effective dialogue with the shareholders on matters which are relevant and concern to the general membership.
	(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 and management information systems is reviewed by the Board Audit Committee.

Relevant Section	Rule	Degree of Compliance
	(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 selected Members of the Corporate Management who fall into the defined criteria are designated as Key Management Personnel.
	(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 of 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 sent to the Directors for the purpose of evaluating the effectiveness for 2012. Responses of Directors were discussed for necessary action at a subsequent Board Meeting.
	(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.
	(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 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.

Relevant Section	Rule	Degree of Compliance
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 190 and 191 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. The Board meets regularly at least on monthly intervals. During 2012, the Board met 14 times. See 'Item A. 1.1' of the ICASL and SEC Code table on page 167 for further details.
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 in this regard, where such proposals relate to the promotion of business and the management of risks of the Bank.
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. Directors are given notice of at least 7 days for regular Board meetings. In addition, adequate notice is given for Special Board meetings.
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 have attended at least two-thirds of the meetings held during 2012. Further, no Director has been absent from three consecutive regular Board meetings during the year.
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 adequate experience functions as the Secretary of the Board and she has taken steps to duly comply with the requirements under the Banking Act No. 30 of 1988. 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. See 'Item A.1.4' of the ICASL and SEC Code table on page 168 for further details.

Relevant Section	Rule	Degree of Compliance
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	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. Minutes are approved by the Chairman and the other members of the Board, after making required amendments, if necessary.
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 procedure adopted by the Board 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 interests with the activities of the Bank. Such Directors' presence is disregarded in counting the quorum for agenda involving such issues.
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 meeting ensures the direction and control of the Bank is firmly under Board's control and authority.

Relevant Section	Rule	Degree of Compliance
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	No such situations have arisen. Bank has a Board approval 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.
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.
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)	(A) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer, shall not exceed nine years and such period in office shall be inclusive of the total period of service served by such Director up to January 1, 2008. (B) In this context, the following transitional provisions shall apply: A Director who has completed 9 years as at January 1, 2008, or who completes such term at any time prior to December 31, 2008, may continue for a further maximum period of 3 years commencing January 1, 2009.	Complied with. 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 MD/ CEO 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.

Relevant Section	Rule	Degree of Compliance
3 (2) (iv)	The Board shall have at least three Independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from January 1, 2010 onwards. A Non-Executive Director shall not be considered independent if he/she: (a) has direct and indirect shareholdings of more than 1% of the Bank; (b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank; (c) has been employed by the Bank during the two-year period immediately preceding the appointment as Director; (d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a 'close relation' shall mean the spouse or a financially dependent child; (e) represents a specific stakeholder of the Bank; (f) is an employee or a Director or a material shareholder in a company or business organisation: (i) which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank, or (ii) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or (iii) in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank.	Complied with. Following are the Non-Executive Independent Directors: Mr. D.S. Weerakkody Mr. K.G.D.D. Dheerasinghe Mr. L. Hulugalle Mr. S. Swarnajothi
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. Their profiles are found on pages 140 and 141.

Relevant Section	Rule	Degree of Compliance
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 2012 were duly constituted with the presence of more than one-half of the Non-Executive Directors. See 'Number of Meetings Held and Attendance' on page 205.
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 316. Profiles of the Non-Executive Directors are given on pages 140 and 141.
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 and re-elections of Directors to the Board 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 210 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.	Complied with. Mr. A.L. Gooneratne, former Managing Director/Chief Executive Officer of the Bank retired from the services of the Bank on April 27, 2012 on reaching the age of retirement and resigned from his position as a Director of the Board with effect from the said date. An announcement was made as required.
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 140 and 141.

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.
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of Subsidiaries or Associate Companies of the Bank. Of such 20 companies/entities/institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. (A) In this context, the following general exemption shall apply: If any person holds posts in excess of the limitations as above, such person shall within a maximum period of three years from January 1, 2009 comply with the above mentioned limitation and notify the Monetary Board accordingly.	Complied with. No Director holds directorships of more than 20 companies / 10 companies classified as "Specified Business Entities."
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. The delegated powers are reviewed periodically to ensure that they remain relevant to the needs of the Bank.

Relevant Section	Rule	Degree of Compliance
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.
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.	Complied with. The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. Similarly, no relationships prevail among the other members of the Board, other than for two Directors being common Directors of a company. See Note 2 appearing on page 203 for further details.
3 (5) (iv)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with. Board approved List of Functions and Responsibilities of Chairman include, 'Providing Leadership to the Board' as a responsibility of the Chairman. The Bank expanded the 'scope for Appraisal' in the Board 2012 annual assessment by including 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.
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. The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings.
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.

Relevant Section	Rule	Degree of Compliance
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.	Complied with. The Chairman does not directly get involved in the supervision of Key Management Personnel or any other executive duties.
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 general meetings, shareholders are given the opportunity to take up matters for which clarification is needed. Further, 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 requires each such committee to report to the Board: 1. Board Human Resources and Remuneration Committee 2. Board Integrated Risk Management Committee 3. Board Nomination Committee 4. Board Audit Committee See pages 206 to 215 for the Reports of the Board Committees.
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	See Sections of Composition, Charter, Meetings and the Methodology of the Board Audit Committee Report on pages 211 to 213.
	(a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied with. Chairman of the Committee is an Independent Non-Executive Director and possesses qualifications and related experience.
	(b) All members of the Committee shall be Non-Executive Directors.	Complied with. All members of the Committee are Non-Executive Directors

Relevant Section	Rule	Degree of Compliance
	(c) The Committee shall make recommendations on matters in connection with: (i) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to Auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied with. Prior to the appointment of External Auditors for audit services, necessary action is taken to ensure compliance with applicable legal and statutory requirements. The evaluation is carried out by the Board Audit Committee in consultation with the Chief Financial Officer.
	(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.	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.
	(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: (i) whether the skills and experience of the audit firm make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.	Complied with. Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank: (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. (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. (c) Assigning such non-audit services to External Auditors is discussed at Audit Committee Meeting and required approval is obtained to that effect.
	(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between firms where more than one audit firm is involved.	Complied with. 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.

Relevant Section	Rule	Degree of Compliance
	(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.	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.
	(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.	Complied with. The Committee met the External Auditors twice without the presence of the Executive Directors and Corporate Management.
	(i) The Committee shall review the External Auditor's Management Letter and the management's response thereto.	Complied with. Upon receipt of the 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.
	(j) The Committee shall take the following steps with regard to the internal audit function of the Bank: (i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	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. Complied with. This review is carried out by immediate Supervising Officer and thereafter referred to the Chairman of the Board Audit Committee, for a further review and ratification.

Relevant Section	Rule	Degree of Compliance
	(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Complied with. The services of five 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.
	(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;	Complied with.
	(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 Inspection who will be reporting directly to the Board Audit Committee. Hence, it is independent and the audits are performed with due 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, on two occasions, 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 ' <i>Board Audit Committee Report</i> ' on pages 211 to 213.
	(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 ' <i>Board Audit Committee Report</i> ' on pages 211 to 213.

Relevant Section	Rule	Degree of Compliance
	(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 ' <i>Board Audit Committee Report</i> ' on pages 211 to 213.
	(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 ' <i>Board Human Resources and Remuneration Committee Report</i> ' on pages 206 and 207.
	(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	Complied with. 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. Please refer ' <i>Board Human Resources and Remuneration Committee Report</i> ' on pages 206 and 207.
	(b) The Committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	
	(c) The Committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance based incentives.	
	(d) The CEO shall be present at all meetings of the Committee, except when matters relating to the CEO are being discussed.	
3 (6) (iv)	The following rules shall apply in relation to the Board Nomination Committee:	
	(a) The Committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Complied with. Please refer Sections of Composition, Charter, Meetings and the Methodology of the ' <i>Board Nomination Committee Report</i> ' on page 210.
	(b) The Committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	
	(c) The Committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the key management positions.	

Relevant Section	Rule	Degree of Compliance
	(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.	Complied with. Committee ensures that all Directors are fit and proper persons to hold office as specified in the Direction. 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.
	(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.	For Directors - Complied with. For Key Management Personnel - This activity is handled by the Board Human Resources and Remuneration Committee.
	(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.	Committee was chaired by an Independent Director. CEO was present at meetings by invitation.
3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	Please refer Sections of Composition, Charter, Meetings and the Methodology of the ' <i>Board Integrated Risk Management Committee Report</i> ' on pages 208 and 209.
	(a) The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories - i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied with. Members of the Committee are given below: Mr. D.S. Weerakkody Mr. K.G.D.D. Dheerasinghe Prof. U.P. Liyanage Mr. W.M.R.S. Dias (By invitation)
	(b) The Committee shall assess all risks - i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on a Bank basis and Group basis.	Complied with. The Committee will take action to comply with the requirements for all Subsidiaries and Associate Companies, on a monthly basis, during the year 2013.
	(c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with. 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 lending sector advances/NPA segmentation by industry and product risk grading, cross border, counterparty and bank risk exposure have been reviewed on a monthly basis.

Relevant Section	Rule	Degree of Compliance
	(d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied with. Quarterly reports of the Committee are evidence that all risk indicators which have gone beyond the limits have been discussed at a length and recommendations/suggestions are made to reduce the same with nominating relevant persons responsible and further the progress is being monitored.
	(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. The applicable procedure which is in practice will be strengthened as specified in this Direction.
	(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. The Compliance Officer submits a quarterly compliance report to the Board Audit Committee, Board Integrated Risk Management Committee and the non-compliance issues are reported to the main Board.

3 (7) - Related Party Transactions

3 (7) (i)	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: (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.	A Board approved process is in place to ensure that the Bank does not engage in transactions with related parties, as defined in the Direction. The Bank is in the process of strengthening the monitoring mechanism in this regard, during the year 2013. 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' in Note 53 on page 411.

Relevant Section	Rule	Degree of Compliance
3 (7) (ii)	The type of transactions with related parties that shall be covered by this Direction shall include the following: (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation, (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments, (c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank, (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.	A Board approved process is in place to ensure compliance. The Bank is in the process of strengthening the monitoring mechanism in this regard during the year 2013.
3 (7) (iii)	The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the Bank carrying on the same business. In this context, "more favourable treatment" shall mean and include treatment, including the: (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: I. "Accommodation" shall mean accommodation as defined in the Banking Act Direction No. 07 of 2007 on Maximum Amount of Accommodation. 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. (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. (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. (d) Providing services to or receiving services from a related party without an evaluation procedure. (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.	A Board approved process is in place to ensure compliance. The Bank is in the process of strengthening the monitoring mechanism in this regard during the year 2013.

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)	(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. (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. (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. (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.	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 Scheme' of the Bank. The monitoring mechanism will be further strengthened during the year 2013.
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 ' <i>Statement of Directors' Responsibility</i> ', ' <i>Managing Director's and Chief Financial Officer's Responsibility Statement</i> '. Please refer page 302.
	(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 ' <i>Directors Statement of Internal Control</i> ' on page 299 and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements is given on page 297 on ' <i>Statement of Directors' Responsibility</i> '. In addition, all Directors have signed the ' <i>Annual Report of Board of Directors</i> ' found on pages 218 to 227, wherein all Directors have collectively taken the responsibility for the above requirement.

Relevant Section	Rule	Degree of Compliance														
	(c) The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above, in respect of any statements prepared or published after December 31, 2008.	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 200)														
	(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 140 and 141, transactions of the Directors with the Bank are given in the ' <i>Directors Interest in Contracts with the Company</i> ' on page 228 and the total of fees/remuneration paid to the Directors by the Bank is given in Note 14 to the Financial Statements on page 344.														
	(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 411 to 415. 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> <tr> <th rowspan="2">Category of Related Party Transactions</th><th colspan="2">% of the Regulatory Capital</th></tr> <tr> <th>2012</th><th>2011</th></tr> <tr> <td>Key Management Personnel</td><td>0.24</td><td>0.30</td></tr> <tr> <td>Subsidiaries</td><td>0.17</td><td>0.50</td></tr> <tr> <td>Associates</td><td>0.03</td><td>0.06</td></tr> </table>	Category of Related Party Transactions	% of the Regulatory Capital		2012	2011	Key Management Personnel	0.24	0.30	Subsidiaries	0.17	0.50	Associates	0.03	0.06
Category of Related Party Transactions	% of the Regulatory Capital															
	2012	2011														
Key Management Personnel	0.24	0.30														
Subsidiaries	0.17	0.50														
Associates	0.03	0.06														
	(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 53.2.1.1, 53.2.1.2 and 53.2.1.3 to the Financial Statements on page 412 and the aggregate values of the transactions of the Bank with its Key Management Personnel are set out in Note 53.2.2 to the Financial Statements on page 412.														
	(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.														

Relevant Section	Rule	Degree of Compliance
	(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 ' <i>Statement of Directors' Responsibility</i> ' on page 297 for details of the compliance with prudential requirements, regulations, laws and internal controls.
	(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 Annual Reports. Position applicable to the year 2012 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 for 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.

Note 1

The following table lists out the composition of the Board, by category of Directors for the year ended December 31, 2012.

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 (Director up to April 26, 2012 and Managing Director from April 27, 2012)	Executive & Non-Independent
Mr. J. Durairatnam (with effect from April 28, 2012)	
Mr. A.L. Gooneratne (Managing Director up to April 27, 2012)	
Other Non-Executive Directors:	
Mr. K.G.D.D. Dheerasinghe (Deputy Chairman)	Independent
Prof. U.P. Liyanage	Non-Independent
Mr. L. Hulugalle	Independent
Mr. M.P. Jayawardena	Non-Independent
Mr. S. Swarnajothi	Independent

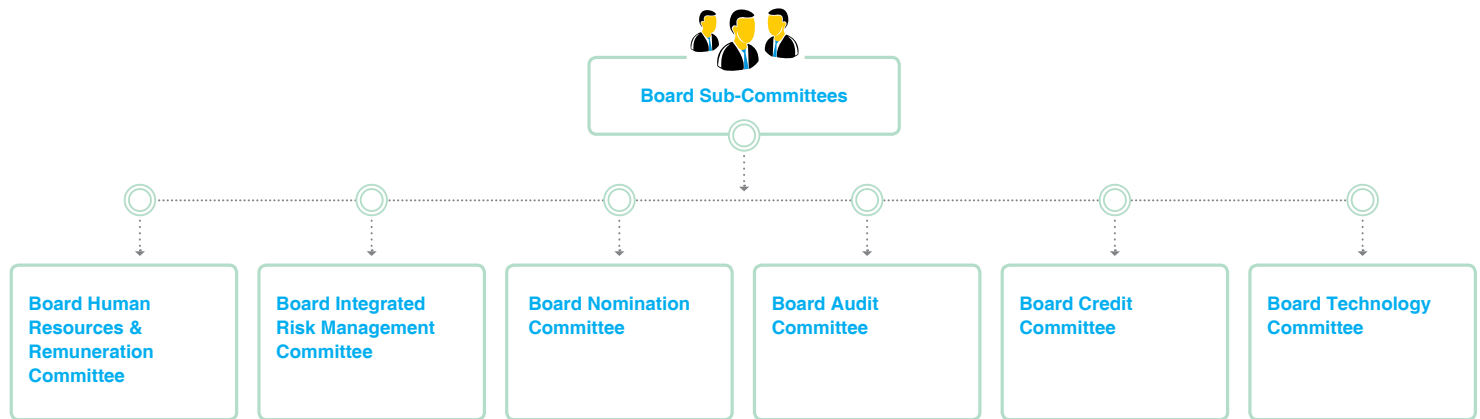
Note 2

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 the Managing Director/Chief Executive Officer of Chemanex PLC and Prof. U.P. Liyanage, a Director of the Bank was also a Director of Chemanex PLC as at December 31, 2012.



Committee Composition as at December 31, 2012

Name of Director	Name of Committee		Board Human Resources & Remuneration Committee	Board Integrated Risk Management Committee	Board Nomination Committee	Board Audit Committee	Board Credit Committee	Board Technology Committee
	Main Board							
Mr. D. S. Weerakkody	C	C			C	C*		
Mr. K.G.D.D. Dheerasinghe	M	M		C	M		C	
Prof. U.P. Liyanage	M	M		M	M	M		C
Mr. W.M.R.S. Dias	M	Ω		M	Ω	Ω	M	M
Mr. L. Hulugalle	M			M		M		
Mr. M.P. Jayawardena	M			M		M	M	
Mr. J. Durairatnam (Appointed with effect from April 4, 2012)	M			M		Ω		M
Mr. S. Swarnajothi (Appointed with effect from August 20, 2012)	M			M		C		
Mr. A. L. Gooneratne (Resigned upon retirement with effect from April 27, 2012)	M	Δ		M	Δ		M	M

C - Chairman M - Member Ω - By invitation Δ - By invitation until retirement

* Chairman until August 20, 2012

Reports of the Board Human Resources & Remuneration, Board Integrated Risk Management, Board Nomination, Board Audit, Board Credit and Board Technology Committees appear on pages 206 to 215.

Number of Meetings Held and Attendance

Name of Director	Main Board		Board Human Resources & Remuneration Committee		Board Integrated Risk Management Committee		Board Nomination Committee		Board Audit Committee		Board Credit Committee		Board Technology Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr. D.S. Weerakkody	14	14	7	7	N/A	N/A	3	3	5	5	N/A	N/A	N/A	N/A
Mr. K.G.D.D. Dheerasinghe	14	13	7	7	4	4	3	3	N/A	N/A	12	10	N/A	N/A
Prof. U.P. Liyanage	14	13	7	3	4	4	3	2	7	4	N/A	N/A	5	5
Mr. W.M.R.S. Dias	14	14	7*	7*	4	4	3*	3*	N/A	N/A	12	12	5	4
Mr. L. Hulugalle	14	12	N/A	N/A	4	0	N/A	N/A	7	7	N/A	N/A	N/A	N/A
Mr. M.P. Jayawardena	14	13	N/A	N/A	4	2	N/A	N/A	7	6	12	9	N/A	N/A
Mr. J. Durairatnam (Appointed with effect from April 4, 2012)	9	9	N/A	N/A	2	1	N/A	N/A	N/A	N/A	N/A	N/A	5	4
Mr. S. Swarnajothi (Appointed with effect from August 20, 2012)	6	6	N/A	N/A	2	2	N/A	N/A	2	2	N/A	N/A	N/A	N/A
Mr. A.L. Gooneratne (Resigned upon retirement with effect from April 27, 2012)	5	5	1**	1**	1	0	1**	1**	N/A	N/A	4	3	1	1

* Mr. W.M.R.S. Dias, Managing Director/CEO attends Committee meetings by invitation

** Mr. A.L. Gooneratne former Managing Director/CEO attended Committee meetings by invitation until his retirement.

Composition of the Board Human Resources and Remuneration Committee

The Board appointed Human Resources and Remuneration Committee comprised of three Non-Executive Directors and the Executive Director who is the Managing Director of the Bank, who is present by invitation.

Mr. D.S. Weerakkody - *Chairman*

Mr. K.G.D.D. Dheerasinghe - *Deputy Chairman*

Prof. U.P. Liyanage

Mr. W.M.R. Dias - *Managing Director/CEO - By invitation*

Brief profiles of each member are given on pages 140 and 141.

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.

Charter of the Board Human Resources and Remuneration Committee

The Committee is vested with power to evaluate, assess, decide and recommend to the Board of Directors on any matter that may affect the Human Resources Management of the Bank and shall specifically include the following:

- Determine the compensation of the Chairman, Deputy Chairman, Managing Director and other members of the Board of Directors of the Bank, while ensuring that no Director is involved in setting his or her own remuneration.
- Determine the compensation and benefits of the Key Management Personnel and establish 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, in order 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.
- Formulate formal and transparent procedures for developing policy on remuneration for Executives and Directors.
- Approve annual increments, bonuses, changes in perquisites and incentives.

Board Human Resources and Remuneration Committee Guiding Principles

The Overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience, skills and competencies required which are to be considered for appointment or promotion to the post of Managing Director and to Key Management positions.
- Setting guidelines and policies to ensure that the Bank upholds and adhere to the provisions of 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 which ensure sustainable growth.
- Structuring remuneration packages to ensure that a significant portion of the remuneration is linked to performance which builds a pay for performance culture.
- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- To develop a robust pipeline of rising talent capable and available to fill key positions in the Bank.

Board Human Resources and Remuneration Committee Meetings

The Committee held eight meetings during the year under review. The attendance of committee members at meetings is stated in the table on page 205. The Chairman of the Committee can convene a special meeting in the event a requirement arises, provided all members are given sufficient notice of such special meeting. The quorum for a meeting is three (3) members.

Members of the Corporate Management are invited to participate at the sittings of the Committee meetings as and when required by the Chairman, considering the topics for deliberation at such meeting.

The proceedings of the Committee meetings were regularly reported to the Board of Directors.

Methodology used by the Board Human Resources and Remuneration Committee

The Committee recognised rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract, retain and to motivate employees to deliver results by linking performance to demonstrable performance based criteria. In this regard, the Committee evaluates the performance of the Managing Director and Key Management Personnel against the pre-agreed targets and goals that balance short 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 overall performance of the Bank, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against pre-determined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.

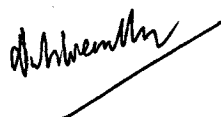
Further, the Committee may seek external agencies at regular intervals to carry out salary surveys to determine the salaries paid to staff vis-à-vis the market position, enabling the Committee to make informed decisions regarding the salaries in the Bank. Moreover, the Committee also ascertains the engagement levels of staff through Staff Engagement Surveys.

For the Committee broadening the leadership base in the bank is a strategic priority. Development areas were focused, having followed up from the '360-degree Evaluation' done previously for the leadership team of the Bank. This intervention was to ensure the Bank's leadership is adequately developed to face current and future challenges and to build a broader leadership capacity and a deeper pipeline of leaders. The Bank is also focusing on a competency-based approach to leadership to make better-informed decisions in hiring, developing and promoting leaders.

Further, the Committee reviewed the succession plans and the talent management process in respect of the senior management of the Bank. Succession planning within the Bank also incorporates diagnostic tools and methods for assessing the developmental readiness of employees for particular experiences and roles.

The Committee also advised the management to identify a set of customer service competencies and train the front line staff, based on those competencies. Among the other activities of the Committee during this period,

- (a) reviewed the existing ESOP scheme
- (b) revised and approved the loan schemes applicable to all levels of staff which will be effective for a period of three years and
- (c) reviewed the HR Strategy to ensure the HR organisation is positioned to create value and deliver strategically relevant business capabilities.



D.S. Weerakkody
Chairman - Board Human Resources and Remuneration Committee

Colombo
February 27, 2013

Composition of the Board Integrated Risk Management 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*

Prof. U.P. Liyanage

Mr. L. Hulugalle*

Mr. M.P. Jayawardena

Mr. S. Swarnajothi*

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/Secretary of the BIRMC*

Mr. S.C.U. Manatunge - *Chief Risk Officer*

* *Independent Non-Executive Director*

Please refer pages 140 and 141 for the profiles of the Board members.

Charter of the Board Integrated Risk Management Committee

The BIRMC was established by the Board of Directors, in compliance with the Section 3 (6) of 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 June 2012. The BIRMC Charter 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 229 to 268.

Board Integrated Risk Management Committee Meetings and the Methodology :

The Committee held four meetings on a quarterly basis, during the year under review. The attendance of Committee Members at meetings is stated in the table on page 205. 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 of effectiveness of the risk management framework of the Bank. The Committee submits a risk assessment report within a week of each meeting to the Board of Directors. Duties of the BIRMC include determining the adequacy and effectiveness of such measures, and to ensure that the actual overall risk profile of the Bank conforms to the desirable risk profile 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.

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.

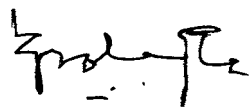
Activities of the Committee

In order to discharge the above duties and responsibilities, the Committee undertakes to carryout the following:

- Reviewing the terms of reference of all Management Committees 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 the Committees have a good understanding of their mandate and adequate mechanism 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, discouragement or constraint in the performance of their functions and/or the implementation of their decisions.

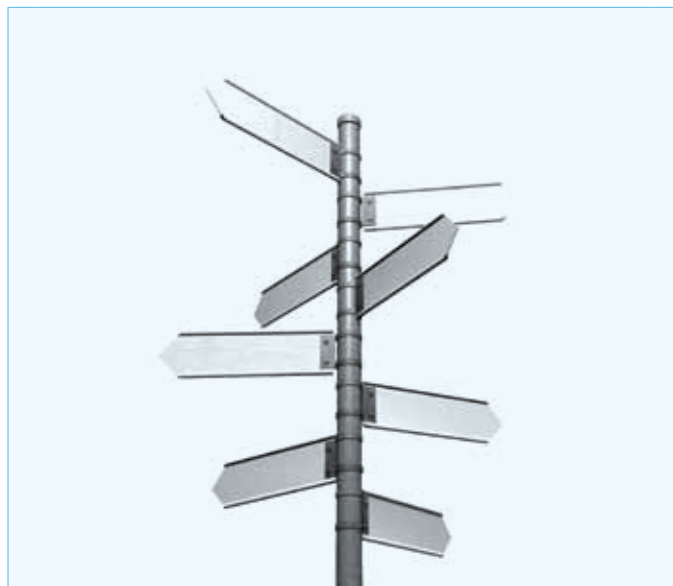
- Reviewing the risk indicators designed to monitor the level of specific risks at any given time, with a view of determining the adequacy of such indicators to serve the intended risk management objectives.
- Reviewing the actual results computed monthly against each risk indicator and take prompt corrective action(s) to mitigate the effects of specific risks, in case 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 ascertain 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 actions 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 2012, 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 27, 2013



Society

In 2012, Bank contributed

Rs. 50 Mn.

to the CSR Trust. Total contribution
to the Trust exceeds

Rs. 290 Mn.

Average cost of a CSR project is

Rs. 900,000/-

Composition of the Board Nomination 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 - *Non-Independent Director*

Mr. W.M.R.S. Dias, Managing Director attended all meetings of the Committee 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 140 and 141.

Terms of Reference of the Board Nomination Committee

Terms of Reference of the Committee are given below:

(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'.

(b) Composition of the 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 of Directors 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.

Board Nomination Committee Charter

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.

Board Nomination Committee Meetings

Three Committee meetings were held during the year under review. Attendance of the Committee members at meetings is given on page 205. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Methodology Adopted by the Board Nomination 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 27, 2013

Composition of the Board Audit Committee

The Board appointed Audit Committee as at the end of the year comprises the following Non-Executive Directors of the Bank:

Mr. S. Swarnajothi - *Chairman (Appointed w.e.f. August 20, 2012)*

Mr. L. Hulugalle

Mr. M.P. Jayawardena

Prof. U.P. Liyanage

The Chairman of the Committee, Mr. S. Swarnajothi, is an Independent Non-Executive Director, who is a Fellow of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and a Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA). He is a former Auditor General of Sri Lanka and possesses considerable experience in the field of Auditing and Finance.

Mr. D.S. Weerakkody, the Chairman of the Board of Directors of the Bank, an Independent Non-Executive Director functioned as the Chairman of the Board Audit Committee till Mr. S. Swarnajothi was appointed as a Director of the Bank as well as the Chairman of the Board Audit Committee in August 2012. Mr. Weerakkody too is an Associate of the Chartered Institute of Management Accountants, U.K. (ACMA) and a Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA) and possesses considerable experience in the field of Finance and Management.

Mr. L. Hulugalle, who serves in the Committee, is also an Independent Non-Executive Director.

The profiles of the members are given on pages 140 and 141.

Mr. Manil Jayasinghe, a senior practising Chartered Accountant with long years of experience in Audit, Accounting Standards and Financial Reporting serves the Committee in the capacity of a Consultant and is invited to attend its meetings.

The Bank's Deputy General Manager – Inspection/Management Audit functions as the Secretary of the Committee.

Terms of Reference

The Charter of the Audit Committee, which is subject to review and revision periodically by the Board of Directors, clearly defines the Terms of Reference of the Committee. The Committee is responsible to the Board of Directors and reports on its activities regularly. It also assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit.

The composition requirements, roles and functions of the Committee are set out in the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' (hereinafter referred to as the Direction), '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.

Meetings

During the financial year ended December 31, 2012, seven Committee meetings were held. Minutes of such meetings, which include adequate details of matters discussed, are reported regularly to the Board of Directors. A table showing the record of attendance at these meetings appears on page 205. The engagement partner of the Bank's previous External Auditors, Messrs Ernst & Young, was invited to attend two such meetings during the year. In addition, Managing Director, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Deputy General Manager - Systems Audit and Deputy General Manager - Inspection/Management Audit attended the Committee meetings by invitation. Members of the Senior Management of the Bank were also invited to participate in the meetings as and when the necessity arose.

Mandate and Role

The Audit Committee assists the Board of Directors in fulfilling effectively its oversight responsibilities for the Bank's accounting and financial reporting processes and audit of the Financial Statements of the Bank. The Committee has been mandated to:

- Examine all relevant issues relating to the financial and other connected affairs of the Bank.
- Monitor the financial reporting systems in place to ensure the integrity and the soundness of the information provided to the Board of Directors, Regulatory Authorities, Management and other Stakeholders.
- Review the quality and the appropriateness of accounting policies and their adherence to statutory and regulatory compliance 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 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. More details as to how the Committee discharges its responsibilities in respect of the above tasks are given below.

Financial Reporting

The Committee assists the Board of Directors to discharge their responsibility in 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 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 account.
- Effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- Accounting policies to determine the most appropriate accounting policies after considering all choices available.
- Processes by which compliance with Sri Lanka Accounting Standards and other regulatory provisions relating to financial reporting and disclosures are ensured.
- Annual Report & Accounts and the Interim Financial Statements prepared for publication prior to submission to the Board.

The Committee has assessed the prevailing Internal Controls, Systems and Procedures, and 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.

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 being 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 test checks covering all regulatory compliance requirements, as a further monitoring measure.

Risks and Controls

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 branch inspections. 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 440 inspection reports on Branches and Head Office 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 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, 2012 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.

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.

All major decisions taken by the Assets and Liabilities Committee (ALCO), the Credit Policy Committee and the Integrated Risk Management Committee are regularly examined by the Committee. 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.

Good Governance

A Code of Ethics and Whistle-Blowers Charter is in place for the purpose of educating and encouraging all members of staff to resort to whistle-blow 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.

Transition to New/Revised Sri Lanka Accounting Standards

With effect from January 01, 2012, it is mandatory for the Bank to comply with the requirements of new/revised Sri Lanka Accounting Standards (SLFRS/LKAS) which are based on the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). These standards require substantial changes to some of the accounting treatments adopted by the Bank. The Board Audit Committee evaluated the proposals made by a Working Committee set up by the Bank, with the guidance of Messrs Ernst & Young, the Consultants appointed for the purpose and obtained approval from the Board of Directors for such proposals.

The transition to the new/revised Accounting Standards and the impact of the same on Bank's Financial statements have been independently validated by the External Auditors during the year end audit.

The Board Audit Committee would continue to monitor the progress of implementation of new Accounting Standards and keep the Board of Directors informed at regular intervals.

Audit Committee Charter

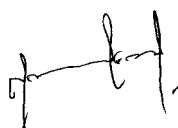
The Audit Committee Charter was last reviewed and revised in January 2012 with the concurrence of the Board of Directors.

Evaluation of the Committee

An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board and the Committee has been found to be highly effective.

Appointment of the External Auditor

In keeping with the Bank's policy of rotating Auditors periodically, the previous Auditors, Messrs Ernst & Young who had provided their services since 2006, were replaced by Messrs KPMG, Chartered Accountants, as the Bank's new Auditors for the financial year ended December 31, 2012 with the approval of the shareholders at the Annual General Meeting held in March 2012.



S. Swarnajothi
Chairman – Board Audit Committee

Colombo
February 27, 2013

Composition of the Board Credit 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*

Mr A.L. Gooneratne who was a member of the Committee resigned from the Board of Directors of the Company with effect from April 27, 2012.

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 140 and 141.

Mandate and Role of the Board Credit Committee

The Board Credit Committee 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 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.

Board Credit 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 205. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

Methodology Used by the Board Credit Committee

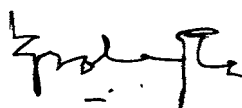
The Committee will meet on a monthly basis and approve credit proposals above a predetermined limit.

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 27, 2013

Composition of the Board Technology Committee

The Committee as at the end of the year comprises 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*
(appointed w.e.f. September 26, 2012)

Mr. A.L. Gooneratne, the former Managing Director/CEO of the Bank who was a member of the Committee ceased to be a member upon his retirement as Managing Director on April 27, 2012.

Please refer pages 140 and 141 for the profiles of the Board members.

Charter of the Board Technology 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.

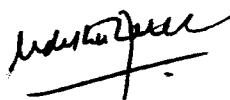
Board Technology Committee Meetings

There were five committee meetings during the year with attendance of members listed on page 205.

Periodic updates are given to the Board on the progress of Board Technology Committee objectives.

Methodology Adopted by the Board Technology Committee

The Committee meets at least every quarter, and review progress of strategic objectives. The Committee also reviews significant items for procurement and recommend them for approval by the Board of Directors as appropriate.



Prof. U.P. Liyanage
Chairman - Board Technology Committee

Colombo
February 27, 2013

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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, 2012 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 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 27, 2013.

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, 2012):

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 219
(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 219
(iii) Auditors' Report on Financial Statements of the Group and the Bank	Section 168 (1) (c)	Refer Item 2.5 on page 219
(iv) Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer Item 2.6 on page 219
(v) Particulars of the entries made in the Interests Register during the accounting period	Section 168 (1) (e)	Refer Item 2.7 on page 219
(vi) Remuneration and other benefits paid to Directors of the Bank (Subsidiaries also included) during the accounting period	Section 168 (1) (f)	Refer Item 2.8 on page 219
(vii) Amount of donations made by the Bank and its (Subsidiaries also included) during the accounting period	Section 168 (1) (g)	Refer Item 2.9 on page 220
(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 on page 222
(ix) Separate disclosure on amounts payable to the Auditor as Audit Fees and Fees for other services rendered during the accounting period	Section 168 (1) (i)	Refer Item 19 on page 226
(x) Auditors' relationship or any interest with the Bank and its Subsidiaries - Audit Fee/ Non-Audit Fee	Section 168 (1) (j)	Refer Item 19 on page 226
(xi) Acknowledgement of the contents of this Report/Signatures on behalf of the Board	Section 168 (1) (k)	Refer Item 27 on page 227

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given on page 7. The business activities of the Group and the Bank are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission as set out in the Bank's Code of Ethics, 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 7, the "Managing Director's Review" on pages 8 to 11, and the 'Management Discussion and Analysis' on pages 14 to 136, 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 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 316. There were no significant changes in the nature of the principal 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 306 to 437.

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 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 306 to 437 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 297 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, 2012, and the Auditors' Report issued thereon is given on page 303 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 their Financial Statements for all periods up to and including the year ended December 31, 2011, in accordance with Sri Lanka Accounting Standards which were in effect up to that date. Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), all existing/new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS to represent Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards and Sri Lanka Accounting Standards corresponding to International Accounting Standards (IASs), respectively. Accordingly, the Group and the Bank adopted these new Sri Lanka Accounting Standards (which are commonly known as SLFRSs) applicable for financial periods commencing from January 1, 2012. These Financial Statements for the year ended December 31, 2012 are the first the Group and the Bank prepared in accordance with SLFRS and Sri Lanka Accounting Standard - SLFRS 1 on 'First-time Adoption of Sri Lanka Accounting Standards'. The Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank are given on pages 316 to 340 of the Annual Report.

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) and (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 225. 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, 2012, are given in Note 14 to the Financial Statements on page 344 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. 51,066,000/- (Rs. 109,963,728/- in 2011) 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. 435,728/- (Rs. 3,032,000/- in 2011). 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, 14 new delivery points were opened (26 in 2011), bringing the total number of delivery points in Sri Lanka to 227 at the end of 2012 (213 at the end of 2011). In addition, the Bank installed 55 new ATMs including the 1st drive through ATM in 2012 (100 in 2011) bringing the total number of ATMs in Sri Lanka to 555 by the end of 2012 (500 at the end of 2011). This is the single largest ATM network in the country. In addition to above, the Bank has 17 delivery points (17 in 2011) and 17 ATMs (17 in 2011), at the end of 2012, in Bangladesh. The Bank also introduced an easy to use internet and Mobile banking and online bill payment features to enable customers' easy access to most banking services anytime.

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 7, "Managing Director's Review" on pages 8 to 11 and the 'Management Discussion and Analysis' on pages 14 to 136 for further information on future developments.

4. Gross Income

The gross income of the Group for 2012 was Rs. 63.373 Bn. (Rs. 45.839 Bn. in 2011), while the Bank's gross income was Rs. 63.395 Bn. (Rs. 45.859 Bn. in 2011).

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 409.

5. Dividends and Reserves

5.1 Profit and Appropriations

The net profit before tax of the Group and the Bank increased by 30.35% and 31.18%, respectively in 2012. Further, net profit after tax of the Group and the Bank increased by 27.09% and 28.10% respectively in 2012.

Details of appropriation of profit- relating to the Bank are given below:

	2012 Rs.	2011 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses, Financial VAT and contingencies	14,295,337,395	10,987,397,344
Less: provision for taxation	(4,197,004,538)	(2,939,567,415)
Net profit after taxation	10,098,332,857	8,047,829,929
Balance brought forward from previous year (net of adjustments arising from conversion to SLFRS)	(318,092,736)	2,276,961
Profit available for appropriation	9,780,240,121	8,050,106,890
Less: Appropriations		
Transfer to the Statutory Reserve Fund	(504,916,643)	(402,391,496)
Transfer to Special Risk Reserve of Primary Dealer Unit	(38,172,578)	(16,084,240)
Transfer to the Special Reserve of Primary Dealer Unit	(114,517,734)	(48,252,720)
Transfer to the Investment Fund Account	(1,652,606,995)	(1,194,328,492)
Transfer to General Reserve	(2,045,000,000)	(1,480,000,000)
Dividends on Ordinary Shares		
1st Interim Dividend paid - Rs. 1.50 per share in cash (Rs. 1.50 in 2011)	(1,250,160,393)	(1,226,175,249)
2nd Interim Dividend paid - Rs. 1.00 per share in cash for 2011	-	(817,450,166)
2nd Interim Dividend payable - Rs. 1.00 per share for 2012	(833,608,537)	-
Final Dividend - Rs. 2.00 per share in cash (Rs. 1.50 in 2011)	(1,667,217,074)	(1,226,175,249)
- Rs. 2.00 per share in shares (Rs. 2.00 in 2011)	(1,667,217,074)	(1,634,900,333)
Balance carried forward	6,823,093	4,348,945

On this basis, the cash dividend payout ratio amounts to 37.15% of the profit after tax of 2012, compared to 41.48% for 2011 while the total dividend payout ratio amounts to 53.66% for 2012, compared to 62.26% for 2011. This is well above the minimum dividend payout ratio of 10%, (25% in 2011) 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 2011). The profit of the Bank's Bangladesh Operation is taxed at 42.5% (42.5% in 2011). 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 2011).

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 344 and 389 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 2012 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. 3.50 per share in 2011 and this was satisfied by way of Rs. 1.50 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 2012 and in February 2013, respectively (two interim dividends of Rs. 1.50 and Rs. 1.00 per share, each in cash were paid in November and December 2011). Details of Information on dividends are given in Note 17 to the Financial Statements on page 346.

The interim dividends were paid out of the profits of the Bank, hence subject to a 10% withholding tax.

The Directors have proposed to pay Rs. 2.00 out of the proposed final dividend of Rs. 4.00 per share partly out of dividends received and partly out of taxable profits of the Bank. The dividends paid out of taxable profits of the Bank will be subject to a 10% withholding tax. The balance dividend of Rs. 2.00 per share is proposed to be 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 2013.

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of each dividend payment conforming to the statutory provision.

5.4 Reserves

A summary of the Group's reserves is given below:

	2012 Rs. '000	2011 Rs. '000
Statutory Reserve Fund	3,245,819	2,740,901
Special Risk Reserve of Primary Dealer Unit	187,576	149,404
Special Reserve of Primary Dealer Unit	845,683	731,165
Revaluation Reserve	4,343,232	4,550,838
General Reserve	19,203,304	17,158,306
Foreign Currency Translation Reserve	(757,894)	(1,302,557)
Available for Sale Reserve	475,466	–
Investment Fund Reserve	2,846,935	1,194,328
Retained Earnings	4,177,866	2,871,411
Total	34,567,987	28,093,796

Information on the movement of reserves is given in the Statement of Changes in Equity on pages 310 to 313 and in Notes 45 and 46 respectively to the Financial Statements on page 398.

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. 1,197,639 Mn., Rs. 203.032 and Rs. 411 Mn., respectively (Rs. 1,379.607 Mn., Rs. 147.523 Mn., and Rs. Nil in 2011), details of which are given in Notes 30.4, 31 and 32 on pages 383, 388 and 389 to the Financial Statements respectively. Capital expenditure approved and contracted for are given in Note 48 to the Financial Statements on page 400.

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 and 30.6 to the Financial Statements on pages 384 to 386.

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	2012		2011	
		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	1,341,768	N/A	1,457,645	N/A
	Consideration Received (Rs. '000)	62,942	N/A	121,869	N/A
Rights issue of ordinary shares	Number of Shares Issued	N/A	N/A	25,502,433	1,745,494
	Consideration Received (Rs. '000)	N/A	N/A	4,632,517	227,141

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 above period.

8.3 Stated Capital and Debentures

The Stated Capital as at December 31, 2012 was Rs. 18,008.796 Mn., comprising of 780,014,232 ordinary voting shares and 53,473,748 ordinary non-voting shares (Rs. 16,473.861 Mn. as at December 31, 2011 comprising of 765,085,320 ordinary voting shares and 52,364,846 ordinary non-voting shares). The details of the Stated Capital are given in Note 43 to the Financial Statements on page 395.

The Bank had in issue 973,210 unsecured, subordinated, redeemable debentures of Rs. 1,000/- each to the value of Rs. 973.210 Mn., as at December 31, 2012 (973,210 debentures to the value of Rs. 973.210 Mn., as at December 31, 2011). The details of debentures redeemed during the year 2012 and those outstanding as at December 31, 2012 are given in Note 42 to the Financial Statements on page 393.

The debenture issues addressed the current needs in relation to long-term funds required for bridging the maturity gaps and to strengthen the supplementary capital base of the Bank, at the time of issue.

9. Share Information

Information relating to earnings, dividend, net assets and market value per share is given in 'Financial Highlights' on page 5. 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' on pages 269 to 285.

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' on pages 269 and 285.

10.2 Distribution Schedule for Shareholdings

Information on the distribution of shareholding and the respective percentages are given in the Section on 'Investor Relations' on page 269 to 285.

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, 2012 consisted of eight Directors (seven Directors as at December 31, 2011) 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 140 and 141.

Names of the Directors of the Bank as at the end of 2012, 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
Mr. L. Hulugalle	Non-Executive	Independent
Mr. M.P. Jayawardena	Non-Executive	Non-Independent
Mr. J. Durairatnam (<i>Appointed to the Board as a Board Member w.e.f. April 28, 2012</i>)	Executive	Non-Independent
Mr. S. Swarnajothi (<i>Appointed to the Board as a Board Member w.e.f. August 20, 2012</i>)	Non-Executive	Independent
Mr. A.L. Gooneratne (<i>Former Managing Director</i>) (<i>Resigned w.e.f. from April 27, 2012 upon reaching the age of retirement</i>)	Executive	Non-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 2012

Mr. J. Durairatnam (Appointed w.e.f. April 28, 2012)
Mr. S. Swarnajothi (Appointed w.e.f. August 20, 2012)

Resignations/Relinquishments/Cessations during 2012

There were no direct resignations/relinquishments/cessations during the year. However, Mr. A.L. Gooneratne who was the Managing Director/Chief Executive of the Bank up to April 27, 2012 resigned from the Board of Directors on April 27, 2012 upon his retirement from the services of the Bank.

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 459.

11.1.4 Recommendations for Re-election

1. Directors who were appointed to fill casual vacancies

Messrs S. Swarnajothi and J. Durairatnam who were appointed to fill casual vacancies on the Board during the year 2012 are permitted to hold office only until the following AGM, hence, they are required to offer themselves for re-election at the next AGM.

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 AGM. Article 86 of the Articles of Association 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:

Mr. D.S. Weerakkody
Mr. K.G.D.D. Dheerasinghe
Prof. U.P. Liyanage
Mr. L. Hulugalle
Mr. M.P. Jayawardena

(iii) Accordingly, two Directors, out of the above five Directors are required to retire by rotation at the next AGM.

(iv) It is stated in Article 86 of the Articles of Association 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. Mr. K.G.D.D. Dheerasinghe and Prof. U.P. Liyanage offered themselves for re-election by rotation at the next AGM.

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:

(a) Directors to retire by rotation

Mr. K.G.D.D. Dheerasinghe
 Prof. U.P. Liyanage

(b) Directors appointed to fill casual vacancies

Mr. S. Swarnajothi
 Mr. J. Durairatnam

11.1.5 Directors' Meetings

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings of the Board Human Resources and Remuneration Committee, Board Integrated Risk Management Committee, Board Nomination Committee, Board Audit Committee, Board Credit Committee and Board Technology Committee are presented on pages 206 to 215.

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 of 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, 2012, 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 206 and 207.

Board Integrated Risk Management Committee Members:

Mr. K.G.D.D. Dheerasinghe - *Chairman*
 Prof. U.P. Liyanage
 Mr. W.M.R.S. Dias - *Managing Director/CEO*
 Mr. L. Hulugalle
 Mr. M.P. Jayawardena
 Mr. K.D.N. Buddhipala (*Chief Financial Officer/Secretary*)
 Mr. S.C.U. Manatunge (*Chief Risk Officer*)

The Report of the Board Integrated Risk Management Committee is given on pages 208 and 209.

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 210.

Board Audit Committee Members:

Mr. S. Swarnajothi - *Chairman*
(Appointed as Chairman w.e.f. August 20, 2012)
 Prof. U.P. Liyanage
 Mr. L. Hulugalle
 Mr. M.P. Jayawardena
 Mr. H.M.A. Jayasinghe - *Consultant*
 Mr. W.M.R.S. Dias - *Managing Director/CEO (By Invitation)*

The Report of the Board Audit Committee is given on pages 211 to 213.

In addition to above mandatory Board Sub-Committees, the Bank has set up the following Board Sub-Committees too.

Board Credit Committee Members

Mr. K.G.D.D. Dheerasinghe - *Chairman*
 Mr. M.P. Jayawardena
 Mr. W.M.R.S. Dias - *Managing Director/CEO*

Board Technology Committee Members

Prof. U.P. Liyanage - *Chairman*
 Mr. W.M.R.S. Dias - *Managing Director/CEO*
 Mr. J. Durairatnam (*Chief Operating Officer*)
(Appointed w.e.f. April 28, 2012)
 Mr. R. Muttiah (*Chief Information Officer*)
 Mr. L.H. Munasinghe (*Deputy General Manager - Marketing*)
 Mr. M.E.P. Perera (*Assistant General Manager - Operations*)

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,	2012	2011
Mr. D.S. Weerakkody (Chairman)	26,017	21,564
Mr. K.G.D.D. Dheerasinghe (Deputy Chairman)	20,000	Nil
Mr. W.M.R.S. Dias (Managing Director)	685,123	673,174
Prof. U.P. Liyanage	Nil	Nil
Mr. L. Hulugalle	Nil	Nil
Mr. M.P. Jayawardena	Nil	Nil
Mr. J. Durairatnam	309,782	344,762
Mr. S. Swarnajothi	Nil	Nil
Percentage Shareholding of the Directors		
Ordinary Voting Shares (%)	0.13	0.14

Directors' shareholdings in ordinary voting shares have not changed subsequently to the date of the Statement of Financial Position up to February 05, 2013 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,	2012	2011
Mr. D.S. Weerakkody (Chairman)	11,981	Nil
Mr. K.G.D.D. Dheerasinghe (Deputy Chairman)	Nil	Nil
Mr. W.M.R.S. Dias (Managing Director)	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	8,169	8,000
Percentage Shareholding of the Directors		
Ordinary Non-Voting Shares (%)	0.04	0.02

Directors' shareholdings in ordinary non-voting shares have not changed subsequent to the date of the Statement of Financial Position and up to February 05, 2013, 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

In 2009, the Bank implemented a new Employee Share Option Plan for the Corporate Management and the Executive Officers in Grade III and above, based on the Bank achieving certain pre-determined performance criteria. The approval of the shareholders was obtained for this scheme 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 and 43.3 to the Financial Statements on pages 396 and 397.

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 page 228. These interests have been declared at Directors' meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

There are no arrangements enabling the Non-Executive Directors of the Group and the Bank to acquire shares or debentures of the Bank or its Subsidiaries, other than via the market.

Directors' remuneration and other benefits, in respect of the Group and the Bank for the financial year ended December 31, 2012 are given in Note 14 to the Financial Statements on page 344.

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 22 and 23.

16. Statutory Payments

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

17. Events after the Statement of Financial Position Date

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 416.

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.

Accordingly, the present Auditors Messrs KPMG were appointed as Auditors of the Bank, at the last Annual General Meeting held in March 2012 to carry out the audit for the year ended December 31, 2012 and will hold office until the conclusion of the next Annual General Meeting of the Bank which is to be held in March 2013. Accordingly, KPMG will serve for a maximum period of five years consecutively, subject to them being re-elected by shareholders, upon a recommendation of the Board of Directors, annually.

The retiring Auditors, Messrs KPMG have signified their willingness to continue functioning 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. 7.955 Mn. for the year ended December 31, 2012 as audit fees by the Bank. In addition, they were paid Rs. 5.138 Mn. by the Bank, for permitted non-audit-related services including tax consultancy services.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Bank, or any of its Subsidiaries or Associates other than being the Auditors for Bank's Subsidiaries and Associates.

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 229 to 268 and in the 'Board Integrated Risk Management Committee Report' that appears on pages 208 and 209.

21. Corporate Governance

Directors' Declarations

The Directors declare that-

- (a) 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.
- (b) the Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested.
- (c) all endeavours have been made to ensure that shareholders in each category have been treated equitably in accordance with the original Terms of Issue.

(d) 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

(e) have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained a reasonable assurance of their effectiveness and successful adherence herewith.

The measures taken and the extent to which the Bank has complied with the Codes of Best Practices on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 145 to 205.

22. Human Resources

The Bank continues to invest in Human Capital Development and implement effective Human Resource Practices and Policies to improve workforce 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' on pages 206 and 207.

23. Operational Excellence

To increase efficiency and reduce operating cost, the Bank has on-going initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.

24. 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 402.

25. Notice of Meeting

Notice relating to the Forty-Fourth Annual General Meeting of the Bank is enclosed herewith.

26. First Integrated Annual Report

The Bank has taken the initiative to present its first integrated Annual Report for the year ended December 31, 2012. Integrated reporting brings together material information about the Bank's strategy, governance performance and prospects in a way that reflect the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how the Bank demonstrates stewardship and how it creates and sustains value.

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 27, 2013

Directors' Interest in Contracts with the Company

This is Commercial Bank
Operating Highlights
Financial Highlights
Letter from the Chairman
Managing Director's Review
Management Discussion and Analysis
✓ Stewardship
Financial Reports
Annexes

Commercial Bank of Ceylon PLC
Annual Report 2012

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 411 to 415 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	Relationship	Accommodation Granted/Deposits	Current Limit	Balance Outstanding	
			as at 31.12.12	as at 31.12.12	as at 31.12.11
			Rs'000	Rs'000	Rs'000
(a) Mr. D.S. Weerakkody					
Cornucopia Lanka Ltd.	Director	Deposits	-	150	150
(b) Mr. K.G.D.D. Dheerasinghe					
Bartleet Finance PLC	Chairman	Loans & Advances	120,000	76,044	-
		Off Balance Sheet Accommodations	52,500	2,500	-
		Deposits	-	388,448	-
(c) Prof. U.P. Liyanage					
Diesel & Motor Engineering Company PLC	Director	Loans & Advances	2,006,860	1,272,997	1,010,171
		Off Balance Sheet Accommodations	1,625,000	711,011	1,754,682
		Deposits	-	5,214	-
Chemane PLC	Director	Loans & Advances	160,000	94,734	8,368
		Off Balance Sheet Accommodations	105,000	20,918	20,516
		Deposits	-	205	225
Ceylon Cold Stores PLC	Director	Loans & Advances	150,000	-	178
		Off Balance Sheet Accommodations	99,280	-	-
		Deposits	-	651	-
Talawakelle Tea Estates PLC	Director	Loans & Advances	140,000	7,602	59,215
		Off Balance Sheet Accommodations	10,000	-	-
		Deposits	-	116,169	314
(d) Mr. M.P. Jayawardena					
The Finance Company PLC	Chairman	Loans & Advances	169,500	64,424	35,950
Cal Exports Lanka (Pvt) Ltd.	Chairman	Loans & Advances	8,320	1,952	795
		Off Balance Sheet Accommodations	76,800	43,456	6,516
		Deposits	-	2,618	53,518
Yasui Lanka (Pvt) Ltd.	Chairman	Loans & Advances	58,560	30,484	34,314
		Off Balance Sheet Accommodations	8,000	7,782	-
		Deposits	-	56,987	51,564
Chemane Exports (Pvt) Ltd.	Chairman	Loans & Advances	10,000	-	132
		Off Balance Sheet Accommodations	29,000	10,000	12,160
		Deposits	-	2,018	58,864
Chemcel (Pvt) Ltd.	Chairman	Deposits	-	501	165
Chemane PLC	Managing Director/CEO	Loans & Advances	160,000	94,734	8,368
		Off Balance Sheet Accommodations	105,000	20,918	20,516
		Deposits	-	205	225
CIC Holdings PLC	Group Director	Loans & Advances	1,200,000	700,935	133,405
		Off Balance Sheet Accommodations	100,000	88,061	-
		Deposits	-	3,538	11,931
CIC Vetcare (Pvt) Ltd.	Director	Loans & Advances	205,000	121,049	47,805
		Off Balance Sheet Accommodations	70,000	53,613	40,058
		Deposits	-	1,037	1,881
CIC Poultry Farms Ltd.	Director	Loans & Advances	613,733	274,518	62,352
		Off Balance Sheet Accommodations	50,000	-	73,239
		Deposits	-	24	4,470
(e) Mr. L. Hulugalle					
Waters Edge Hotel PLC	Director	Loans & Advances	2,925	85	-
		Deposits	-	110,378	-

* Comparative figures for 2011 are disclosed only if outstandings are available as at December 31, 2012.

** Balances disclosed above are based on SLAS.

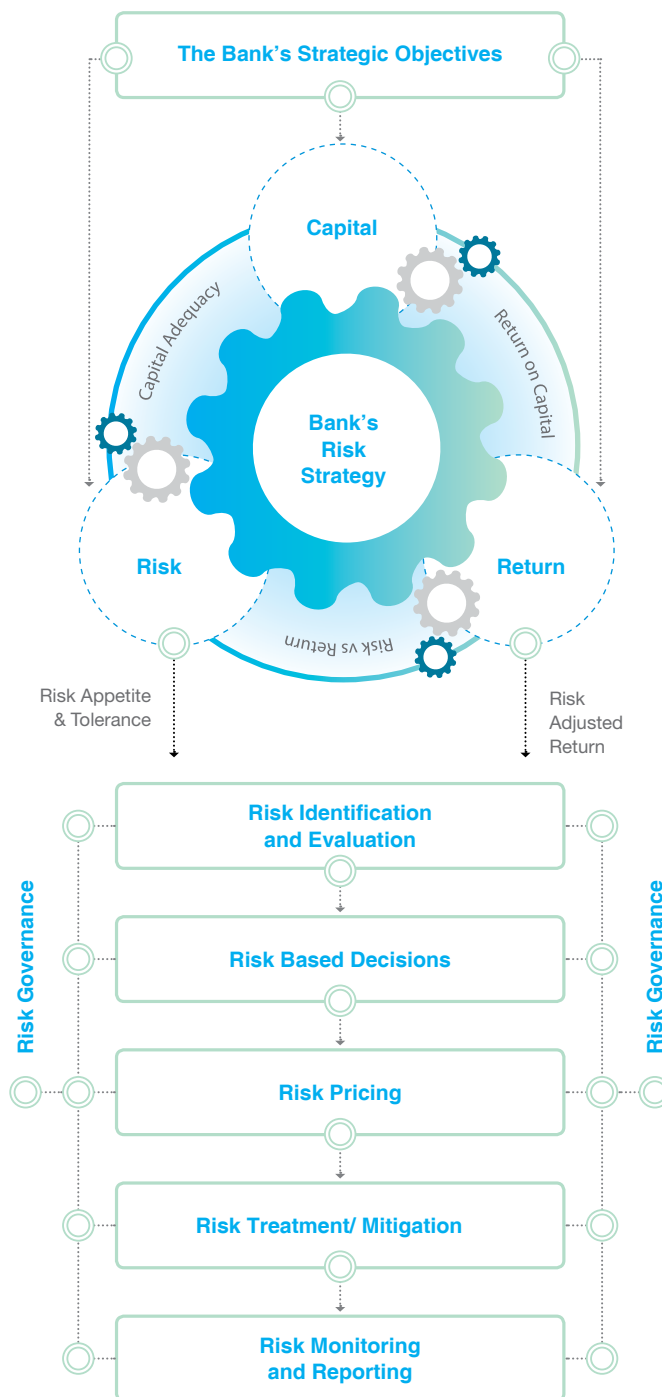


According to the regulatory requirements as well as Basel - II Pillar - 3 guidelines, "Market Discipline" achieved through meaningful disclosures would provide a fair opportunity for the market participants to assess the risk exposures of the Bank. Accordingly, the following discussion on Bank's risk management practices includes qualitative and quantitative disclosures to provide the stakeholders with a better insight of the Bank's risk profile.

Risk exists in all aspects of the banking business and the environment in which the Bank operates. The Bank's collective risk management capability and competency supports successful implementation of the Bank's strategic priorities. It also enables the development of a sustainable and resilient business model that is appropriately responsive to an ever-changing environment. Risk is identified and managed as part of a Bank-wide Risk Management Framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to different business activities qualitatively (through risk policies, standards and operating procedures) and quantitatively (through risk limits and decision making authorities).

The Bank's Risk Strategy focuses on managing principal risks assumed by the Bank while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures. The Bank's risk strategy reinforces and supports the organisation in achieving its overall strategic objectives within a pre-defined risk environment in alignment with the Bank's overall risk profile.

Integrity and the effectiveness of the Risk Management Organisational Structure is well supported by the Bank's robust Risk Governance Framework which consists of Board and Senior Management oversight, independent risk management function, supporting policy framework, risk related committees etc. The Bank actively encourages the business managers as "risk owners" to assume calculated risks within the stipulated risk appetite and tolerance levels. Risk-based decisions taken by the Business Managers are complemented by the Risk Managers who provide independent risk evaluations on such proposals.



Such risk exposures are assumed after a rigorous process of risk identification/assessment against correct pricing to balance the ultimate risk return trade-off for the Bank. The “risk owners” give due consideration to risk mitigation and treatment options available, so that the residual risk exposures of the Bank could ultimately be reduced in an objective manner. Risk monitoring and reporting techniques facilitate the Bank to proactively monitor its risk exposures so that it can initiate corrective actions to mitigate potential losses, if required.

Risk decisions are always made in a transparent manner by authorised officers/committees after obtaining independent recommendations of the Risk Managers. The Bank also has processes for risk escalation/exceptional risk approvals for exposures that need more rigorous risk evaluations compared to its usual risk exposures.

The investments made by the Bank in acquiring comprehensive Risk Management Software Solutions to manage its principal risks namely credit, market and operational risks, corroborate the risks management framework of the Bank.

In progressing towards achieving Basel - II Pillar - 2 requirements, the Bank with the support of an overseas consultant, developed a comprehensive Internal Capital Adequacy Assessment Framework (i.e. ICAAP framework) during the period under review. This will support

the Board of Directors and Senior Management to adopt risk management practices in alignment with the overall Risk Profile and Business Plan of the Bank. While supporting an effective supervisory review mechanism on the Bank's risk profile, ICAAP will also assist the Bank in assessing current and future capital needs taking into account its strategic objectives.

The Bank has progressed well towards compliance with disclosures in alignment with the regulatory requirements. To adopt best practices for market discipline, a set of disclosure requirements have been compiled through the Board approved “Disclosure Policy”. These would allow the stakeholders to assess key information on financial position/performance, capital, risk exposures, risk assessment processes, risk management methodologies and hence the Bank's overall soundness.

Risk Management Framework

The Bank adopts the policy of having “Three Lines of Defence” in assuming the risk exposures, where Business Managers, Risk Managers and Audit/Compliance contribute in assuming the risks in a prudent manner.

Risk Based Decision Making



The Business Managers as 'risk owners' negotiate to assume risk exposures with potential clients within the risk management policies/ risk appetite framework approved by the Board and Senior Management. The Integrated Risk Management Team complements these decisions by providing independent recommendations and monitors the Bank wide risk exposures against Policy Parameters on a continuous basis. The Audit and Compliance functions independently ensure that the risk-based decisions made by the Business Managers with the support of Risk Managers are in line with the established policies/procedures of the Bank in order to ensure the integrity of the decision making process.

The above robust risk management structure immensely contributes in risk-based decision making and the Senior Management oversight in managing the Bank's businesses in an objective manner.

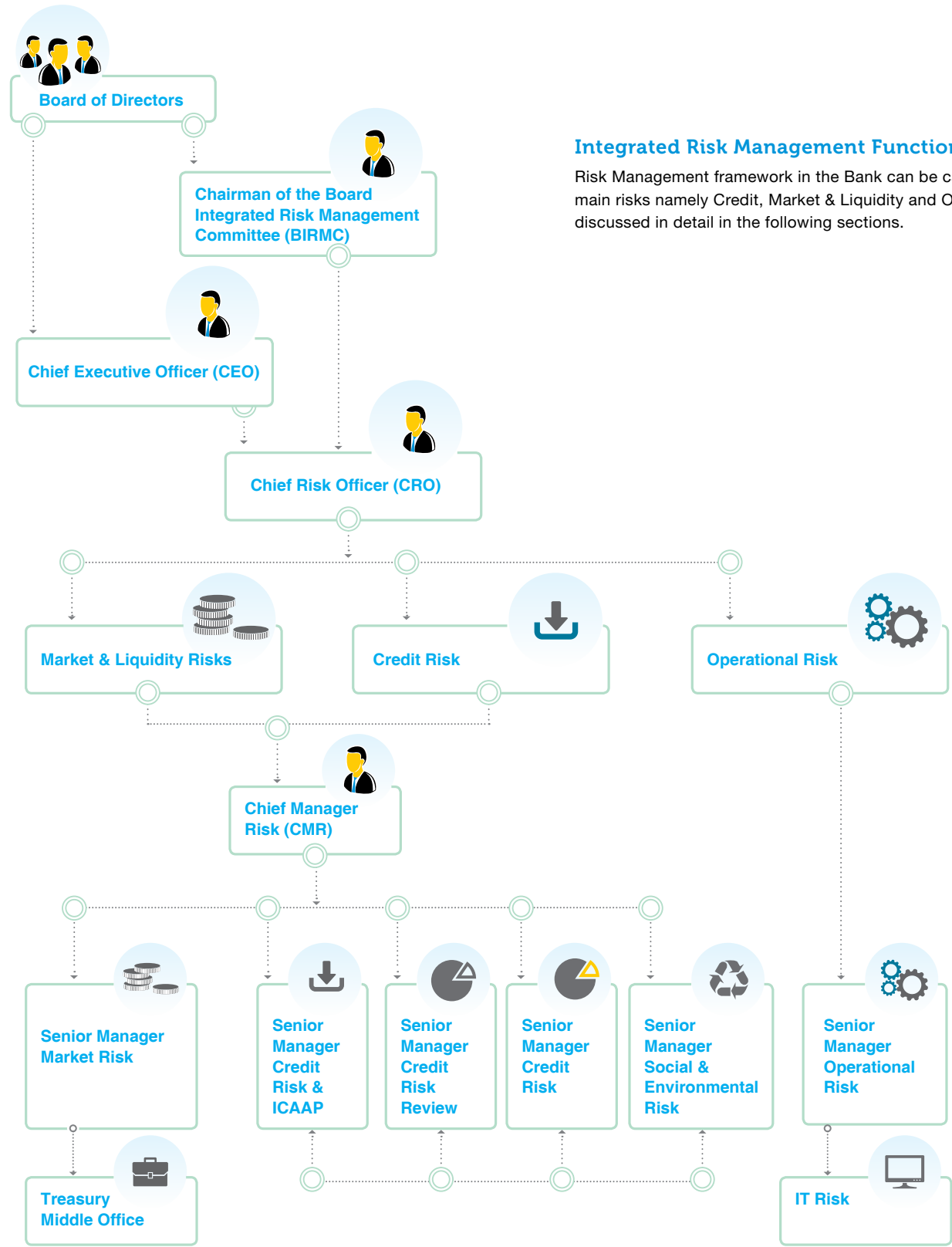
The process of decision making is well-supported by the following risk related committees functioning within the Bank.

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 208
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, Corporate Banking, Personal 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.

Integrated Risk Management Function

Risk Management framework in the Bank can be categorised under three main risks namely Credit, Market & Liquidity and Operational risks and discussed in detail in the following sections.



CREDIT RISK

Introduction

Credit risk is the risk of potential financial loss resulting from the failure of borrowers or counterparties to meet their debt or contractual obligations. Exposure to credit risk could arise from On-Balance Sheet and Off-Balance Sheet activities. The Bank's lending exposures are typically represented by the notional value or principal amount of On-Balance Sheet financial products such as loans, overdrafts etc. In addition to these, Letters of Credit, Letters of Guarantees, Credit Guarantees, Customs Guarantees, Shipping Guarantees, Bid and Performance Bonds, Documents Against Acceptance etc., which represent the Bank's contingent commitments on behalf of its customers, too create varying levels of credit risk compared to the On-Balance Sheet exposures. Deterioration of counterparty credit quality and/or market volatility can lead to potential credit risk-related losses for the Bank.

Credit Risk Management Policies and Processes

The core credit risk Management architecture of the Bank consists of established policies, procedures and processes including a well-defined approval hierarchy which is supported by high ethical standards. The Credit Policy and Lending Guidelines of the Bank outline the principles by which the Bank conducts its credit risk management activities. These policies ensure consistency in credit sanctioning across the Bank and provide guidance in formulation of business specific credit risk analysis to reflect different credit environments and portfolio specific risks. The Credit Policy and Lending Guidelines therefore, broadly reinforce prudent and effective credit risk management practices in order to ensure at all times quality, consistency and transparency in the credit risk approvals while promoting a disciplined credit culture in the Bank.

The Bank usually considers that 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.

To ensure an optimum risk-reward payoff to the Bank, the credit exposures to be assumed by the Bank are subjected to a thorough risk evaluation.

As a general policy, the Bank will assume credit exposures with short to medium term maturities thus reducing the overall credit risk in the portfolios, to a great extent. 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.

The Bank strives to optimise a well-structured credit risk management process through assessing, quantifying, pricing, monitoring and managing credit portfolios on a consistent basis. The Bank's credit risk management structure comprises the following;

Credit Risk Management Function	• Independent evaluation of all high value credit proposals to ascertain whether the proposed credit exposures are at appropriate levels against suitable risk mitigants and recommendation for improvements if required. Thereafter, sign-off these proposals upon satisfactory improvement to the subject lending propositions by the Lending Officers. • Independent evaluation of all new lending products from a risk perspective. • Monitoring of Credit portfolios including counterparty and cross border exposures through approved exposure limits. • Monitoring of monthly Key Credit Risk Indicators and reporting them to the EIRMC and BIRMC. • Facilitating the monitoring and follow-up of high value Non-Performing Advances by the NPA Monitoring Committee.
Credit Risk Review Function	• Provides an assurance of the quality of lending portfolios and practices through a "continuous quality improvement exercise" of the Bank's overall lending practices/processes and the portfolio as a whole. • Independent evaluation of emerging credit risks. • Dissemination of the Credit Risk Review findings to the Lending Officers through the Credit Policy Committee. • Identifying and making practical recommendations for improvement in credit risk management process. • Validation of internal risk ratings and recommending changes wherever required. • Defining, modifying and maintaining of the criteria on risk grading modules in line with the changes in the macro environment.
Environmental Risk Review Function	• Provides assurance that all major activities undertaken by the Bank are consistent with the Bank's policy on Social & Environmental Management System (SEMS). • Ensures that all projects are reviewed against the stipulated environmental policy before sanctioning credit. • Maintains transparency in all social and environment-related activities.

To gain an early warning on any impending deterioration of the borrowers' creditworthiness, the Bank's credit portfolio is subjected to a robust post sanction monitoring process coupled with a continuous review process at various levels. This monitoring process is further strengthened by the Executive Committee on Monitoring of Non-Performing Advances [NPAs] which meets once a month and closely evaluates the progress made on recovering of high value NPAs.

Credit Risk Assessment and Analytics

The Bank adopts a systematic approach in granting/renewing of credit facilities. All the credit risk exposures in the Bank are first evaluated by the Lending Officers who are considered to be the risk owners of the credit mechanism. Presently, all the high valued credit proposals/new lending products are first referred to the Credit Risk Management Unit (CRMU) of the Integrated Risk Management Department (IRMD) for independent evaluation and comments. Such proposals are thereafter signed off by the IRMD after evaluating the risk profile of the final proposal. The Bank is managing the counterparty credit risk through individual credit limits which are approved by various layers of credit officers/credit committees depending on the size and the risk profile of such credit exposure.

The Credit Risk Review (CRR) function of the CRMU independently monitors the credit processes, quality of portfolios and the integrity of the risk grading system to ensure that high credit standards are maintained by the Lending Officers at all times. It undertakes independent review of credit evaluations carried out by the Lending Officers. In accordance with guidelines issued by the Central Bank of Sri Lanka, a minimum of 30% of the loan portfolio of the Bank are reviewed by the CRR function annually.

The main focus of the CRR function is to independently verify adherence to the Credit Policy/Lending Guidelines. It also encompasses the post-disbursement review of all substantial facilities on a periodic basis to identify performing advances where potential of emerging risks have not been identified. This ensures that the credit processes are managed in line with the Credit Policy of the Bank in order to maintain the quality of lending portfolios within the Bank's risk appetite framework.

The credit risk appetite of the Bank is set by the Board of Directors and contains a set of limits on maximum exposures to industry sectors, products and geographies to manage the risk within the approved parameters. The "Credit Risk Appetite" including the "Risk Acceptance Criteria" are clearly defined in the Lending Guidelines of the Bank and the Lending Officers are expected to follow these guidelines in evaluating and managing their credit exposures.

The Bank has classified the sectors which are of limited or no credit appetite into two main categories; i.e. "Prohibited Appetite" and "High Risk". 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" category whereas the sectors which are perceived to be exceptionally risky have been listed under the "High Risk" category. The Lending Officers ensure that adequate risk mitigants and proper pricing are in place when entertaining proposals from such "High Risk" sectors under exceptional circumstances.

Bank has introduced a comprehensive and robust risk grading system compliant with Basel II and CBSL Directions. The new system encompasses the capability of representing diverse risk factors through a single point of indicator and potentiality of predicting the Probability of Default based on borrower and transaction specific criteria. These indicators would help the Lending Officers to measure the risk profile of the credit portfolios in an objective manner, while assisting the Bank in achieving its future aspiration of progressing from the present Standardised Approach towards Basel II Advanced Approaches in Credit Risk Management such as Foundation Internal Rating Based (FIRB) and Internal Rating Based (IRB), with the consent of the regulator.

Credit Risk Mitigation

Collateral Management and Valuation

The Bank obtains collaterals against its credit exposures wherever possible as a secondary recourse to the borrowers (primary source of repayment being the cash flows). Such collaterals generally include; cash, marketable securities, properties, stocks in trade, trade debtors, machinery, equipment and other physical/financial assets. In project lending, the Bank may take shares of the project as an additional security to overcome adverse legal implications that may arise in realising unsuccessful/defunct project related assets. The Bank may also take fixed and floating charges on assets of borrowers and as such has put in place clear guidelines to determine the suitable collateral for credit risk mitigation based on characteristics of different collaterals (such as the suitability, realisability in stressed conditions and the adequacy of security cover). Unsecured lending accommodated to borrowers of high repute/financial strength too are subjected to rigorous internal evaluation and approval. Collateral valuation procedures are established to ensure that they will continue to provide the anticipated secondary repayment source in an eventuality. Where collateral values are vulnerable to high volatility of market variables, stringent hair cuts or more frequent independent valuations are called for. The Bank has a number of approved professional valuers in order to obtain valuations for assets which would be taken as collaterals. Although, the existence of collateral by itself is no guarantee for repayment, its value in enhancing the commitment of the borrower for repayment has immense practical importance in case of a debt recovery.

The Bank revalues the tangibles such as properties, machinery and equipment at regular intervals and peruses the Stocks and Debtors Statements at very short intervals ranging from 1 - 3 months to ensure that value of such collaterals offer adequate cushion, in case of an eventuality. In addition, hair cuts are applicable to collateral valuations based on conservative and predetermined Loan: Collateral ratios in compliance with the Banking Act direction No. 3 of 2008 "Classification of Loans and Advances, Income Recognition & Provisioning". In certain instances much stringent internal policies are being adopted by disregarding collateral cover for NPA's as a prudent measure.

The Accounting Policy related to the collateral valuation is given in the Notes to the Financial Statements under No. 3.3.10.1 on Impairment of Financial Assets carried at Amortised Cost, on page 329.

Similarly, the financial collaterals such as shares are marked to market on a daily basis by using daily market data. While the real estate properties constitute the largest percentage of collateral assets, the Bank generally expects that the portfolio of collateral assets to be well-diversified to reduce possible concentration risk.

It is common to obtain Personal/ Corporate Guarantees of the stakeholders of a business or guarantees from other banks as collaterals against credit exposures. In case of Personal/Corporate Guarantees, the financial strength of the guarantors vis á vis their cash flows, net worth etc. are taken into consideration to establish the capacity to repay in case of a default by the principal borrower. In case of bank guarantees issued against credit exposures, a comprehensive counterparty credit risk evaluation criteria is being adopted to establish the acceptability of such guarantees against the potential credit exposure.

The Bank has not dealt with any type of Credit Derivatives during the year 2012 and as such does not have any outstandings under this category as at December 31, 2012.

Credit Concentration within the Mitigation

The total gross loans and receivables from other customers of the Bank stood at Rs. 343 Bn. as at December 31, 2012 and the breakdown of this exposure by major product types is given in the graph on page 240. In order to ensure that an acceptable level of risk diversification is maintained across the Bank on an ongoing basis, the Bank has set various concentration limits under different criteria within the risk appetite framework of the Bank (i.e., single borrower, industry sectors, product etc.). 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 deterioration of the Bank's credit quality.

The Bank has established policies/procedures to manage the credit risks on local/foreign counterparty banks and the cross border exposures including a comprehensive set of limits which are monitored on a continuous basis against the financial/economic performance of these counterparties/countries. The concentration levels on the said limits are closely monitored by the CRMU and the exposures are reported to the above mentioned Senior Management/Board Committees on a regular basis.

Geographical Distribution of Credit Exposures

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio which accounted for 70% (approx.) of total advances portfolio of the Bank as at December 31, 2012. 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 notional geographical concentration on such borrowers.

Credit Risk Monitoring and Reporting

The Bank's philosophy of effective credit risk monitoring is based on a continuous close monitoring of the key credit risk indicators, behavioural and characteristics of individual credit portfolios and environment factors that may have an impact on the Bank's credit risk profile. This encompasses production and analysis of regular reports on significant risk exposures for review by various management committees (Please refer page 231 for the relevant Management Committees). At Portfolio level, the Bank monitors the advances at the highest possible granularity to effectively capture portfolio characteristics and possible correlations between portfolios/environmental factors. This enables the Bank in managing its portfolio credit risk covering the potential adverse impact of over concentration on single parties, industry sectors, loan products etc. This process also enables the Bank to identify any emerging risks in the individual credit portfolios and to take suitable corrective action in a timely manner. 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 a multitude of thriving economic segments in order to reduce the overall credit risk while optimising returns.

As part of the ICAAP, the Bank has also developed certain key stress tests which will be conducted at regular intervals to gauge the Bank's resilience for any significant deterioration in the credit quality of the Bank.

Further, the Bank tracks the quality of the loan book on a regular basis by analyzing the trends in different lending portfolios. Such indicators prompt the relevant risk management committees to take timely decisions in preserving the quality of loans and advances.

Classification and Accounting

Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRS), the classification criteria of loans and advances as NPA (impaired) have been changed and a comprehensive explanation of the Bank's policy is given under Note 3.3.10 on Impairment of Financial Assets in the Notes to the Financial Statements on page 328.

In the event of a default, the Bank generally can incur a loss equal to the amount owed by the borrower, less any recoveries resulting from foreclosure and the liquidation of the collateral held as security for the facilities granted. The Bank's provision buffer for loan losses is considered adequate to absorb any credit losses existing as at the dates of the consolidated Balance Sheets. This allowance is for probable credit losses inherent in existing exposures and the credit exposures specifically identified as impaired. As a prudential measure, the Bank makes 100% provisions on the net exposures on all the loans and advances which are in the "Substandard" and 'Doubtful' categories though the related

regulatory guidelines required the Bank to make specific provisions at lower levels. Similarly, the loans and advances below Rs. 5.0 Mn which are in the non-performing category for more than a period of 1 year are fully provided disregarding the collateral values.

The Non-performing advances portfolio of the Bank broken down by major Industries and Geographic areas on given in page 238 together with the respective Specific/General loan loss provisions and amounts written-off during the period under review, as per the regulatory disclosure requirements.

On Balance Sheet Netting

As per Basel II guidelines a bank may use the net exposure of loans and deposits as the basis for its capital adequacy computation only where a bank has a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction regardless of whether the counterparty is insolvent or bankrupt. The Bank should also be able at any time to determine those assets (loans) and liabilities (deposits) with the same counterparty that are subject to the netting agreement; and monitor/controls its roll-off risks; and the relevant exposures on a net basis.

The Bank's accounting policy on 'offsetting of financial instruments' describes the extent to which it adopts netting off within the parameters laid down under Sri Lanka Financial Reporting Standards (SLFRS).

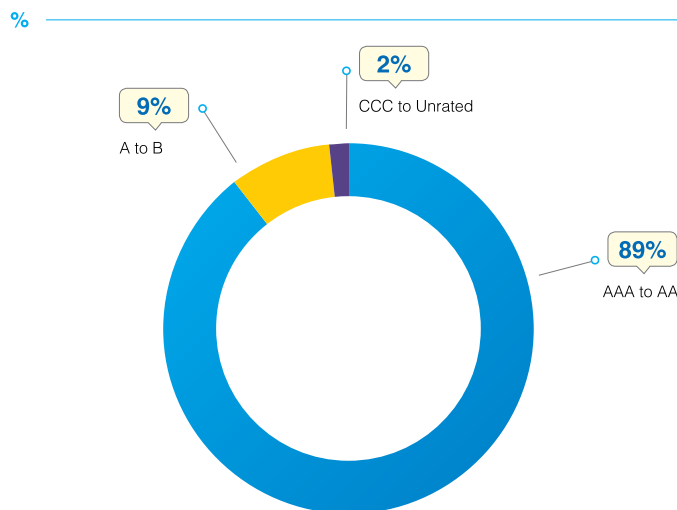
Compliance with the Social and Environmental Management Policy

Social and environmental risks associated with lending activities of the Bank are reviewed by the IRMD.

A comprehensive analysis in managing credit risk in relation to Social and Environmental Management Policy of the Bank is given in the Management Discussion and Analysis on page 22.

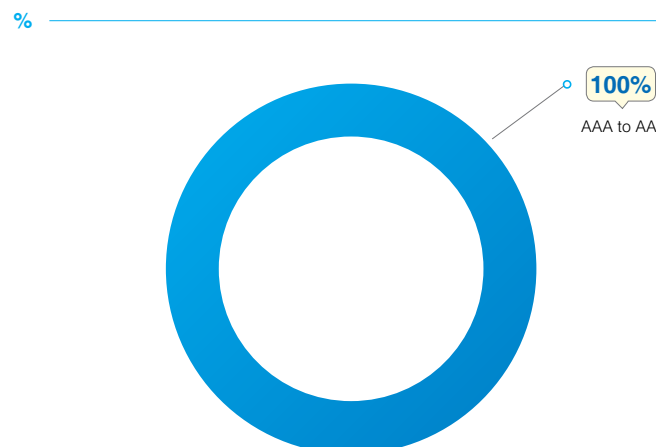
The graphical presentations in pages 237 to 239 depict the analysis of the Bank's overall credit risk exposure as at December 31, 2012 based on different factors. Industry Sector distribution of the Advances Portfolio is given in the Note 26.1 to the Financial Statements on page 363.

Concentration of Counterparty Exposures in Sri Lanka Fitch Ratings-wise as at December 31, 2012



The Bank in the course of its normal operations strives to deal with other local and foreign banks (counterparties) with high international credit ratings in order to minimize risks on its exposures.

Concentration of Counterparty Exposures in Bangladesh CRAB* Ratings-wise as at December 31, 2012

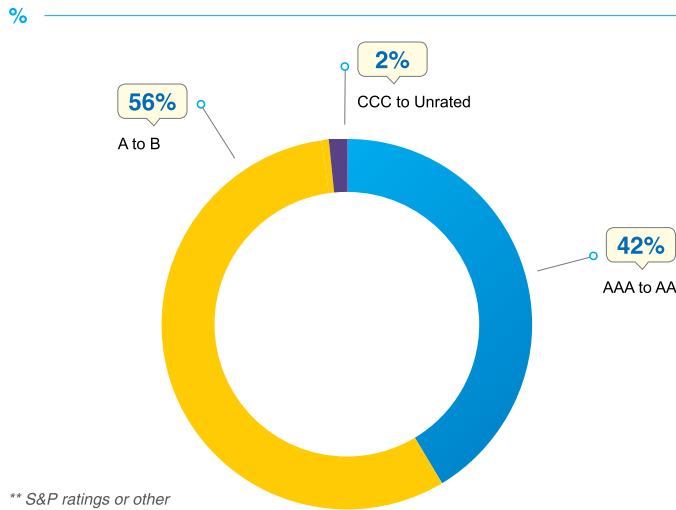


*Equal CRISL ratings are given where CRAB ratings are unavailable.



Bangladesh operations of the Bank too adopts a similar approach in order to mitigate risks on its exposures.

**Concentration of Foreign Counterparty Exposure
(Sri Lanka & Bangladesh Operations)
Credit Ratings-wise** as at December 31, 2012**

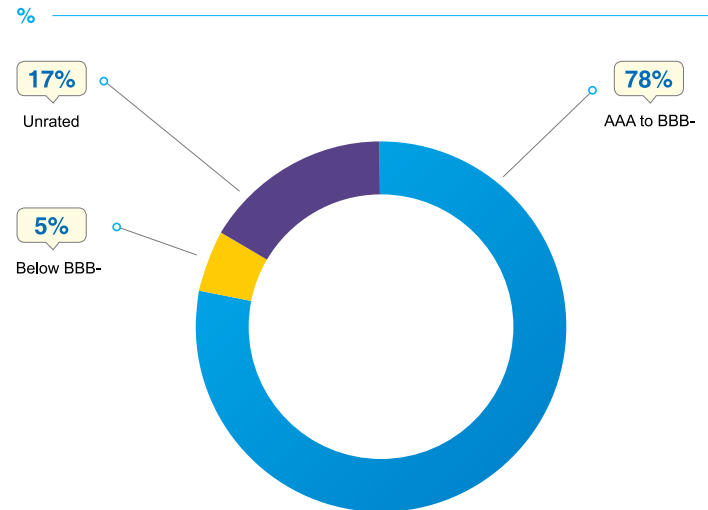


** S&P ratings or other equivalent international credit ratings are given where S&P ratings are unavailable.



Consolidated credit ratings of Sri Lankan and Bangladesh operations depict 98% of exposures are to investment grade entities around the world.

**Concentration of Cross-Border Exposure*
(Sri Lanka and Bangladesh Operations)
S & P Ratings-wise as at December 31, 2012**



*The above exposure does not include investment in Bangladesh Operations.



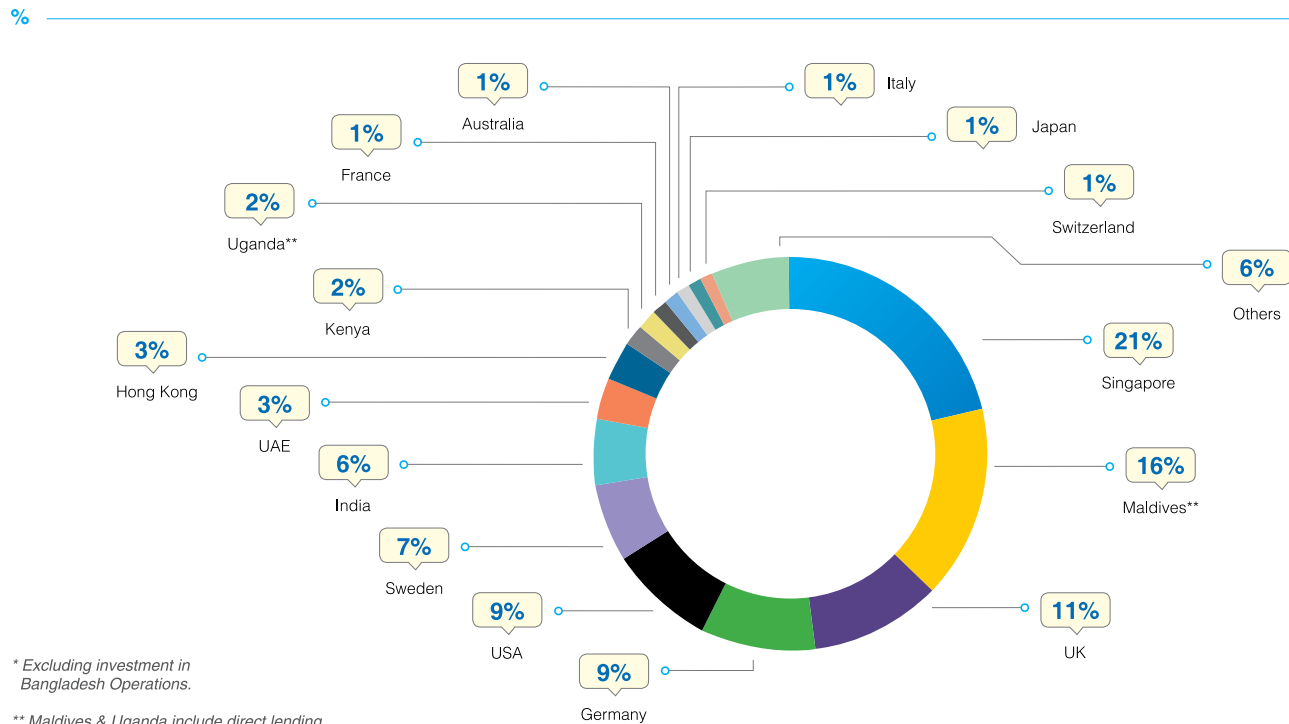
Bank is exposed to country risk with a spread of counterparties across the globe. Bank is vigilant on developments that are likely to affect settlement of our exposures in the normal course of business and rely on independent risk ratings as a criterion for evaluation.

Segmentation of NPA Portfolio as at December 31, 2012 by Geographic Area

Province/Geographic Area	Total NPA	Rs. '000	
		Specific Provisions for Bad Debts	General Provision
Central	611,314	186,755	68,186
Eastern	163,835	69,763	13,605
North Central	216,714	129,363	20,674
Northern	673,105	205,841	26,724
North Western	737,208	238,537	68,390
Sabaragamuwa	326,928	160,600	25,914
Southern	1,377,643	694,726	62,728
Uva	127,520	56,520	15,514
Western	8,412,005	3,245,594	1,067,816
Bangladesh	205,778	90,048	66,342
Maldives	-	-	-
Other Foreign Geographies	-	-	-
Total	12,852,050	5,077,747	1,435,893

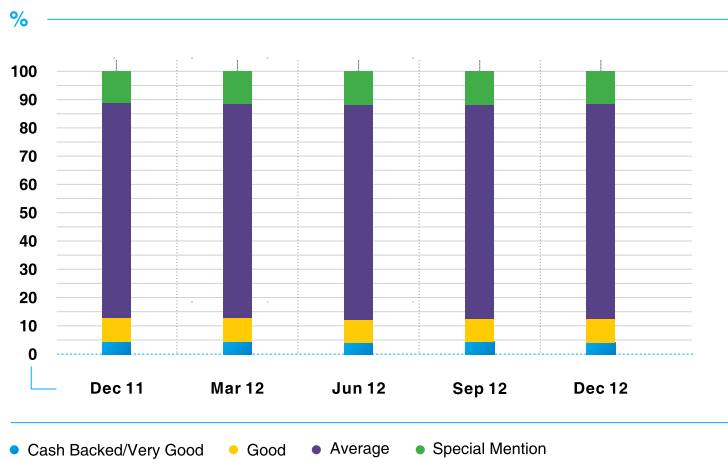
Note: The above figures have been prepared as per SLAS and may differ from SLFRS figures.

Concentration of Cross-Border Exposure* - Country-Wise (Sri Lanka and Bangladesh Operations) as at December 31, 2012



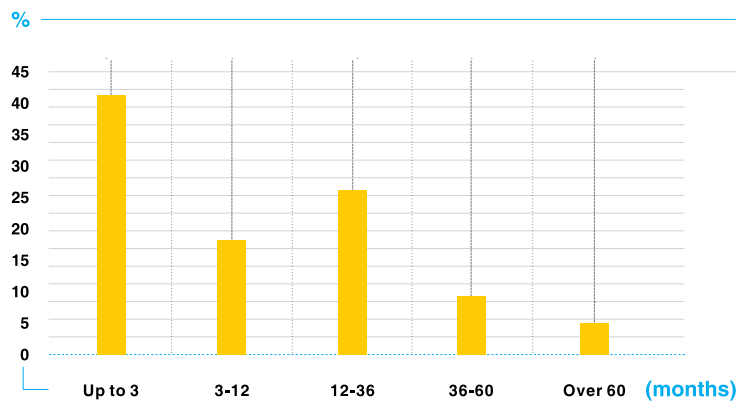
Diversified country exposures support the Bank in mitigating the risk associated with concentration.

Risk Migration of Advances Portfolio during the year 2012 (Sri Lanka & Bangladesh Operations)



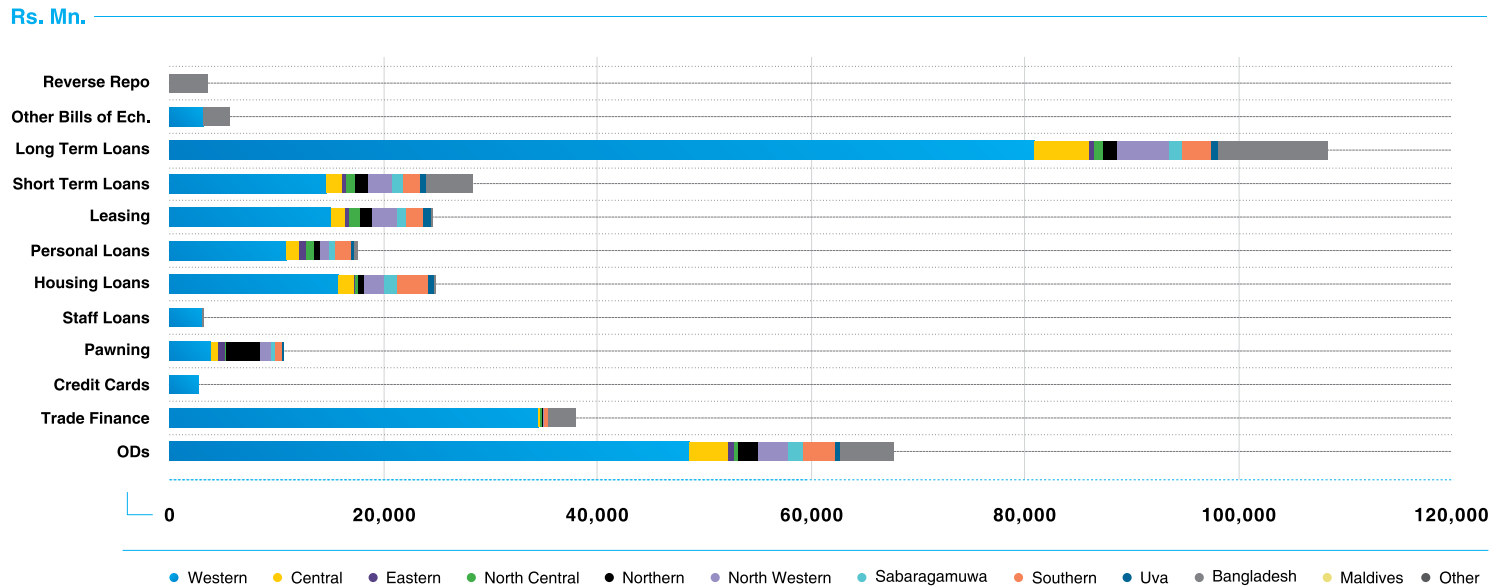
No significant adverse movements were observed amongst the risk categories during the year.

Tenor-wise Breakdown of Loans and Receivables from Other Customers as at December 31, 2012

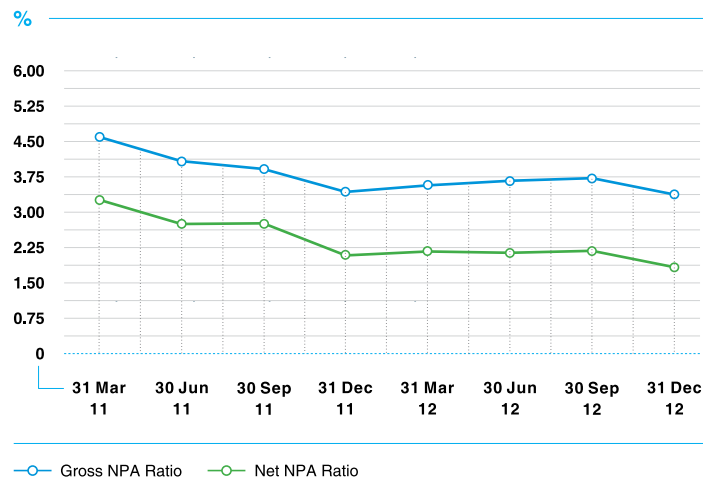


The Bank's ability to re-price its loans and advances within relatively a short time span reflects the Bank's adaptability in a changing interest rate scenario in the market.

Geographic Distribution of Advances Portfolio Broken Down by Product Type as at December 31, 2012

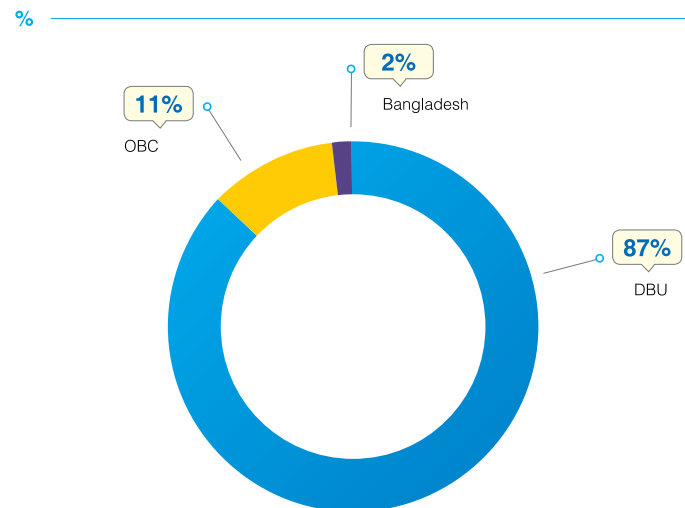


Movement of Gross & Net Non-Performing Advances Ratios during the years 2011 & 2012



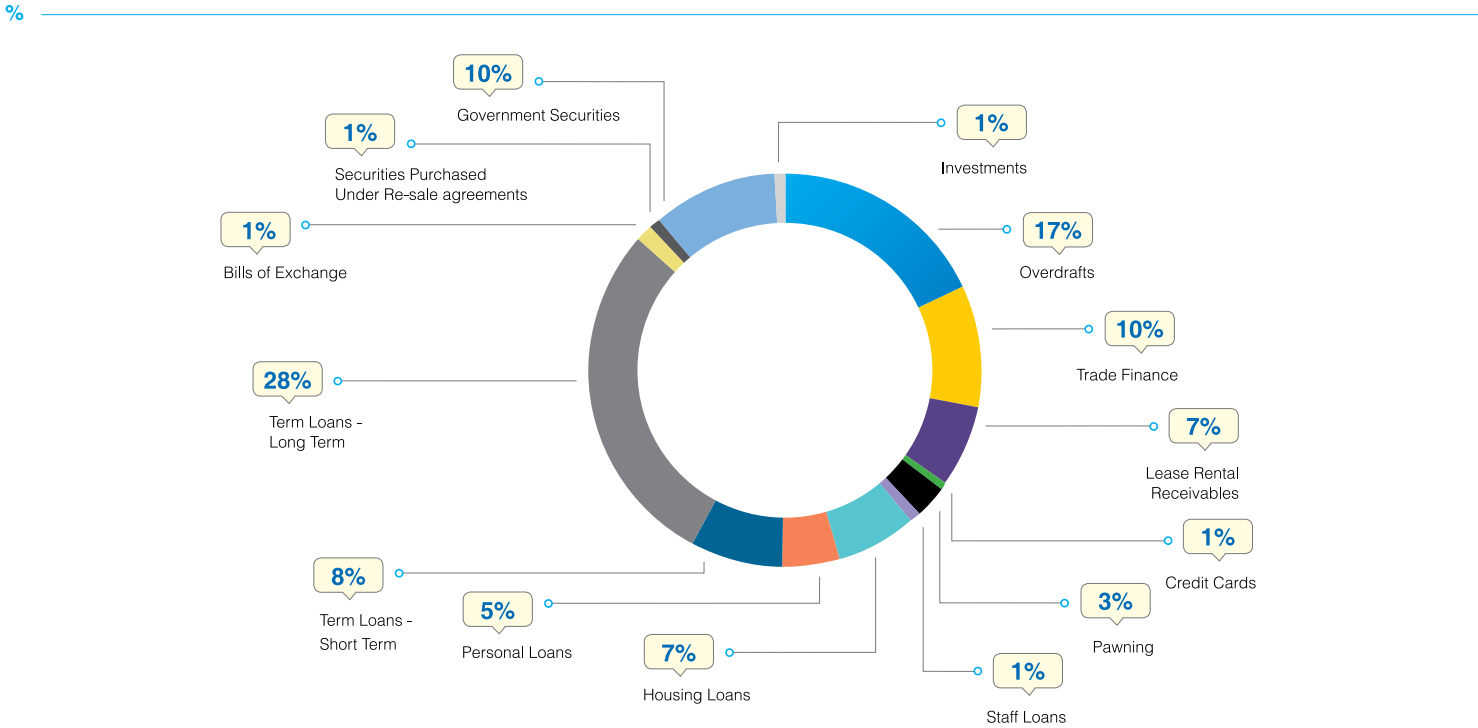
Trend observed during the year 2011 in the gross and net NPA ratio continued during 2012 as well reflecting further improvements in credit quality.

Distribution of Specific Provisions as at December 31, 2012



Corresponding to the relative sizes of the portfolios, the bulk of the specific provisions have been made on account of customers in the Domestic Banking Unit.

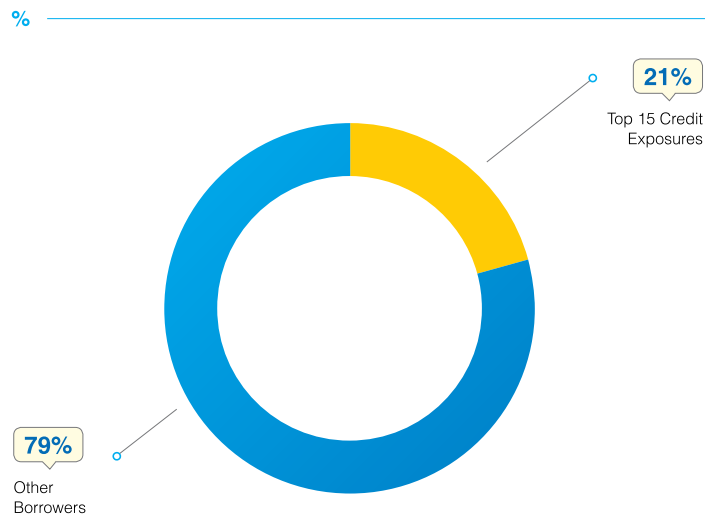
Portfolio of Loans and Receivables from Other Customers as at December 31, 2012



 The portfolio is well spread across a gamut of lending and investment products with long term loans accounting for the biggest share of 28%.

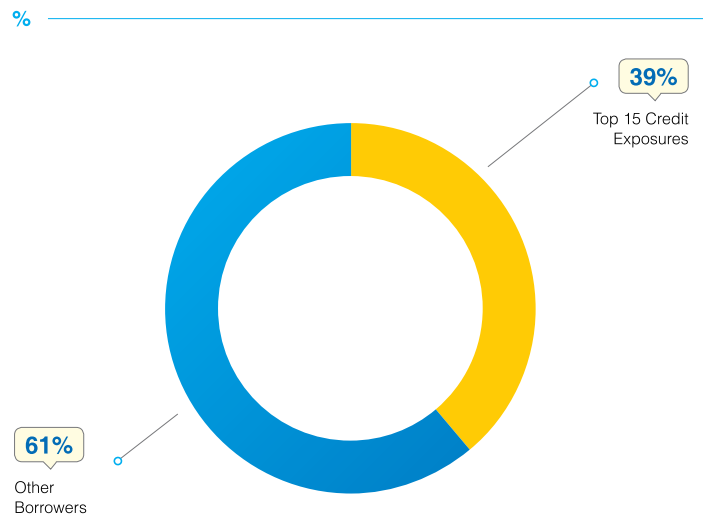
Spread of 15 Largest Borrowers of the Bank compared to the Advances Portfolio of the Bank as at December 31, 2012

Sri Lankan Operations



 Low exposure to the top 15 borrowers indicates the level of diversification of the credit portfolio to mitigate pitfalls arising from concentration risk.

Bangladesh Operations



 With a predominantly corporate lending portfolio, Bangladesh operations has a relatively higher concentration with a few large borrowers.

Segmentation of NPA Portfolio as at December 31, 2012 by Industry Sector

(Sri Lankan Operations)			Rs '000
Industry Sector	Outstanding	Specific Provision	Amount Written-Off
Exports	1,347,012	553,365	721
Imports	1,568,095	557,798	4,823
Wholesale & Retail Trading	722,891	286,938	4,579
Construction Industry	788,521	140,373	5,060
Industrial	1,398,392	598,769	2,207
Agriculture	609,435	253,908	2,865
Housing	637,376	258,078	752
Tourism & Allied	987,446	424,652	9,790
Personal	2,941,067	1,277,969	9,393
Services	999,695	355,909	3,937
Holding Companies	4,625	2,509	–
Non Banking Financial Institutions	29,548	29,457	120
State Institutions	135	135	–
Any other Commercial Activity	420,879	153,770	3,343
Miscellaneous	191,155	94,069	901
Total	12,646,272	4,987,699	48,491

Note: The above figures have been prepared as per SLAS and may differ from SLFRS figures.

MARKET RISK

Introduction

Market Risk is the likelihood of the Bank incurring losses as a result of values of assets and liabilities or revenues being adversely affected by changes in financial market conditions such as movements in interest rates, exchange rates, equity prices, or commodity prices. The Bank's exposure to Market Risk arises as a result of dealing in financial products including loans, deposits, securities, short term borrowings, long term debt etc., to facilitate both customer-driven and proprietary transactions.

The Bank did not have any exposure to Commodity Risk while it had only a negligible exposure on Equity Risk during 2012. (Refer Financial Statements Notes 24 and 27 for Bank's exposure on equity). The Market Risk exposure was therefore, mainly measured in terms of Interest Rate Risk (IRR) and Foreign Exchange (FX) Risk that affect traditional banking products.

Market Risk Management, Policies and Processes

Bank's Market Risk Management Policies

Market Risk Management Unit (MRMU) of the Integrated Risk Management Department (IRMD) works in close relationship with various business units and control/monitoring units of the Bank in order to identify, measure, monitor, and report Market Risk related exposures in accordance with the Market Risk related policies of the Bank. Treasury Middle Office, an integral part of MRMU, independently evaluates and monitors transactions carried out by the Bank's Treasury from a risk perspective.

MRMU is entrusted with the task of reviewing Market Risk related policies and exposure limits facilitating efficient risk/return decisions within Board approved policy parameters and guidelines.

Risk Assessment and Analytics

The Bank's risk governance structure is based on the principle that each business head is responsible for the comprehensive identification and verification of Market Risk sources, events, causes and consequences in relation to their business line together with the internal or external factors/events that could affect the business strategy and risk profile of the Bank, with appropriate Senior Management oversight. Risk assessment is conducted by incorporating both qualitative and quantitative measures including stress testing to identify areas of concern.

At a portfolio level, MRMU is primarily entrusted with the responsibility of identifying, measuring, monitoring, and reporting Market Risk related exposures of the Bank to assist effective management of same. Further, MRMU provides independent reviews on new investment proposals/products originated from different business units in order to evaluate such products from a Market Risk perspective.

Management of two main components of Market Risk by the Bank is discussed in detail below.

Interest Rate Risk (IRR)

As per the Basel Committee on Banking Supervision, IRR is the exposure of the Bank's financial condition to adverse movements in interest rates. Excessive change in interest rates could pose a severe threat to the Bank's Net Interest Income (NII) and also affect the underlying value of assets, liabilities and Off-Balance Sheet items.

IRR is a major component of the market risk exposure of the Bank which arises from trading activities as well as banking activities such as granting of credit facilities, accepting deposits and issuing debt. The Bank uses several tools to monitor IRR on an ongoing basis taking into consideration re-pricing characteristics of all assets and liabilities of the Bank's Balance Sheet. The Bank assesses IRR exposure based on both the Earnings At Risk (EAR) perspective focusing on the impact of interest rate changes on its near-term earnings and the Economic Value of Equity (EVE) perspective, focusing on the value of the Bank's net cash flows.

The Bank manages interest rate exposure relating to its assets and liabilities on a consolidated basis. Business units transfer their interest rate risk to Treasury through a transfer-pricing mechanism, which takes into account the elements of interest rate exposure that can be risk-managed in financial markets.

Impact of the market changes on the NII of the Bank is assessed by forecasting the Bank's Balance Sheet for a 12 months period taking into consideration expected future business growth based on the budget, Asset and Liability Management (ALM) positioning and the projections of interest rate movements as implied by the market-based rates/macro economic forecasts. These factors are then used to measure and evaluate the potential impact on the Bank's profitability resulting from alternative interest rate scenarios for both LKR and foreign currency.

Interest Rate Risk in Banking Book (IRRBB) refers to the risk of loss in earnings or economic value of the Bank's assets and liabilities that are not actively traded, as a result of adverse movement in interest rates. The Bank has significant portion of its assets and liabilities portfolio not marked to market and is carried on the books of the Bank at historical values. Thus, the economic value of such assets and liabilities is generally not ascertained on a regular basis and can be a significant source of risk if the asset or liability is not held till maturity.

Interest Rate Risk Assessment

As a part of ICAAP, the Bank has adopted the Modified Duration Gap approach for analysing the changes in Economic Value of Equity (EVE), which requires the mapping of assets and liabilities into different time buckets. While doing so the following assumptions are made by the Bank:

- All assets and liabilities are mapped to respective time buckets based on their next repricing date
- Items such as capital, reserves and surplus, bills payable, inter-branch adjustment, staff loans, provisions and interest in suspense are treated as non-rate sensitive
- Items such as cash, current account, fixed assets are considered to be non-rate sensitive
- Midpoint of each time bucket is considered as the proxy for the maturity of all assets and liabilities in that time bucket
- Bank uses market yields and coupons for various instruments and they are mapped to the same set of products for respective maturities
- Frequency of coupon payment is assumed to be annual

Bank compares the weighted average of durations of assets and weighted average of durations of liabilities to arrive at the duration gap of equity. Modified duration of equity is then given a rate shock to measure the change in economic value of equity, which is continuously monitored by the Bank.

In addition to the EVE approach the Bank also uses Earnings at Risk (EAR) approach to analyse the impact on NII resulting from changes in interest rates. In this approach Rate Sensitive Liabilities (RSL) are subtracted from the Rate Sensitive Assets (RSA) to produce the 'Gap' for each time bucket, which is further used to compute the impact on NII. The assets and liabilities are classified as rate sensitive if:

- It matures within these time buckets
- It represents an interim or partial principal payment
- The interest rate applied to outstanding principal changes contractually during the interval
- The outstanding principal can be repriced when some base rate or index rate changes during the interval.

Interest Rate Risk to which the Bank is exposed usually derives from associated factors such as repricing risk, yield curve risk, and basis risk.

Re-pricing risk occurs due to differences in amounts of assets and liabilities that get re-priced at the same time or due to timing differences in the fixed rate maturities and re-pricing of floating rate assets, liabilities and certain Off-Balance-Sheet instruments such as interest rates SWAPs, forward contracts etc. Bank monitors these mismatches on a regular basis against the internally set limit structure giving due cognisance to behavioural patterns of relevant assets and liabilities.

Interest Rate Sensitivity Gap Analysis of the Bank (LKR and Foreign Currency) as at December 31, 2012

	Upto 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	1-3 Years	3-5 Years	More than 5 Years	Non- Sensitive	Total Rs. Mn.
Assets and Off-Balance Sheet Exposures										
Cash on Hand	-	-	-	-	-	-	-	-	11,075	11,075
Deposits with Central Banks	515	-	-	-	-	-	-	1,867	15,787	18,169
Balances due from Head Office, Affiliates and own branches	-	-	-	-	-	-	-	-	-	-
Balances due from other banks	19,466	5,702	125	-	-	-	-	-	-	25,293
Investments	30,632	19,794	17,141	15,101	4,182	11,537	5,326	1,648	647	106,008
Bills of Exchange	5,671	-	-	-	-	-	-	-	-	5,671
Overdrafts	23,011	6,574	4,931	4,931	26,298	-	-	-	-	65,745
Loans and Advances	102,567	30,444	24,786	15,115	14,217	43,258	16,784	5,969	-	253,140
Non-Performing Loans	-	-	-	-	-	-	-	-	811	811
Fixed Assets	-	-	-	-	-	-	-	-	8,718	8,718
Net Inter-Branch Transactions	-	-	-	-	-	-	-	-	-	-
Accrued Interest	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	13,678	13,678
Reverse Repo	2,693	-	1,004	-	-	-	-	-	-	3,697
Forward Rate Agreements	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Total	184,555	62,514	47,987	35,147	44,697	54,795	22,110	9,484	50,716	512,005
Liabilities and Off-Balance Sheet Exposures										
Demand Deposits	36,025	-	-	-	-	-	-	-	-	36,025
Savings Deposits	133,917	-	-	-	-	-	-	-	-	133,917
Time Deposits	36,462	59,825	34,084	38,177	18,726	5,457	5,421	6,820	-	204,972
Other Deposits	-	-	-	-	-	-	-	-	-	-
Balances due to Head Office, Affiliates and own branches	-	-	-	-	-	-	-	-	-	-
Balances due to other banks	4,711	40	3	-	-	1,664	3,328	3,328	-	13,074
Certificates of Deposit	1,008	1,412	1,774	2,997	-	375	245	-	-	7,811
Other Borrowings	-	98	1,884	768	-	2,412	943	1,518	-	7,623
Net Inter-Branch Transactions	-	-	-	-	-	-	-	-	-	-
Bills Payable	-	-	-	-	-	-	-	-	-	-
Interest Payable	-	-	-	-	-	-	-	-	16,194	16,194
Provisions (Others)	-	-	-	-	-	-	-	-	-	-
Capital	-	-	-	-	-	-	-	-	18,009	18,009
Reserves	-	-	-	-	-	-	-	-	27,212	27,212
Retained Earnings	-	-	-	-	-	-	-	-	8,423	8,423
Subordinated Debt	-	-	-	-	-	-	973	-	-	973
Other Liabilities	-	-	-	-	-	-	-	-	6,012	6,012
Repos	16,843	7,219	4,030	2,428	1,240	-	-	-	-	31,760
Forward Rate Agreements	-	-	-	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-	-	-	-
Swaps	-	-	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-	-	-
Total	228,966	68,594	41,775	44,370	19,966	9,908	10,910	11,666	75,850	512,005
Period Gap	(44,411)	(6,080)	6,212	(9,223)	24,731	44,887	11,200	(2,182)		
Cumulative Gap	(44,411)	(50,491)	(44,279)	(53,502)	(28,771)	16,116	27,316	25,134		
RSA/RSL	0.81	0.91	1.15	0.79	2.24	5.53	2.03	0.81		

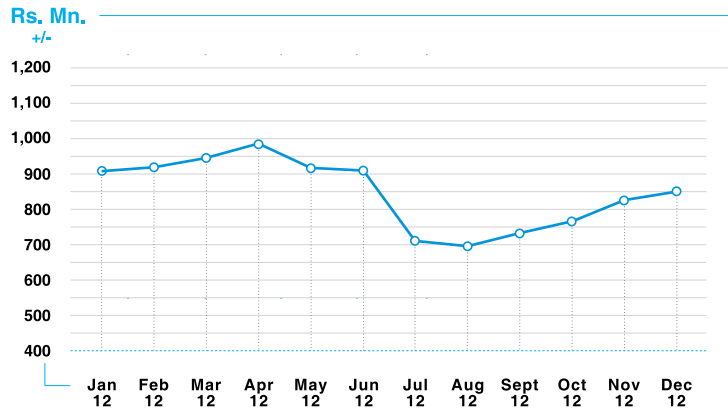
Note 1: The above figures have been prepared as per SLAS and may differ from SLFRS figures given in the Statement of Financial Position.

Note 2: Prepared as per disclosure requirement given in the Banking Act Direction No. 7 of 2011 on "Integrated Risk Management Framework".

Note 3: RSA = Rate Sensitive Assets and RSL = Rate Sensitive Liabilities.

Bank's balance sheet consists mainly of assets and liabilities with relatively short average durations which are capable of withstanding any adverse rate movements in the market without any difficulty.

Impact on Profit of a 100 bp Rate Shock (Sri Lankan Operations)



Interest rate volatility can have an impact on the earnings of the Bank in the short run. Parallel rate shocks can provide insights to ascertain and plan to mitigate the impact of potentially adverse movements.

Bank monitors the sensitivity of NII due to changes in interest rates by giving 1% and 0.25% shocks to Rupee and Foreign Currency portfolios respectively and ensures that the variations are managed within the internal exposure limits. The graph above indicates the sensitivity of NII to rate shocks, during the last year.

The IRR of the Bank is measured centrally at IRMD and managed by the Treasury through Funds Transfer Pricing (FTP) mechanism under the guidance of the Asset and Liability Committee (ALCO). By adopting this mechanism, business units are only expected to manage non-market risk related factors.

Yield curve risk arises when unanticipated shifts of the yield curve have adverse effects on the Bank's income or underlying economic value, which the Bank manages by rebalancing portfolios as necessary.

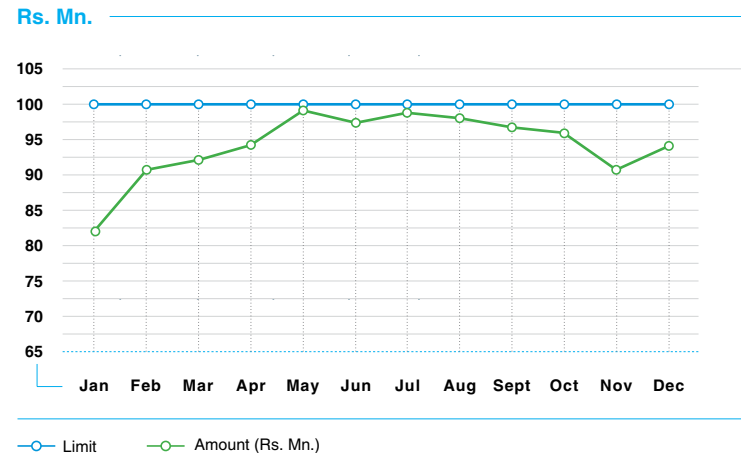
Basis risk results from differences in the relative movements of rate indices which are used for pricing instruments with similar characteristics. ALCO assesses the potential contribution of basis risk towards IRR by monitoring movements in indices such as Prime Lending Rate (PLR), Sri Lanka Inter Bank Offered Rate (SLIBOR), and rates of Government Securities thereby making appropriate decisions to re-price or rebalance the portfolios as necessary.

Foreign Exchange (FX) Risk

Foreign Exchange Risk is the potential impact on earnings or capital of the Bank due to adverse fluctuations in exchange rates arising as a result of maturity mismatches in foreign currency positions. This exposure is created when the Bank transacts in a currency other than the base currency - i.e. Sri Lankan Rupee (LKR). Bank has set stringent risk tolerance limits for FX exposures within the regulatory parameters of the Central Bank of Sri Lanka (CBSL), to ensure that potential losses arising out of fluctuations in FX rates are within the Bank's risk appetite.

USD/LKR market fluctuated between a low of Rs. 113.81 and a high of Rs. 134.00 (source: Bloomberg) during the period under review resulting in a Rupee depreciation of approximately 12% during the year. Such volatile movements in the exchange rate may result in losses to the Bank, if Net Open Position (NOP) is not managed within the established policy limits. Therefore, the Bank regularly monitors the sensitivity of the NOP to changes in USD/LKR exchange rates by applying appropriate shocks.

Sensitivity of FX Position during 2012 - Sri Lankan Operations



Volatility in the FX market can have adverse impact on open foreign exchange positions and regulators impose limits to prevent banks carrying excessive positions. In a highly volatile market, banks may need to ascertain the impact to the foreign currency denominated reserves and investments and act proactively to avoid surprises.

Un-hedged portion of the FX Open Position (Net Open Position) of the Bank is regulated through statutory limits imposed by the CBSL. FX translation risk arises from the consolidation of Bank's Foreign Currency investments overseas into Local Currency. Any other reserves held in Foreign Currency are being monitored through Sensitivity Analysis carried out on the USD/LKR exchange rate.

Foreign Exchange Position As at December 31, 2012

Currency	Spot			Forward			Net Open Position	Net Position in Other Exchange Contracts	Overall Exposure In Respective Foreign Currency	Overall Exposure In Rs. '000
	Assets	Liabilities	Net	Assets	Liabilities	Net				
1	2	3	4=2-3	5	6	7=5-6	8	9	10	11
US Dollars	16,796.2	14,845.0	1,951.2	1,761.3	2,961.9	(1,200.6)	1,350.9	–	4,502.8	576,355.6
Pound Sterling	399.6	389.1	10.5	–	–	–	(22.8)	–	33.3	6,880.7
EURO	2,358.4	2,314.9	43.5	1,250.0	1,250.0	–	(20.9)	–	64.4	10,889.3
Japanese Yen	9,014.9	3,636.3	5,378.6	–	–	–	(2,063.5)	–	7,442.1	11,082.8
Indian Rupee	–	–	–	–	–	–	–	–	–	–
Australian Dollar	430.7	434.9	(4.2)	–	–	–	(8.7)	–	12.9	1,719.8
Canadian Dollar	25.2	4.7	20.5	–	–	–	13.5	–	34.0	4,376.6
Other Currencies in USD	605.8	477.1	128.7	–	108.9	(108.9)	35.8	–	273.4	34,996.6
Total Exposure										646,301.4
Total Capital Funds as per the latest Audited Financial Statements (capital base as at December 31, 2012)										49,327,280
Total Exposure as a % of total Capital Funds as per the latest Audited Financial Statements										1.31%

Maturity Gap Analysis (FCY Denominated) as at December 31, 2012

	Up to 1 Month	1-3 Months	3-6 Months	6-9 Months	9-12 Months	1-3 Years	3-5 Years	More than 5 Years	Total
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Total Assets	36,382	17,497	15,225	3,334	2,576	35,569	9,679	4,030	124,293
Total Liabilities	44,344	29,828	19,708	18,313	7,068	20,043	21,055	27,809	188,167
Period Gap	(7,962)	(12,330)	(4,483)	(14,978)	(4,492)	15,526	(11,376)	(23,780)	
Cumulative Gap	(7,962)	(20,292)	(24,775)	(39,753)	(44,245)	(28,719)	(40,095)	(63,875)	

Stress Testing

With the implementation of Internal Capital Adequacy Assessment Process (ICAAP), a comprehensive stress testing framework has been developed by the Bank incorporating various plausible scenarios for changes in exchange/interest rates to measure the impact on earnings as well as capital. Regular stress testing is being conducted on Foreign Exchange portfolio and Interest Rate Risk on Banking Book (IRRBB) using both Economic Value of Equity (EVE) and Earnings at Risk (EAR) perspectives and the Fixed Income Securities (FIS) portfolio held for trading to estimate the changes in such portfolios that may result from abnormal market movements. MRMU in conjunction with the business units develops both systemic and specific stress scenarios. The basis for deciding on the level of stress depends on the changing positions and new economic and/or socio political variables.

Stress test results provide the senior management with a clear perspective of the trend of risk being taken. Stress testing for the trading portfolio is monitored through the limits framework available for Market Risk Management.

Stress testing for IRRBB is carried out separately for LKR exposure and other currencies, considering the fact that total size of USD exposure is more than 5% of the total portfolio. Other material currencies, considering their insignificant exposure, are combined with the USD items for risk management purposes. The Interest rate scenarios are constructed for the purpose of stress testing taking into account positive and negative parallel shifts ranging from 1% to 3%.

Bank performs stress testing on FX Open Positions including reserves by stressing the aggregate value by 6%, 10% and 15% under low, medium and high scenarios.

Market Risk Mitigation, Monitoring and Reporting

ALCO is responsible for appropriate pricing of products and maintaining a balanced portfolio to suit current interest rate and exchange rate scenarios, market competition, etc. to manage Market Risk efficiently. ALCO thus regularly assesses the suitability of such mechanisms to mitigate overall Market Risk exposure of the Bank's Balance Sheet.

Market Risk related limits are set out in the Board approved FX Risk Management Policy, Asset and Liability Management (ALM) Policy, and Derivative Policy which are periodically reviewed by ALCO and Executive Integrated Risk Management Committee (EIRMC). In addition to these limits, the Bank has set up Management Action Triggers (MATs) to notify the ALCO of impending limit breaches or recurring loss events so that proactive and timely preventive measures could be initiated to mitigate potential losses.

Treasury Back Office monitors risk exposures created as a result of various Treasury transactions against both internal and regulatory policies, procedures and limits. Treasury Middle Office independently monitors adherence to internally set Market Risk limits and reports any exceptions to Senior Manager Market Risk on a daily basis.

MRMU carries out sensitivity analysis related to market risk factors, analyses Key Market Risk Indicators and reports the findings to risk related management committees periodically for necessary decisions.

Risk exposures created as a result of offering retail or wholesale banking products or services are managed within the Board approved ALM Policy parameters by the ALCO.

LIQUIDITY RISK MANAGEMENT

Introduction

Liquidity risk is the potential vulnerability of a financial institution for not being able to fund increases in assets and 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 problems resulting from asset and liability mismatches. Thus, the Bank's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective, the Bank continuously analyses and monitors liquidity risk, maintains an adequate margin of safety in liquid assets and maintains access to diverse funding sources to meet liquidity requirements.

Liquidity Risk Management Policies and Processes

The Bank's liquidity risk governance process is designed to ensure that its liquidity position is optimised to support its business requirements while maintaining healthy earnings.

Bank's Treasury Division is entrusted with the task of monitoring daily liquidity requirement of the Bank. ALCO meets at least fortnightly and is responsible for managing and controlling the overall liquidity of the Bank and reviews the impact of strategic decisions on Bank liquidity. This process ensures maintenance of sufficient resources to meet daily liquidity obligations and ability to withstand a period of Bank specific/market specific liquidity stress.

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 processes for managing liquidity risk of the Bank.

Liquidity Risk Assessment and Analytics

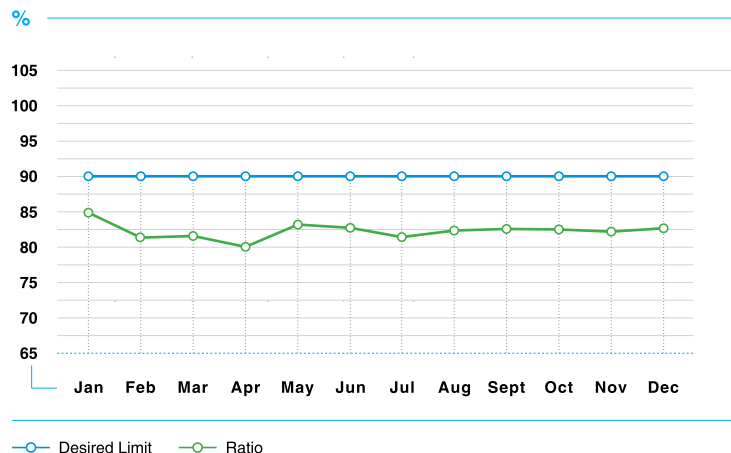
Liquidity of the Bank is measured using both stock (based on key ratios) and flow (based on cash inflows/ outflows in time bands) approaches.

A variety of key liquidity risk indicators are used by the Bank to assess the adequacy of the liquidity position namely, Statutory Liquid Asset Ratio (SLAR), Net Advances to Deposits Ratio, Dynamic and Static (Structural) Liquidity Gap Summary, Core Funding Ratio, Funding Concentration, and Commitments Vs Funding Sources.

The Bank has in place a more stringent internal limit for maintaining SLAR as compared to the statutory requirement of 20% of total liabilities excluding contingent liabilities.

Net Advances to Deposits Ratio 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 graph depicts the movement in Net Advances to Deposits Ratio during the year 2012.

Movement in Advances to Deposits Ratio in 2012



As a measure of liquidity, financial institutions need to manage Advances to Deposits ratio in a prudent manner. The Bank's self imposed internal limit and maintenance of this ratio at a very healthy level is an indicator of the Bank adopting sound liquidity management practices.

Liquidity mismatches are reviewed on a regular basis by evaluating both dynamic and static liquidity positions of the Bank. Dynamic Liquidity Gap report prepared for all major currencies uses certain behavioural assumptions on asset and liability classifications when projecting cash flows considering general behaviour patterns inherent to different asset and liability products.



Environment

Purchased **51 ATMs**
conforming to RoHS standards

Installed a new IBM Series i and migrated to MIMIX data mirroring enhancing disaster recovery capabilities

Introduced a new online Loan Origination System

greatly enhancing credit quality and reducing turnaround times and usage of paper

Loaned Rs. 51 Mn.

for renewable energy and energy savings projects (SEMS)

Maturity Analysis of Assets and Liabilities as at December 31, 2012

	Up to 1 month Rs. Mn.	1-3 months Rs. Mn.	3-6 months Rs. Mn.	6-9 months Rs. Mn.	9-12 months Rs. Mn.	1-3 years Rs. Mn.	3-5 years Rs. Mn.	Over 5 years Rs. Mn.	Total Rs. Mn.
Cash on Hand	11,075	–	–	–	–	–	–	–	11,075
Deposits with Central Banks	1,941	2,802	1,832	1,586	1,460	1,627	1,595	5,325	18,168
Balances due from Head Office, Affiliates and own branches	–	–	–	–	–	–	–	–	–
Balances due from other banks	19,466	5,702	125	–	–	–	–	–	25,293
Investments	24,472	10,657	10,374	15,123	4,202	33,881	5,326	1,972	106,007
Bills of Exchange	5,671	–	–	–	–	–	–	–	5,671
Overdrafts	4,931	4,931	4,931	4,931	4,931	13,642	13,642	13,806	65,745
Loans and Advances	30,846	39,303	31,286	13,732	12,980	73,338	31,771	19,883	253,139
NPLs (Net of Interest Receivables, Interest in Suspense and Specific Loan Loss Provision)	–	–	–	–	203	–	–	608	811
Net Inter-Branch Transactions	–	–	–	–	–	–	–	–	–
Other Assets	12,536	18	25	24	24	149	102	9,516	22,394
Lines of Credit committed from institutions	1,000	–	–	–	–	–	–	–	1,000
Others (Reverse Repo)	2,693	–	1,004	–	–	–	–	–	3,697
Total Assets	114,631	63,413	49,577	35,396	23,800	122,637	52,436	51,110	513,000
Demand Deposits	7,205	7,205	5,404	3,603	3,603	–	–	9,006	36,026
Savings Deposits	6,696	6,696	6,696	6,696	6,696	33,479	33,479	33,479	133,917
Balances due to Head Office, Affiliates and own branches	–	–	–	–	–	–	–	–	–
Balances due to other banks	4,711	40	3	–	–	1,664	3,328	3,328	13,074
Time Deposits	25,524	41,877	23,859	21,106	18,726	3,820	3,794	66,265	204,971
Certificates of Deposit, Borrowings and Bonds	705	1,130	1,902	1,512	1,434	2,992	2,402	4,330	16,407
Net Inter-Branch Transactions	–	–	–	–	–	–	–	–	–
Bills payable	–	–	–	–	–	–	–	–	–
Interest payable	9,833	1,854	1,727	916	831	749	271	12	16,193
Provisions other than NPLs & Depreciation of Investments	–	–	–	–	–	–	–	–	–
Other Liabilities	429	1,112	1,581	12	468	2,094	265	50	6,011
Lines of Credit committed to institutions	1,000	–	–	–	–	–	–	–	1,000
Unutilised portion of ODs and Advances	14,221	2,817	2,817	2,817	2,817	7,795	7,795	9,942	51,021
Letters of Credit/Guarantee/Acceptance	6,234	10,053	3,827	1,550	89	252	–	–	22,005
Repo/Bills Rediscounted/Swaps/Forward contracts	16,843	7,219	4,030	2,428	1,240	–	–	–	31,760
Others	–	–	–	–	–	–	–	–	–
Total Liabilities	93,401	80,003	51,846	40,640	35,904	52,845	51,334	126,412	532,385
Period Gap	21,230	(16,590)	(2,269)	(5,244)	(12,104)	69,792	1,101	(75,302)	
Cumulative Gap	21,230	4,640	2,371	(2,873)	(14,977)	54,815	55,917	(19,385)	

Note 1: The above figures have been prepared as per SLAS and may differ from SLFRS figures given in the Statement of Financial Position.

Note 2: Prepared as per disclosure requirement given in Banking Act Direction No. 7 of 2011 on "Integrated Risk Management Framework".

Structural Liquidity Gap Report (Refer Note 50) uses only contractual cash flows. The Bank has incorporated appropriate thresholds for tenors up to 12 months in both Static and Dynamic reports as well as Management Action Triggers which indicate any significant changes to liquidity profile, the Senior Management should be aware of.

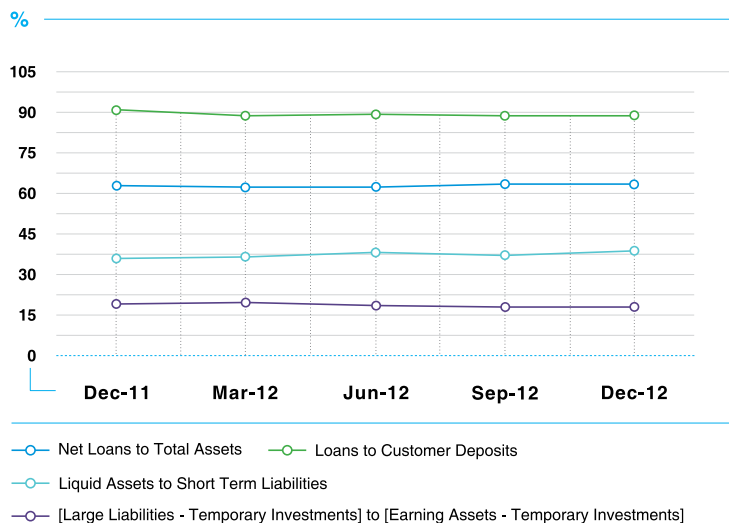
The Structural Liquidity Gap Report prepared for the Bank does not indicate any adverse situation giving due cognisance to the fact that overnight bucket related cash out flows include savings deposits which can be considered as quasi stable source of funds based on historical behavioural patterns of such depositors. Core Funding Ratio reflects the stability of funding sources compared to loans and advances granted, an indicator that the Bank's asset base is funded by sufficiently long term liabilities. The Bank has maintained its Core Funding Ratio above the policy threshold of 90% during the year under review which is considered healthy.

Funding concentration is monitored by ALCO for both LKR and Foreign Currencies, where distribution of main deposit account types are measured against the appropriate deposit base to ascertain potential risks and rebalance the portfolios.

The Bank monitors its potential liquidity commitments by way of loan disbursements and undrawn overdrafts compared to the available funding sources on a regular basis, to properly plan its cash flows. However, generally Bank does not have any credit limits having irrevocable commitments and therefore, potential liquidity risk from undrawn commitments is considered to be very remote.

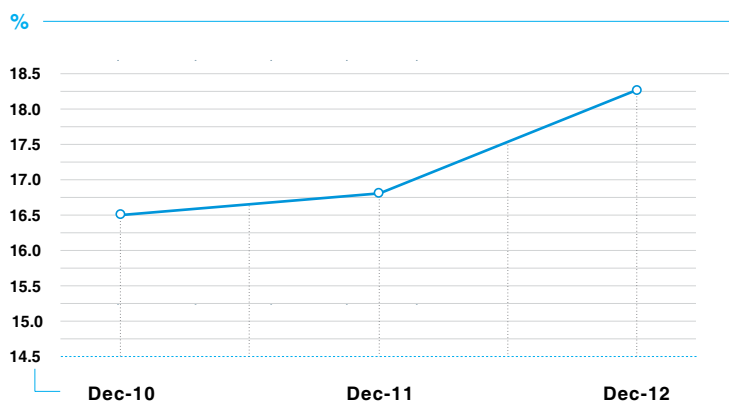
The graphs below depicts the trends in various liquidity related ratios of the Bank during the period from December 2011 to December 2012.

Liquidity Related Ratios

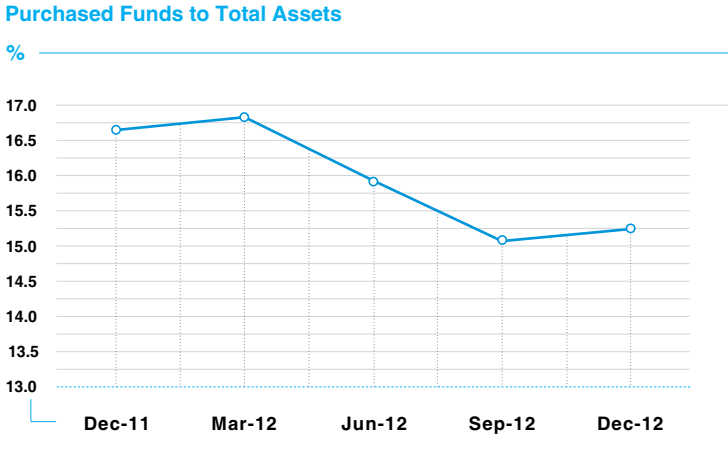


Stock approach of computing liquidity related ratios better reflects the stable liquidity profile of the Bank during the year.

Commitment to Total Loans



Trend in purchased funds to Total Assets is depicted in the graph below:



 Bank relied less on purchased funds (money market borrowings and institutional deposits) due to availability of more stable funding sources for credit growth.

Liquidity Stress Testing

The Bank also performs regular liquidity stress tests and scenario analysis as part of its liquidity monitoring activities. These are intended to quantify potential impact of liquidity related events to proactively identify viable funding alternatives that can be utilised to manage such stress situations with minimum financial and/or reputational impact on the Bank. The Bank has in place a Liquidity Contingency Plan (LCP) to address unlikely events of both short term 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. These scenarios measure the Bank's liquidity position across a 3-month horizon by analysing the net funding gaps resulting from contractual and contingent cash and collateral outflows versus the ability to generate additional liquidity by pledging or selling excess collateral and utilising contingency borrowing agreements with other counterparty banks.

In liquidity stress testing the Bank uses several scenarios that could potentially lead to liquidity stress which include sharp decline in deposits and loan roll-overs for low, medium and high stress situations.

The potential impact of a sharp decline in deposits and loan roll-over on the Bank's Asset & Liability gap would invoke the Contingency Plan in case a negative cumulative gap is observed in the up to 3 months maturity bucket.

Liquidity Risk Mitigation, Monitoring and Reporting

Liquidity risk management framework of the Bank has been designed in compliance with the regulatory guidelines. Bank has developed certain funding and liquidity risk management policies such as maintaining excess liquidity at appropriate levels, determining amounts of excess liquidity required based on analysis of debt maturities and other potential cash outflows, including those that may result during stressed market conditions. The liquidity policy has established parameters to continuously maintain diversified funding sources including liquidity contingency planning so that the Bank could meet its cash flow requirements without over constraining resources/earnings.

Exposures to liquidity tolerance limits, and relevant ratios are regularly monitored by ALCO in order to take informed decisions with regard to Bank's liquidity position/potential requirements. ALCO is responsible for monitoring liquidity risks and ensuring the liquidity risk remains within the established policy parameters and tolerance levels.

OPERATIONAL RISK

Introduction

The Operational Risk has been identified as a distinct category of risk with a growing importance in the financial industry. Management of Operational Risk is a key feature of sound risk management practices in modern financial markets.

Operational Risk is the risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. The Legal Risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Broad Objectives of the Operational Risk Management function of the Bank are to:

- 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 (Unexpected) losses.
- Regularly review and improve the business processes and controls from a risk mitigation perspective in order to preserve/enhance the shareholder value.

Operational Risk Management Policies and Processes

Key Processes of the Management of Operational Risk in the Bank are based on the concept of 'Risk vs Service vs Cost'. Operational Risk is managed with least inconvenience to the clients in a cost effective manner so that the risk exposures of the Bank's operations are optimised to enhance business opportunities.

A comprehensive set of risk related policies and procedures are adopted to formalise the Bank's approach to Operational Risk Management, and to comply with the Basel II as well as regulatory guidelines for defining, measuring and managing Operational Risk.

The Operational Risk Management Policy of the Bank addresses the following key areas:

- Operational Risk Management Framework and Structure of the Bank.
- The role of the Board of Directors and their oversight in Operational Risk Framework of the Bank.
- Responsibility of Senior Management, other Risk Owners and Operating Units of the Bank in relation to Operational Risk.
- Appetite and Tolerance for Operational Risk.
- Business Continuity Management.
- Operational Risk of Overseas Operations and Subsidiary Companies.
- Computation of Capital under Operational Risk.

The Bank recognises that Operational Risk is inherent in all business activities and can bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, or legal or regulatory penalties if such risks are not objectively managed.

The management of Operational Risk is therefore, an important priority of the Bank. The Bank has a comprehensive Operational Risk Management Mechanism that enables the identification, measurement, monitoring, controlling and reporting of inherent and emerging Operational Risks.

The Bank's Operational Risk governance structure includes the Board Integrated Risk Management Committee (BIRMC) which is overseeing the Operational Risk Management programme implemented by business units under the supervision of the Executive Integrated Risk Management Committee (EIRMC). The business units of the Bank are responsible for implementing the framework as well as the day-to-day management of Operational Risks, creating a partnership with the Risk Managers that ensures close monitoring and increasing awareness of Operational Risk.

Operational Risk Assessment and Analytics

Operational Risk assessment is a systematic process of identifying and evaluating events that could affect the achievement of objectives of the Bank, positively or negatively. Such events can be identified in the external environment as well as within an organisation's internal environment (e.g., people, processes, and infrastructure).

Risk identification is the primary component of Risk Management and the Bank adopts several techniques to identify Operational Risk associated with the products and processes of the banking operations. Once the risk events have been clearly identified, a combination of qualitative and quantitative assessment of risks is carried out to evaluate the potential impact of such risks. The following tools are used to identify and assess risk events under Operational Risk:

- Internal Loss Data Collection and Analysis
- External Loss Data Collection and Analysis
- Audit Findings
- Risk Control Self Assessments (RCSA)
- Independent Risk Assessments
- Key Risk Indicators (KRIs)
- Assessment of Risks involved with New Processes, Products and Services

Risk assessment assists the Bank to consider how potential events might affect the achievement of objectives and estimates the impact of such events on the overall Operational Risk profile of the Bank.

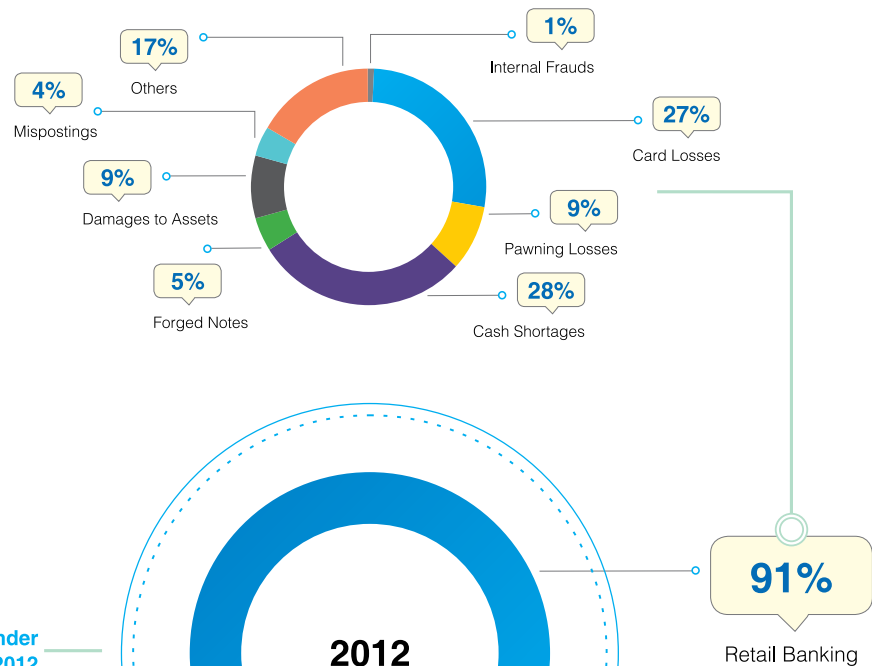
The Bank assesses the identified Operational Risk events from two perspectives; Impact and Likelihood. Likelihood represents possibility that a given event will occur, while the Impact represents the effect of materialising such event. A '5x5' Risk Measurement Matrix is being used by the Bank to assess the operational risk events in order to identify the potential risk. Risks can then be prioritised based on the score derived for each risk that helps the Bank to adopt suitable risk responses/mitigatory measures for identified risks.

The Bank's Operational Risk Management team is entrusted with the task of tracking and analysing of Operational Loss data relating to various business units. The Operational Risk Management Unit (ORMU) of Integrated Risk Management Department (IRMD) maintains the loss event database of the Bank. ORMU analyses such data to ascertain trends, patterns of recurring losses in order to identify potential risks in advance and adopts mitigatory measures to prevent/minimise potential losses of such events in a proactive manner.

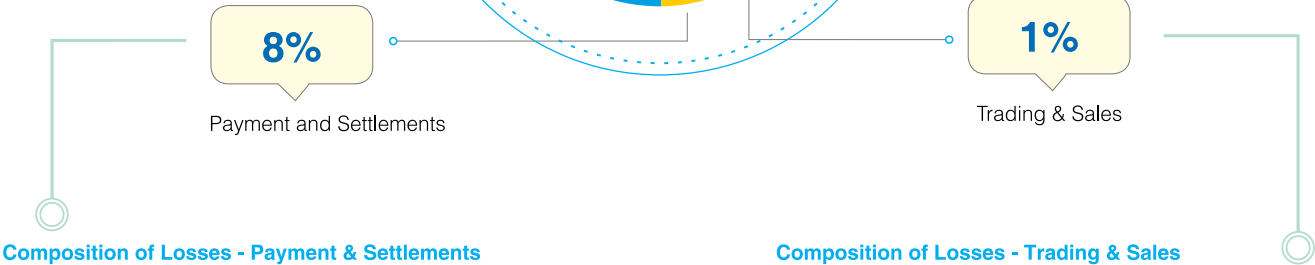
The loss data has been recorded according to the "Basel event types" under each business line as per the guidelines issued by the Central Bank of Sri Lanka. The Bank has successfully collected loss data for a period of five years which is one of the major components in moving towards Basel II advanced approaches in Operational Risk capital calculations as prescribed by the regulator.

Following charts indicate the percentages of Operational Risk Losses incurred by the Bank under each business line/category during the year 2012.

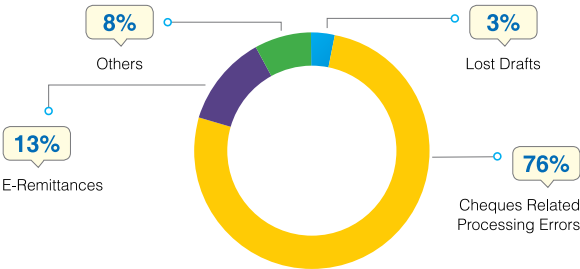
Composition of Losses - Retail Banking



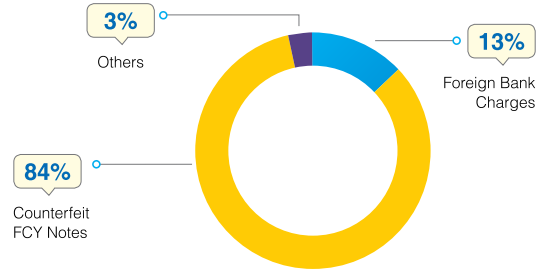
Classification of Losses Under Basel Business Lines for 2012



Composition of Losses - Payment & Settlements



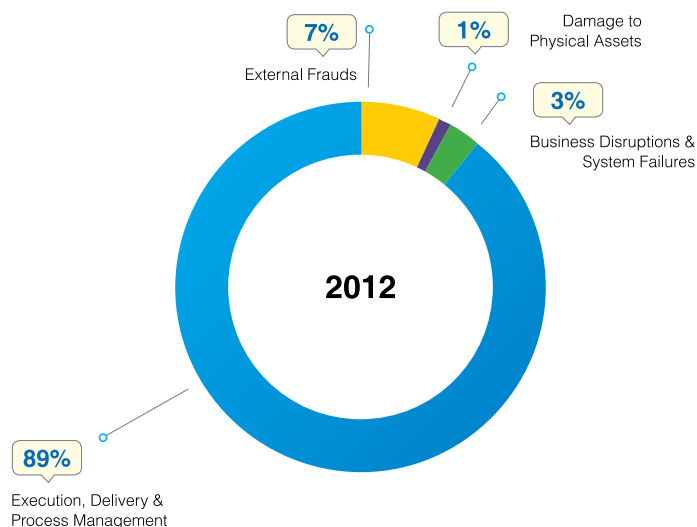
Composition of Losses - Trading & Sales



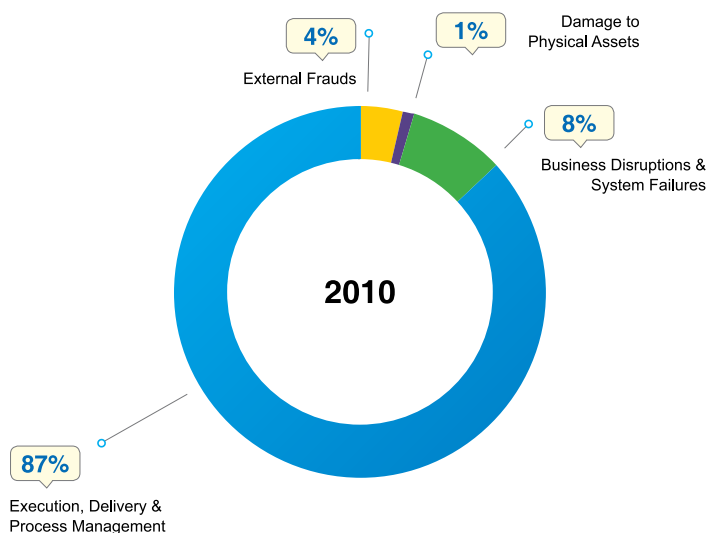
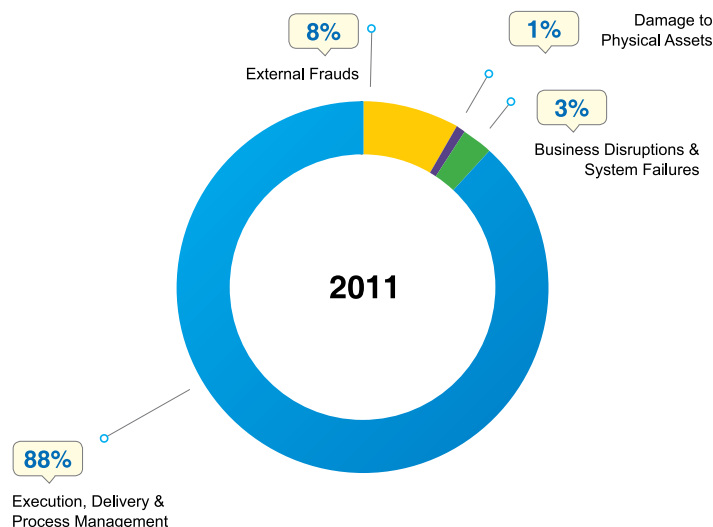
Retail Banking accounted for the bulk of the losses with card losses and cash shortages accounting for more than half thereof. Losses in Payments & Settlements and Trading & Sales were relatively insignificant.

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:

Operational Loss Events by Category - Percentage of Total Losses by Number of Events

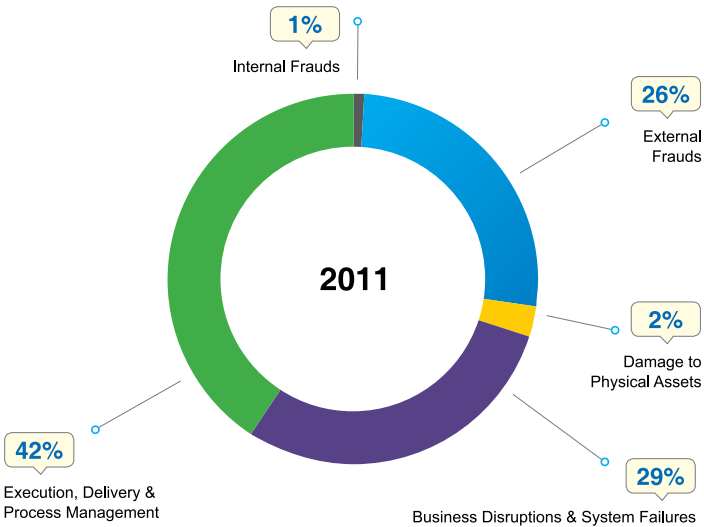
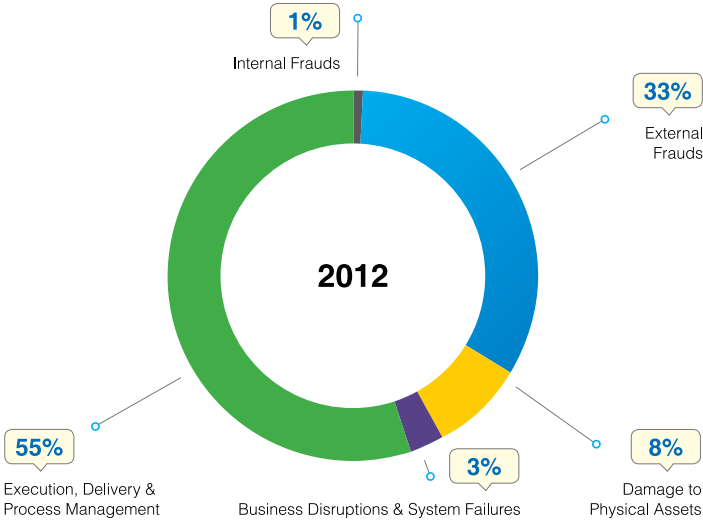


 Risk event type as a percentage of total loss computed based on the number of incidents assists the Bank in understanding operational losses and devising remedial actions to prevent events with potential to recur.

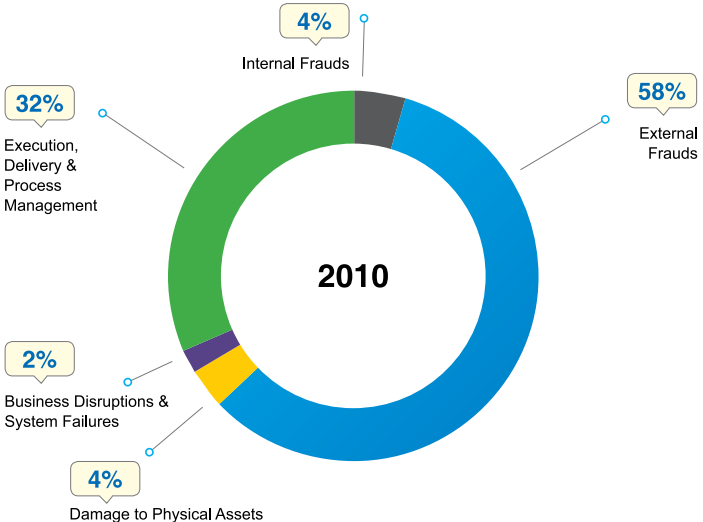


As experienced throughout the last few years, a high frequency of loss events of the Bank is with low financial impact. Individual events with monetary values less than Rs. 100,000 are accounted for more than 99% of the total loss events which is similar to losses experienced during the past years. Loss category of "Execution, Delivery and Process Management" which mainly consists of lower value losses relating to cash and ATM operations in nearly 800 delivery points (both in Sri Lanka and Bangladesh) accounted for the highest number of loss events for this year as well. However, average Operational Loss Events for year 2012 as a percentage of average number of transactions carried out in the year is negligible at 0.002%.

Operational Loss Events by Category - % of Total Losses by Value



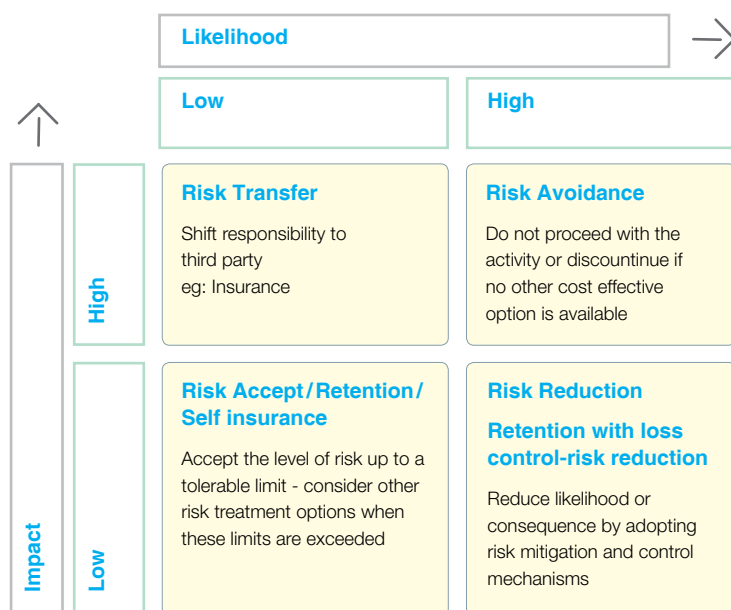
 Basel II event type based classification computed based on values for the past three years explains the changes in the operational risk topography of the Bank.



Loss type of 'Execution, Delivery and Process Management' also accounts for the highest percentage of loss values for the year 2012, followed by loss types of 'External Frauds' and 'Damages to Physical Assets'. However, gross value of the total Operational Losses for the year 2012 (which includes reported 'near miss' incidents) 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 a mere 0.12%. This is a further improvement from the last year figure of 0.27%. The Bank has been able to maintain these losses at extremely lower levels compared to the mandatory capital allocation of 15% of the average gross income for last three years under Basic Indicator Approach of capital computation as per Basel II, mainly due to the application of sound and effective systems and controls.

Operational Risk Mitigation

The Bank's risk mitigation function is based on clear strategies approved by the Board of Directors and close supervision exercised by the EIRMC. The risk mitigation model adopted by the Bank to respond to various operational risks could be graphically illustrated as follows:



As reflected in its negligible Operational Risk related losses, the Bank has been able to maintain a strong internal Operational Risk culture. Various internal controls have been established to mitigate the Operational Risk of the Bank. Sound internal control system is a key component in managing Operational Risks. Internal controls established within the Bank can be classified into the following categories:

- Detective - To find out errors/frauds or other misdemeanors and reduce severity
- Preventive - To prevent errors/frauds or other misdemeanors
- Oversight - To monitor operational events
- Resolution/ Response - To assist in resolving circumstances
- Planning/ Guidance - To guide relevant staff in business execution
- Governance - High level controls to provide an appropriate business environment

Insurance

The Bank adopts a 'risk transfer strategy' for low frequency – high impact events and uncontrollable Operational Risk events such as damages to physical assets by natural disasters, fire etc. Accordingly, the Bank has transferred insurable risks by obtaining insurance policies from reputed insurance providers. Losses incurred due to natural causes and other hazards, external and internal frauds have been comprehensively insured while errors and omissions, information security and losses incurred in facilitating electronic payment mechanisms have been insured where the possible loss value exceeds a certain threshold.

Further, comprehensive independent review of insurance policies obtained by the Bank is carried out by the Integrated Risk Management Department (IRMD) on a periodic basis to ascertain the adequacy of insurance covers on various risks associated with banking operations.

Outsourcing

Outsourced functions and responsibilities of outsourcing are governed by the Outsourcing Policy of the Bank. Certain banking functions have been outsourced after carefully evaluating the risk factors and carrying out cost-benefit analysis of such alternatives. All these outsourced functions are covered through legal agreements which are subject to periodic reviews. Basis of payments have also been incorporated under these agreements.

Details of outsourcing activities including service providers, nature of the service, cost of the service etc., are submitted to the regulator on a periodic basis.

Due diligence tests of third party service providers are carried out through on-site inspections. These exercises which include assessments of vendor's capability to carry out particular services and security measures adopted by them are carried out at the time of entering into new service agreements or renewal of existing service agreements.

In addition to the above, Business Continuity Plans of the service providers are reviewed at the time of entering into contracts with them to ensure that the activities of the Bank are not disrupted due to possible extreme risk events encountered by the outsourced service providers.

Business Continuity Plan

Comprehensive disaster recovery process covering all business units of the Bank is laid down under the Business Continuity Plan (BCP) which is regularly reviewed and reported to the Board. A Steering Committee of Business Continuity Management has been established and roles and responsibilities of the BCP Steering Committee and related Sub-committees are clearly defined in the BCP of the Bank.

Following areas are covered under the BCP:

- Business Impact Analysis
- Emergency Guidelines for Banking Services
- Risk Assessment Worksheets
- Emergency Response Procedure
- Call Trees
- Site and Road Plans

In addition to the above, BCP of the Bank covers the relevant policies such as Staff Succession Policy, Staff Travel Policy, Staff Emergency Assistance Policy, Crisis Communication Policy, Supply Chain Management Policy, Awareness and Training Policy and Plan Testing and Updating Policy of the Bank.

Further, independent risk assessments of the BCP is carried out by the IRMD and reported to EIRMC/BIRMC while the Inspection Department of the Bank conducts regular internal audits of BCP.

To supplement the BCP, the Bank also has a Disaster Recovery Plan (DRP) that is focused on technical functionality and continuity of the IT systems and infrastructure. Events that can cause interruptions to key business processes and impact of such interruptions are identified in the DRP and redundancies are built-in to ensure uninterrupted service to customers during any such interruptions. A framework exists where the DRP is regularly reviewed, updated and tested by the DRP and BCP Committee, guided by the BCP 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 event of the primary site becoming inaccessible or unavailable. The existing infrastructure is resilient to handle disaster situations and management of crisis. This DR facility is compliant with "ISO/IEC 27001:2005" Information Security Management 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 Auditors, External Auditors and IRMD.

Other systems and controls adopted as risk mitigants are discussed under the 'Board Audit Committee Report', 'Internal Control Mechanism' and 'Directors' Statement on Internal Control' elsewhere in the Annual Report.

Operational Risk Monitoring and Reporting

Key Risk Indicators (KRIs) and monitoring of tolerance levels in accordance with Risk Appetite are the major elements used in monitoring and reporting of Operational Risk of the Bank. All Operational Risk events (with or without monetary losses) of the Bank are reported by the 'risk owners' to compile KRIs by the IRMD which are reported to EIRMC. Events with financial losses above a certain threshold and other significant Operational Risk events are then reported to BIRMC on a monthly basis. All high impact Operational Risk events are comprehensively analysed by IRMD and discussed in detail at EIRMC/ BIRMC on a quarterly basis to derive suitable risk responses whenever necessary. Further, all Operational Risk events with financial impacts over certain thresholds are reported to the regulator on a quarterly basis.

In addition to the above measures, a well-developed 'regulatory compliance' monitoring mechanism is adopted by the Bank to monitor, report and comply with all mandatory banking and other statutory requirements. A centralised monitoring unit has also been established to detect transactions relating to Money Laundering and terrorist financing activities. This function is supported by the newly-acquired AML software solution. Further, the Bank is in the process of implementing a software solution to support monitoring and reporting of Operational Risk which will further strengthen the Operational Risk Management function.

Appetite and Tolerance for Operational Risk

Though Risk Appetite relating to Credit and Market Risks could be associated with returns, Risk Appetite for Operational Risk is more aligned with preventing potential losses and protect reputation rather than enhancing 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 processes are bound to be lengthy, time consuming, costly and causing great inconvenience to the Bank's internal and external customers. Thus in designing a process, system or a product, the Bank has to strike a balance between the need to minimise Operational Risk and inconvenience caused to clients/employees to keep in line with the Operational Risk concept of the Bank, 'Risk vs Cost Vs Service'. Hence, zero level tolerance for Operational Risk could not be practically achieved since all banking products, and processes are associated with various Operational Risks where some of those cannot be fully-mitigated unless the product or process is discontinued.

The Bank has a low appetite for material risks it is exposed to and accordingly has established tolerance levels for all material Operational Risk related losses. Following thresholds are used to monitor such losses:

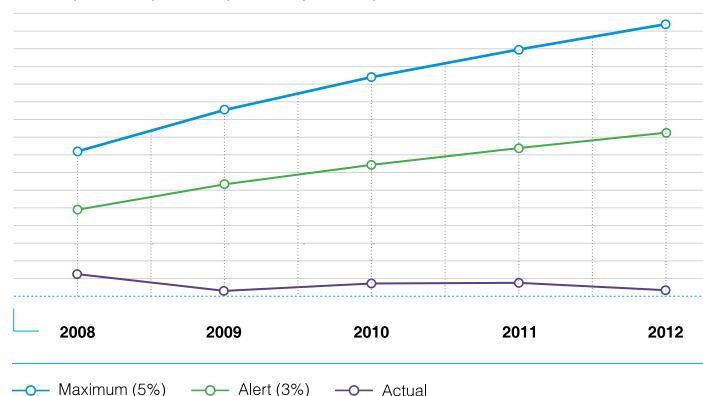
- Alert Level – Total Operational Losses exceeding 3% of the average audited gross income for the last three years
- Maximum Level – Total Operational Losses at 5% of the average audited gross income for the last three years

Operational Risk Unit of the Bank closely monitors the above tolerance levels and notifies the management on the movements of the actual levels against the established thresholds. If any of the individual loss events reach the alert level, the Bank would take immediate action to review the processes and controls relating to the area where such losses have incurred.

Actual Operational Risk related losses for the current year as mentioned earlier is only 0.12% (of average-audited gross income for last three years) which is well within the internal alert level of 3% and maximum level of 5% as illustrated in the graph below. Further, as reflected in the graph, the Bank has been able to maintain the Operational Risk losses well under control over a considerable period.

Actual Operational Losses Against Internal Thresholds for Years 2008 - 2012

Loss Value as a % of
Gross Income



Actual operational losses of the Bank is significantly lower than the thresholds that have been set and have continued to improve over the past five years as a percentage of gross income.

Computation of Operational Risk Requirement under The Standardised Approach

Parallel computation of capital required for Operational Risk under The Standardized Approach (TSA) is being carried out along with the Basic Indicator Approach (BIA).

Capital required for Operational Risk of the Bank for the year 2012 as per TSA approach is computed as follows:

Business Line	Basel II Prescribed Factors (Beta Factors)	Capital Requirement (Rs. Mn.)
Corporate Finance	18%	47.1
Trading and Sales	18%	482.0
Retail Banking	12%	1,569.1
Commercial Banking	15%	967.6
Payment and Settlement	18%	111.8
Agency Services	15%	Nil
Asset Management	12%	Nil
Retail Brokerage	12%	Nil
Total Requirement		3,177.6

However, Operational Risk Requirement as per Basic Indicator Approach for the year 2012 would be Rs.3,456.3 Mn.

LEGAL RISK

Legal Risk, an integral part of Operational Risk, arises out of the legal implications of failed systems, people, processes or external events. All legal documents executed on behalf of the Bank are initially vetted by the Legal Department which consists of experienced and competent in house Legal Officers. Whenever required, services of the external lawyers are obtained. Legal actions filed against the Bank are handled by the internal Legal Officers or by the external lawyers under the close scrutiny of the Legal Department. External lawyers are selected carefully by studying their track records and capabilities on relevant subjects.

Further, Legal Risk relating to the Bank is reviewed through 'Half-yearly Review of Risk Management Measures' where Legal Risks relating to various business operations such as Corporate Banking, Personal Banking, Finance and Planning, Human Resources etc., have been included under the risks relevant for particular business units. Identification of key risks, evaluation of the impact of such risks and application of appropriate risk management measures to mitigate such risks are addressed when carrying out this exercise by the respective units. 'Half Yearly Review of Risk Management Measures' is reviewed by the Operational Risk Unit and verified by the Inspection Department before submitting the observations/recommendations to BIRMC and Board Audit Committee.

MANAGING IT RISK

The Bank is highly reliant on its Information Technology (IT) infrastructure and the information they contain for its day-to-day operations and its long term strategies. Consequently, risk management plays a critical role in protecting the Bank's information assets, as well as processes in IT-related risk.

Realising this increasing importance of IT Risk as a growing component of total Operational Risk domain, the Bank introduced a dedicated, independent IT Risk Function under the Operational Risk Unit of IRMD in 2012.

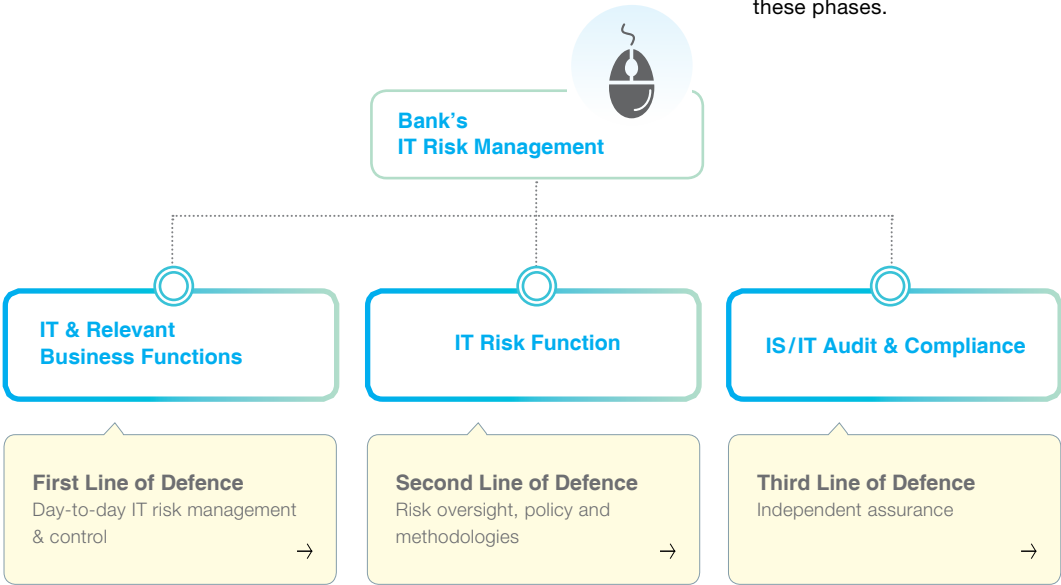
This initiative has contributed in further strengthening the information security and risk management strategy of the Bank by introducing the 'second line of defence' to the existing 'third line of defence' of the IT function (i.e., the IS/IT Audit and Compliance functions). The IT Risk function as the 'second line of defence' facilitates independent oversight of the IT Risk Management activities of the 'first line of defence', complemented by the 'third line of defence', that provides independent assurance and challenges across all business functions in respect of the integrity and effectiveness of the IT Risk Management framework. The 'Three Lines of Defence Framework for IT Risk' is depicted in the diagram below:

Implementation of an appropriate Information Technology Risk Management Framework is paramount to sustain the operational continuity of mission critical IT Systems and resources of the Bank, whereby all significant IT Risks are identified, measured, assessed, prioritised, treated, managed and monitored in a consistent and effective manner across the organisation.

As part of the framework, the Bank has developed an IT Risk Management Policy which complements the Information Security Policy, the related processes, objectives and procedures relevant for managing IT Risk and improving information security to deliver results in accordance with the organisation's overall policies and objectives.

IT Risk function carries out continuous, independent risk evaluations and monitoring, which involves comparing estimated risks with criteria established by the Bank such as risk appetite and tolerance levels. 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 monitor the effectiveness of information security controls and understand potential vulnerabilities.

For greater effectiveness, IT Risk Management is integrated into the System Development Life Cycle (SDLC) process, where risk management is iteratively performed during each major phase of the SDLC. The IT Risk function provides necessary inputs from a risk perspective during these phases.



OTHER RISKS

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.

The Bank considers Strategic Risk as one of the key elements in its Risk Profile. The Board of Directors and the Senior Management critically review the strategic goals of the Bank in its well defined Corporate Planning and Budgeting process and the Vision and Mission statements are also well articulated to set a clear strategic direction. This robust process ensures that Strategic Risk is well managed in all activities/business lines of the Bank.

In addition to the above, a detailed scorecard based model aligned to ICAAP has been developed by the Bank to measure and monitor Strategic Risk. This scorecard based approach adopted by the Bank to measure its Strategic Risk takes into consideration a range of factors, including its size and sophistication, and the nature and complexity of its activities.

REPUTATIONAL RISK

According to the definition under Basel II guidelines, Reputational Risk has been excluded in the definition of Operational Risk under Pillar I. However, for the purpose of the Bank, Reputational Risk will be managed under Pillar II ICAAP framework. Reputational Risk is multidimensional and it exists in the overall business model of 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 product, unethical practices, failure to achieve financial performance targets, labour unrest and environmental breaches etc. Reputational Risk could also arise from external factors such as the actions of a competitor that cast a cloud over the entire sector.

The Bank has identified Reputational Risk as one of the major types of risks the Bank is exposed to in achieving its strategic objectives. Due consideration has been given by the Bank to manage Reputational Risk by adopting various measures which have been discussed under 'Operational Risk Mitigation'.

Further, a detailed scorecard-based model has been developed by the Bank to measure and monitor Reputational Risk under ICAAP. The Bank has been successful in managing its Reputational Risk in the past which is evident from the sound position maintained by the Bank in the market and awards, accolades and ratings conferred on the Bank (details are stated under 'Awards & Accolades' elsewhere of this Annual Report). The Bank remains committed to continuously strive to maintain and improve reputation in all the activities it undertakes.

COMPLIANCE AND REGULATORY RISK

Banking business is highly regulated and the Bank could be adversely affected by failure to comply with existing laws and regulations or by failing to adopt changes in laws, regulations and regulatory policy. The Bank is also supervised by a number of different regulatory authorities which have broad administrative power over the Bank's businesses. The Board is responsible for ensuring that Bank complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which the Bank operates or obtains funding, as well as meeting the Bank's ethical standards. Compliance Risk arises from these legal and regulatory requirements. If the Bank fails to comply with applicable laws and regulations, it may be subject to fines, penalties or restrictions on its ability to carry out banking business. Any such costs and restrictions could adversely affect the Bank's business, reputation, prospects, financial performance or financial condition. In addition, the Bank could face increased supervision and regulation, particularly in the areas of funding, liquidity, capital adequacy and prudential regulations when compared to the competitors. Other areas of potential change that could impact the Bank include changes to accounting and reporting requirements, tax legislations, consumer protection & competition legislations, bribery, anti-money laundering and terrorist financing laws. In addition, further changes may occur driven by policy, prudential or political factors.

The nature and impact of future changes are not predictable and are beyond the control of the Bank. Regulatory compliance and the management of regulatory change has been identified as an increasingly important part of the Bank's strategic planning. The Bank expects that it will be required to continue to invest significantly in compliance, management and implementation of regulatory change. At the same time, significant management attention and resources will be required to update existing processes and procedures or develop new processes and procedures to comply with the new regulations. Regulatory change may also impact the operations of the Bank by requiring to have increased levels of liquidity and higher levels of, and better quality, capital as well as restrictions on the businesses the Bank conducts.

A well drafted Compliance Policy is in place to govern the Compliance function of the Bank. Compliance Risk is defined in this policy as the risk of legal or regulatory sanctions, material financial losses, or loss of reputation, the Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct, applicable to the banking activities. The measures adopted by the Bank to mitigate the Compliance Risk have been defined in the policy. Further, a well developed regulatory monitoring mechanism is adopted by the Bank to monitor reporting and compliance with all Mandatory Banking and other Statutory Requirements which have been discussed under 'Operational Risk Reporting and Monitoring'.

Comparison of Exposures with Risk Policy Parameters

Risk Category & Parameter	Description	Policy Parameter		Actual Position as at 31.12.2012	Compliance
Credit Risk Criteria					
Quality of the Lending Portfolio	Gross NPA Ratio**	Below	4%	3.37%	✓
	Net NPA Ratio**	Below	2.5%	1.84%	✓
	Provision Cover	Above	35%	45.46%	✓
	Aggregate Loans & Advances in the Risk Grades 'C - A5'	Above	75%	87.05%	✓
	Weighted Average Rating of the overall lending portfolios to be better than 'A5'	Above	40%	44.14%	✓
Concentration	Loans & Advances by Product *** (using HHI)	0.15 - 0.20		0.1675	✓
	Advances by Economic sub-sector (using SIC) *** (using HHI)	0.015 - 0.025		0.016	✓
	Exposures exceeding 5% of the Eligible Capital *** (using HHI)	0.05 - 0.10		0.05	✓
	Exposures exceeding 15% of the Eligible Capital *** (using HHI)	0.10 - 0.20		0.1	✓
	Exposure to any sub-sector (SIC) to be maintained	4% - 5%		4.6	✓
	Aggregate of exposures exceeding 15% of the Eligible Capital	20% - 30%		23.79%	✓
	Lending in the Maldives	Maximum 20% of Networth		8.74%	✓
	Lending to Bangladesh Operations	Maximum US \$ 15 Mn.		0	✓
Cross border exposure	S & P - AAA to BBB -	Over 75%		92.78%	✓
Exposure to FCY Bonds	FCY Investments in Bonds	Maximum US \$ 260 Mn.		US \$ 260 Mn.	✓
	Cumulative stop loss for FCY trading portfolio	Maximum US \$ 3.75 Mn.		No loss	✓
Market Risk Criteria					
Interest Rate Risk	Interest Rate Shock: (Impact to NII as a result of parallel rate shock)	Maximum of Rs. 1,000 Mn.		850.97	✓
	Re-pricing Gaps (LKR and Foreign Currency for Sri Lankan Operations) (RSA /RSL in each maturity bucket - upto 1 year period)	1.5 (Times)		0.07-1.66	○

Risk Category & Parameter	Description	Policy Range	Actual Position as at 31.12.2012	Compliance
Liquidity Risk	Statutory Liquid Assets Ratio	Minimum of 22%	25.79%	✓
	Net Advances to Deposits Ratio	Below 90%	82.52%	✓
	Structured Liquidity Gap Report	Less than 0.5	-0.29	✓
	(1-7 days Bucket)	(Times)		
	(8-30 days Bucket)	Less than 0.5	(+)PG	✓
	(Up to 1 year Bucket)	(Times)		
		Less than 1 (Times)	-0.07	✓
	Dynamic Liquidity Report	Less than 50%	(+) PG	✓
FX Risk	- (1 Month Bucket) - (-) PG/CO			
	- (2-3 Months Bucket)	Less than 15%	(+) CG	✓
	- (4-6 Months Bucket) (-) CG/CO	Less than 20%	(+) CG	✓
	- (7-12 Months Bucket)	Less than 20%	(+) CG	✓
Concentration Risk	Exchange Rate Shocks	Maximum of	94.1	✓
	(Losses as a result of 1% change in FX Rate)	100 Rs. Mn.		
	Rupee Deposit Concentration as a % of Total Rupee Deposit Base			✓
	- Demand Deposits above Rs. 5.0 Mn.	Below 5%	<4.00%	✓
	- Savings Deposits above Rs. 5.0 Mn.	Below 5%	<4.00%	✓
Operational Risk Criteria	- Fixed Deposits above Rs. 10.0 Mn.	Below 6%	<5.00%	✓
	FCY Deposit Concentration as a % of Total Foreign Currency Deposit Base	Below 60%	57.09%	✓
	(Above US \$ 100,000/- or equivalent)			
Internal Frauds	Acts of a type intended to defraud, misappropriate property or circumvent regulations etc., by an employee	Below 0.50% #	0.00%	✓
External Frauds	Acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party	Below 2.5% #	0.04%	✓
Employment Practices and Workplace Safety	Acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events	Below 0.1% #	-	✓
Clients, Products & Business Practices	Unintentional or negligent failure to meet a professional obligation to specific clients etc.	Below 0.15% #	-	✓
Damage to Physical Assets	Loss or damage to physical assets from natural disasters or other events	Below 0.50% #	0.01%	✓
Business Disruptions & System Failures	Disruption of business or system failures	Below 0.25% #	0.00%	✓
Execution, Delivery & Process Management	Failed transactions processing or process management	Below 1.00% #	0.06%	✓
Overall-Operational Risk	Operational Loss Tolerance Limit (Total Loss Value as a percentage of last three years' average gross income)	Below 5%	0.12%	✓

** For the Total Bank

*** (Using Herfindahl - Hirschman Index - HHI).

RSA - Rate Sensitive Assets; RSL - Rate Sensitive Liabilities; PG - Period Gap; CO - Cash Outflows; CG - Cumulative Gap

Value as a percentage of maximum Operational Loss Tolerance Limit.

o Due to majority of index based loans being repriced within 3 months.

Capital adequacy is a measure of the financial strength of a bank expressed as a ratio of its capital to its risk weighted assets. This ratio indicates a bank's ability to maintain adequate capital in the form of equity and subordinated debts to meet any unexpected losses. At Commercial Bank too, we compute the Capital Adequacy Ratio (CAR) in accordance with the Basel II accord.

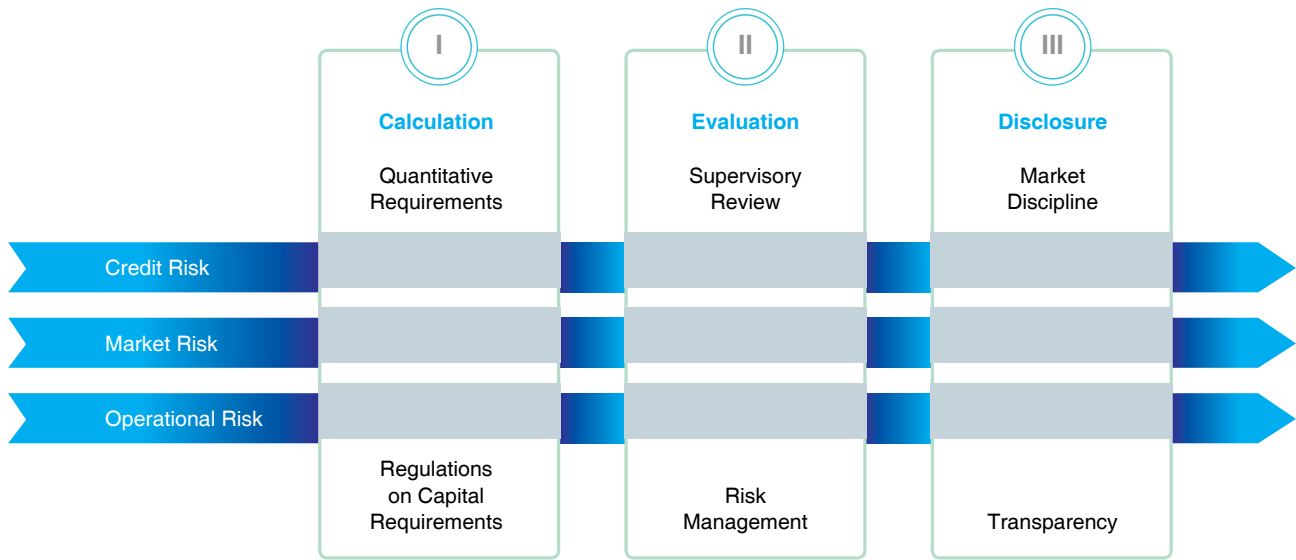
Basel Accord

The Basel capital accord is an agreement between countries' Central Banks and bank supervisory authorities on the amount of capital banks must hold as a cushion against any unexpected losses. Higher capital requirements restricts the gearing or leverage of the bank and impacts the expansion of the bank's business which in turn will affect the profitability.

In 1999, the Basel Committee decided to propose a new, more comprehensive capital adequacy accord in response to the banking crises of the 1990s and the criticisms of Basel I. This accord is known formally as 'A Revised Framework on International Convergence of Capital Measurement and Capital Standards' and informally as 'Basel II' greatly expands the scope, technicality and depth of the original Basel Accord. While maintaining the 'pillar' framework of Basel I, each pillar is greatly expanded in Basel II to cover new approaches to credit risk, adapt to the securitisation of bank assets, cover market, operational, and interest rate risk, and incorporate market-based surveillance and regulation.

Basel II Framework

The key components of the Basel II framework and the corresponding approaches are demonstrated in the Table below. Further, the approaches adopted by the Bank are also indicated in same.



Pillar Framework of Basel II

Pillar I

Minimum Capital Requirement

This represents the calculation of the total minimum capital requirements for credit, market and operational risk. The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. The total capital ratio must be no lower than 10%. Compliance with the local regulatory requirements and the readiness of the Bank for advanced approaches are given below:

		Regulatory Requirement	Readiness
Credit Risk	Standardised Approach	✓	✓
	Foundation Internal Ratings Based Approach (FIRB)	–	–
	Advanced Internal Ratings Based Approach (AIRB)	–	–
Market Risk	Standardised Measurement Approach	✓	✓
	Advanced Measurement Approach	–	–
Operational Risk	Basic Indicator Approach	✓	✓
	Standardised Approach	–	✓
	Advanced Measurement Approach	–	–

Pillar II

Supervisory Review Process

The supervisory review process of the framework is intended not only to ensure that banks have adequate capital to support all the risks in their business, but also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. It also recognises the responsibility of bank management in developing an Internal Capital Adequacy Assessment Process (ICAAP) and setting capital targets that are commensurate with the Bank's risk profile and control environment. ICAAP framework encompasses assessment of all material risks including Credit Market, Operational, Credit Concentration, Credit Residual, Interest Rate of the Banking Book, Liquidity ect.

Forward looking capital planning/rigorous stress testing supports the Bank in understanding the readiness/resilience to face future growth/market volatilities. The Bank is now ready with ICAAP framework in compliance with the regulatory requirements.

Pillar III

Market Discipline

This is to complement the requirements under Pillar I and Pillar II. It aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes.

Capital Adequacy Computation - Group

Computation of Risk-Weighted Assets

	On-Balance Sheet Assets and Credit Equivalent of Off-Balance Sheet Assets		Risk- Weight Factor	Risk-Weighted Balance	
	2012	2011		2012	2010
	Rs. '000	Rs. '000	(%)	Rs. '000	Rs. '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	104,847,253	100,500,592	0	-	-
Claims on foreign sovereigns and their Central Banks	8,387,655	7,589,925	0-150	8,387,655	7,589,925
Claims on Public Sector Entities (PSEs)	261,252	19,395	20-150	261,252	19,395
Claims on official entities and Multilateral Development Banks (MDBs)	-	-	20-150	-	-
Claims on banks	27,791,198	18,417,892	0-150	11,470,183	6,833,718
Claims on financial institutions	1,863,200	2,644,000	20-150	578,800	1,729,350
Claims on corporates	169,966,572	168,245,189	20-150	159,284,648	157,204,758
Retail claims	102,670,696	69,487,773	75-100	81,944,288	57,519,874
Claims secured by residential property	27,783,126	24,105,257	50-100	27,783,126	24,105,257
Claims secured by commercial real estate	-	-	100	-	-
Non-performing assets (NPAs)	6,171,866	6,197,613	50-150	8,179,084	8,388,764
Cash items	11,105,902	8,576,710	0	1,633	7,572
Property, plant & equipment	9,058,660	8,616,445	100	9,058,660	8,616,445
Other assets	12,352,879	8,059,096	100	12,352,879	8,059,096
Total	482,260,259	422,459,887		319,302,208	280,074,154
			Credit Conversion Factor	Credit Equivalent	
	2012	2011		2012	2011
	Rs. '000	Rs. '000	(%)	Rs. '000	Rs. '000
Instruments					
Direct credit substitutes	18,638,673	17,784,925	100	18,638,673	17,784,925
Transaction-related contingencies	8,505,494	7,703,979	50	4,252,747	3,851,990
Short term self-liquidating trade-related contingencies	37,441,224	39,736,030	20	7,488,245	7,947,206
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	73,550,373	59,691,611	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	136,786,449	104,398,912	0-5	2,735,729	2,087,978
Interest rate contracts	0	50,806	0-3	0	1,524
Total	274,922,213	229,366,263		33,115,394	31,673,623

Capital Charge for Market Risk

Item	2012 Rs. '000	2011 Rs. '000
Capital Charge for Interest Rate Risk	214,062	254,149
Capital Charge for Equity	64,575	41,119
Capital Charge for Foreign Exchange and Gold	29,641	68,269
Total Capital Charge for Market Risk	308,278	363,537
Total Risk-Weighted Assets for Market Risk	3,082,784	3,635,371

Capital Charge for Operational Risk

	2012 Rs. '000	2011 Rs. '000
Gross Income		
Year 1	20,121,710	19,236,720
Year 2	23,166,112	20,121,710
Year 3	25,837,421	23,166,112
Average Gross Income	23,041,748	20,841,514
Total Capital Charge for Operational Risk - (15%)	3,456,262	3,126,227
Total Risk-Weighted Assets for Operational Risk	34,562,622	31,262,271

Computation of Capital

	2012 Rs. '000	2011 Rs. '000
Tier I: Core Capital		
Paid-up Ordinary Shares	18,008,797	17,945,271
Statutory Reserve Fund	3,245,819	2,740,902
Published Retained Profits/(Accumulated Losses)	1,557	43,865
General and Other Reserves	24,307,575	17,856,434
Minority Interests (Consistent with the above capital constituents)	32,141	29,615
Less:		
Other Intangible Assets	(506,160)	(475,038)
Advances Granted to Employees of the Bank for the Purchase of Shares of the Bank (ESOP)	(1,548)	(2,105)
50% Investments in the Capital of Other Banks and Financial Institutions	(402)	(402)
Total Eligible Core Capital (Tier I Capital)	45,087,779	38,138,542
Tier II: Supplementary Capital		
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	2,034,231	651,037
General Provisions	1,500,098	1,201,991
Approved Subordinated Term Debt	778,238	972,880
Less:		
50% Investments in the Capital of Other Banks and Financial Institutions	(402)	(402)
Total Eligible Supplementary Capital (Tier II Capital)	4,312,165	2,825,506
Total Capital Base	49,399,944	40,964,048

Computation of Ratios

	2012 Rs. '000	2011 Rs. '000
Total Risk-Weighted Assets (RWA)		
Total Risk-Weighted Assets for Credit Risk	319,302,207	280,074,154
Total Risk-Weighted Assets Market Risk	3,082,784	3,635,371
Total Risk-Weighted Assets Operational Risk	34,562,622	31,262,271
Sub Total	356,947,613	314,971,796
Minimum Capital Charge:		
Minimum Capital Charge for Credit Risk	31,930,221	28,007,415
Minimum Capital Charge for Market Risk	308,278	363,537
Minimum Capital Charge for Operational Risk	3,456,262	3,126,227
Sub Total	35,694,761	31,497,179
Total Capital Available to meet the Capital Charge for Credit Risk		
Total Eligible Core Capital (Tier I Capital)	45,087,778	38,138,542
Total Eligible Supplementary Capital (Tier II Capital)	4,312,165	2,825,506
Total Capital Base	49,399,943	40,964,048
Core Capital Ratio (Minimum Requirement 5%)		
Total Eligible Core Capital (Tier I Capital)	45,087,778	38,138,542
Total Risk-Weighted Assets	356,947,613	314,971,795
	12.63%	12.11%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital Base	49,399,944	40,964,048
Total Risk-Weighted Assets	356,947,613	314,971,795
	13.84%	13.01%

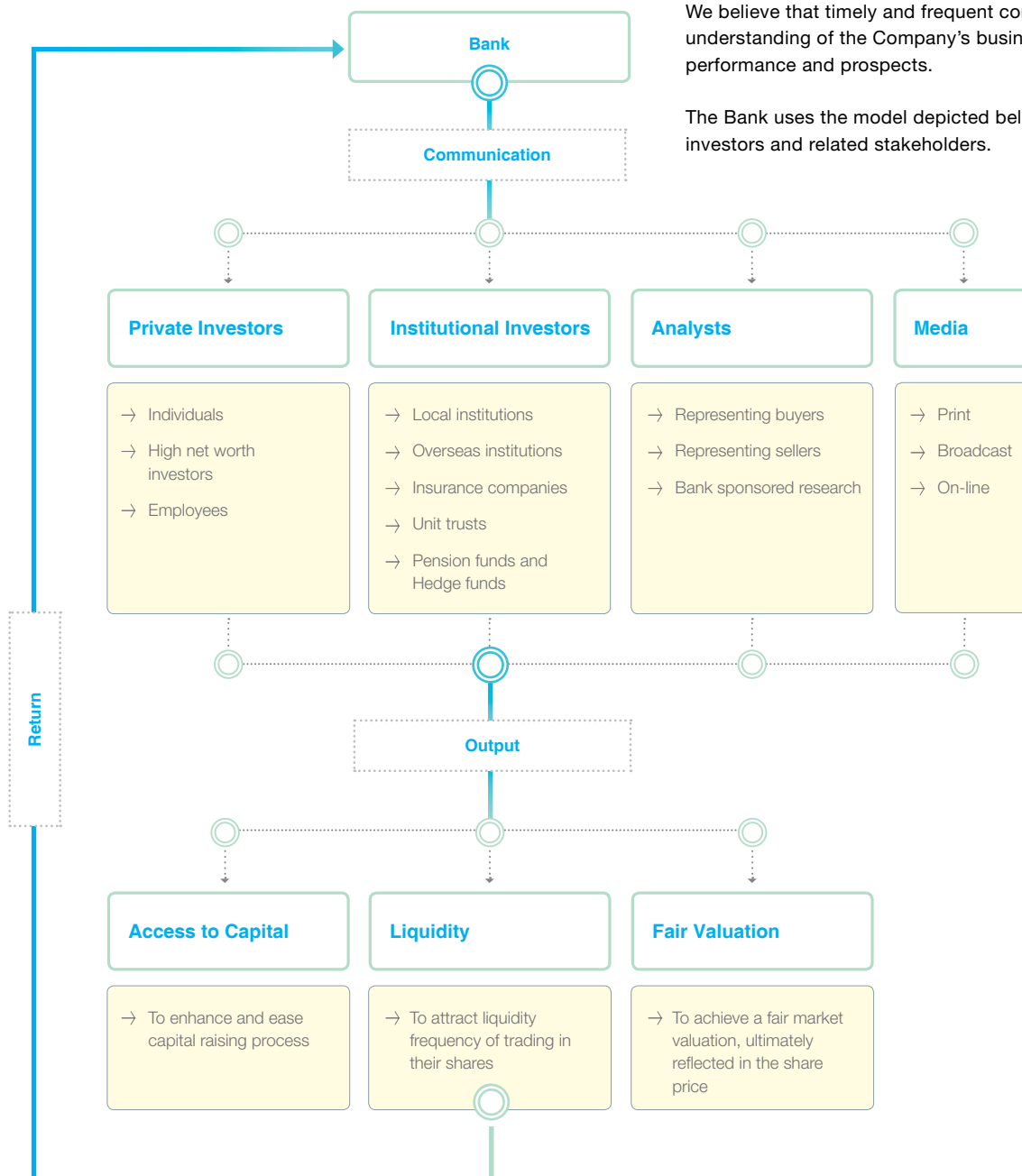
Dear All,

We are much delighted to present this “Investor Relations” supplement which we have dedicated to you as part of our Annual Report in appreciation of your continued support to the success of the Bank.

This supplement is meant to communicate the extent to which the Bank complies with the regulatory and voluntary disclosures by the Bank during the concluded financial year. This Report is built up on the foundation of communicating with transparency and integrity with the investment community which includes the shareholders, potential investors, analysts and journalists.

We believe that timely and frequent communication will ensure a greater understanding of the Company's business, its governance, financial performance and prospects.

The Bank uses the model depicted below for its engagement with investors and related stakeholders.



The shower of awards and accolades on your Bank continued in this year too.

- The only Sri Lankan bank amongst the Top 1000 Banks in the world for the third time and for the second successive year on the basis of capital adequacy and soundness
- Only Sri Lankan bank to retain the prestigious awards during this year for the Best Bank in Sri Lanka
 - Awards by Global Finance Magazine (USA) - Best Bank in Sri Lanka
 - Award for Excellence by Euromoney Magazine (UK) - Best Bank in Sri Lanka
 - Award for Excellence by Trade Finance Magazine (UK) - Best Local Trade Bank and
 - Awards by Finance Asia - Best Bank in Sri Lanka
 - Most productive Network in South Asia in 2011 by 'MoneyGram'
- Highest market capitalization among the banking institutions in Sri Lanka and the fifth largest among all listed companies in the Colombo Stock Exchange (CSE) as at end 2012
- Highest dividend payout ratio among local private sector banks in the past several years
- First indigenous private sector bank to reach the Rs. 10 Bn. mark in post-tax profits
- The largest asset base among local private sector banks
- Operating the single largest ATM network in Sri Lanka with a total of 555 ATMs by end 2012

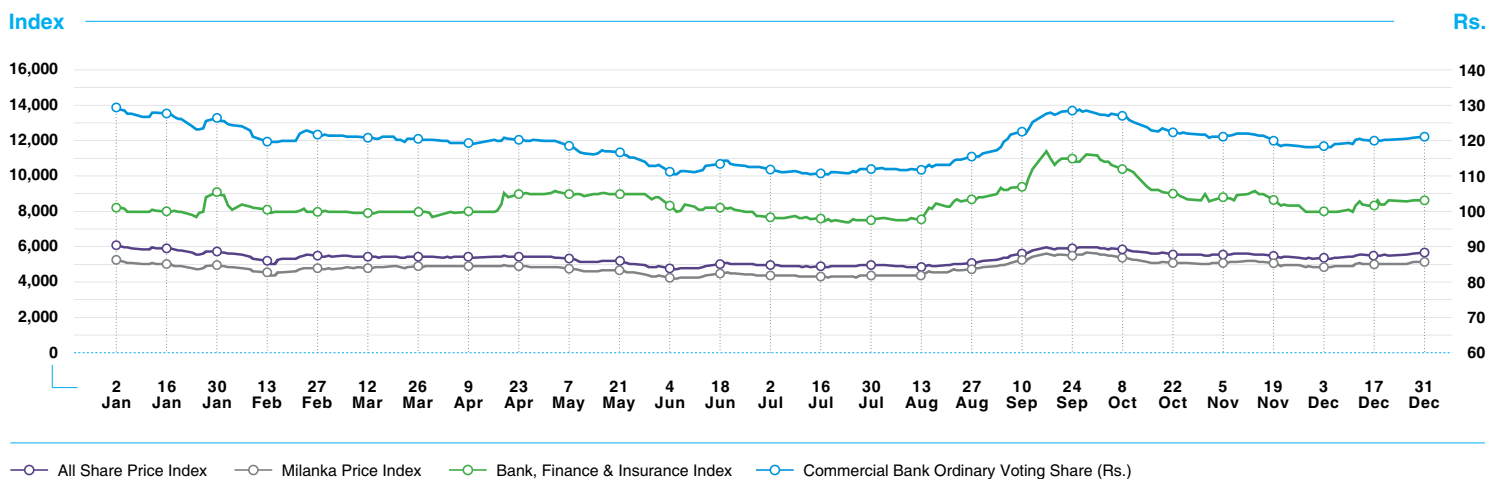
There is a regular dialogue with institutional investors through such means as, the participation in investor forums, the publication of general press releases after the year end and interim results, etc. The Board is advised of any specific comments from institutional investors to enable them to develop an understanding of the views of major shareholders. All shareholders have the opportunity to raise questions/ obtain clarifications at the Bank's Annual General Meeting.

The 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's 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 2012



Major Achievements in 2012

Commercial Bank the only Sri Lankan Bank in World's Top 1000 for Two Years Running

The Banker
TOP 1000
WORLD BANKS 2012
thebankerdatabase.com

The Commercial Bank of Ceylon PLC moved up 23 places in the 2012 ranking of the Top 1,000 Banks of the World, and became the only Sri Lankan bank to make the ranking two years in succession.

Published annually by the UK-based 'The Banker' magazine, this prestigious ranking has Commercial Bank in 963rd place this year, a significant ascent from 986th on Tier 1 capital in 2011 having first entered into this prestigious category in 2008.

Making into this prestigious list two years consecutively is an achievement in itself, but moving up 23 places speaks volumes for the strength of the Bank. This is clearly a noteworthy independent endorsement of the Bank's stability and robust performance at a time it is positioned to increase its role in supporting economic development in the country as its leading private bank.

Commercial Bank adjudged Best Bank in Sri Lanka for record 14th consecutive year

**GLOBAL
FINANCE**

The Commercial Bank of Ceylon PLC has once again been adjudged Sri Lanka's Best Bank by Global Finance Magazine, giving the Bank the distinct honor of winning this prestigious award for 14 years consecutively.

The US-based magazine named its 'Best Emerging Market Banks in Asia' rankings in an exclusive survey published in the May 2012 issue.

Ranked alongside Commercial Bank are Asian banking giants of the caliber of China Construction Bank (CCB) in China, ICICI Bank in India, Korea Exchange Bank in South Korea, Chinatrust Commercial Bank in Taiwan and UniCredit Bank of Russia in the Central/Eastern Europe region; Standard Bank of South Africa in the Africa region and National Bank of Kuwait and Emirates, NBD Bank of the UAE in the Middle East region.

Criteria for choosing the winners includes 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.

Commercial Bank wins Euromoney's Best Bank Award



Euromoney, a leading international financial magazine, adjudged Commercial Bank of Ceylon PLC the Best Bank in Sri Lanka, the country's largest private bank.

Founded by Sir Patrick Sergeant in 1969, Euromoney is read by 140,000 of the world's top financial decision-makers in more than 100 countries, making it the prime magazine of the financial world, its institutions and its users.

The evaluation by Euromoney covers banks in all major countries in Asia, Middle East, Europe, Africa, North and Latin America, the Caribbean as well as the Nordic and Baltic regions. Euromoney honours institutions that demonstrate leadership, innovation and momentum in the markets in which they excel and presents a number of awards to the Asian region's banks and securities houses.

The selection criteria for these awards involves an in-depth analysis by Euromoney editors based on qualitative and quantitative criteria such as market position, volume of business transacted, new product development, management system, credit ratings, efficiency ratios and annual key performance indicators.

Commercial Bank named 'Best Sri Lankan Trade Bank in 2012' by Trade Finance



The Commercial Bank's status as a leading service provider to the business community was once again reiterated by the United Kingdom's authoritative 'Trade Finance' magazine, which has adjudged the Bank the 'Best Sri Lankan Trade Bank' for 2012. This is the third occasion that Commercial Bank has been honored with the Trade Finance Award since the introduction of an award for this category in 2009.

Published by Euromoney PLC, London, Trade Finance magazine has been reviewing the global trade market since 1983. The magazine is a channel for the latest news and analysis covering trade services and supply chain, factoring, structured commodity finance and export as well as agency finance.

Commercial Bank Awarded Gold at National HRM Awards 2012



Commercial Bank of Ceylon PLC was one of the ten leading corporate entities to be awarded Gold at the 2012 National HRM Awards presented by the Association of Human Resource Professionals in partnership with Aon Hewitt, a global HR consultancy firm.

This is the third consecutive instance in which the Bank won a Gold Award under the new criteria set for the awards since 2007. The HRM Awards assess, recognize and felicitate the best Human Resource Management systems and processes among corporate entities of the country. The involvement of a firm of the caliber of Aon Hewitt and a distinguished panel of judges provides the evaluation process more independence, transparency and acceptance.

A summary of "Awards and Accolades" won by the Bank in the recent past is given on page 458.

Compliance Report on the contents of Annual Report in terms of the Listing Rules of the CSE

We are once again pleased to inform you that your Bank has complied with all the requirements of the Section 7.6 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
7.6 (i)	Names of persons who held the position of Directors during the financial year	Annual Report of the Board of Directors	218
7.6 (ii)	Principal activities of the Bank and its Subsidiaries during the year and any changes therein	- Note 1.3 in Accounting Policies - Annual Report of the Board of Directors - Group Structure	316 218 459
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	Item 10 of the Investor Relations	280

Rule No.	Disclosure Requirement	Section/Reference	Page/s
7.6 (iv)	The public holding percentage	Item 10 of the Investor Relations	280
7.6 (v)	Directors' and Chief Executive Officer's holding in shares at the beginning and at the end of the financial year	- Item 11 of the Investor Relations - Annual Report of the Board of Directors	282 218
7.6 (vi)	Information pertaining to material foreseeable risk factors	Item 15 of the Investor Relations	285
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Item 16 of the Investor Relations	285
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties	Note 30.5 to the Financial Statements on 'Property, Plant & Equipment'	384
7.6 (ix)	Number of shares representing the stated capital	- Note 43 to the Financial Statements on 'Stated Capital' - Item 13 of the Investor Relations	395 283
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Item 9 of the Investor Relations	279
7.6 (xi)	Ratios and market price information:		
	Equity - Dividend per share, dividend payout ratio, net asset value per share, market value per share	Items 4 (a) and 4 (b) of the Investor Relations	276 & 277
	Debt - Interest rate of comparable Government security, debt/equity ratio, interest cover and quick asset ratio, market prices and yields during the year	Item 14 (a) and 14 (b) of the Investor Relations	285
	Any changes in credit rating	Item 4 (c) of the Investor Relations	277
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	Note 30 to the Financial Statements on 'Property, Plant & Equipment'	380
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues, and Private Placements during the year	Note 43 to the Financial Statements on 'Stated Capital'	395
7.6 (xiv)	Information in respect of Employee Share Option Schemes		
	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)	Note 43.3 and 43.2 to the Financial Statements on 'Employee Share Option Plan - 2002 and 2008', respectively	396 and 397
	Highest, lowest and closing price of the share recorded during the financial year	Item 4 (b) of the Investor Relations	277
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c). of Section 7 of the Listing Rules	Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules	
7.6 (xvi)	Disclosures on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	The Bank did not have any related party transaction exceeding this threshold as at end 2012.	

1. Quarterly Performance - 2012 Compared to 2011 (Based on SLAS)

Summary of the Income Statements

	2012					2011				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	31 Mar.	30 Jun.	30 Sep.	31 Dec.		31 Mar.	30 Jun.	30 Sep.	31 Dec.	
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Group										
Net Interest Income	5,062.5	5,392.6	5,553.8	5,910.3	21,919.2	4,321.8	4,498.3	4,578.3	4,573.3	17,971.7
Non-Interest Income	3,626.1	2,978.1	1,850.7	2,968.2	11,423.1	1,771.5	1,735.1	1,883.6	2,475.5	7,865.7
Less: Operating Expenses	4,542.0	4,803.4	4,188.9	5,488.1	19,022.4	3,125.7	3,435.0	3,482.6	4,734.6	14,777.9
Profit from Operations	4,146.6	3,567.3	3,215.6	3,390.4	14,319.9	2,967.6	2,798.4	2,979.3	2,314.2	11,059.5
Add: Share of Profit of Associate Companies	9.0	2.2	1.6	(0.3)	12.5	5.7	2.6	1.1	(0.3)	9.1
Profit before Taxation	4,155.6	3,569.5	3,217.2	3,390.1	14,332.4	2,973.3	2,801.0	2,980.4	2,313.9	11,068.6
Less: Income Tax Expense	1,305.7	1,099.0	913.5	955.7	4,273.9	908.0	824.2	915.1	326.2	2,973.5
Profit after Taxation	2,849.9	2,470.5	2,303.7	2,434.4	10,058.5	2,065.3	1,976.8	2,065.3	1,987.7	8,095.1
Quarterly Profit as a % of the Profit after Tax	28.3	24.6	22.9	24.2	100.0	25.5	24.4	25.5	24.6	100.0
Cumulate Quarterly Profit as a % of the Profit after Tax	28.3	52.9	75.8	100.0		25.5	49.9	75.4	100.0	
Bank										
Net Interest Income	5,065.5	5,394.3	5,553.2	5,906.8	21,919.8	4,329.9	4,505.6	4,584.0	4,576.7	17,996.2
Non-Interest Income	3,613.0	2,971.1	1,853.0	2,979.0	11,416.1	1,763.6	1,725.3	1,873.0	2,482.3	7,844.2
Less: Operating Expenses	4,533.5	4,802.2	4,176.1	5,512.5	19,024.3	3,133.7	3,441.1	3,489.7	4,788.5	14,853.0
Profit before Taxation	4,145.0	3,563.2	3,230.1	3,373.3	14,311.6	2,959.8	2,789.8	2,967.3	2,270.5	10,987.4
Less: Income Tax Expense	1,301.7	1,085.3	905.2	947.7	4,239.9	899.3	816.2	904.6	319.5	2,939.6
Profit after Taxation	2,843.3	2,477.9	2,324.9	2,425.6	10,071.7	2,060.5	1,973.6	2,062.7	1,951.0	8,047.8
Quarterly Profit as a % of the Profit after Tax	28.2	24.6	23.1	24.1	100.0	25.6	24.5	25.6	24.2	100.0
Cumulate Quarterly Profit as a % of the Profit after Tax	28.2	52.8	75.9	100.0		25.6	50.1	75.8	100.0	

Summary of the Balance Sheets

	2012				2011			
	As at 31-Mar. Rs. Mn.	As at 30-Jun. Rs. Mn.	As at 30-Sep. Rs. Mn.	As at 31-Dec. Rs. Mn.	As at 31-Mar. Rs. Mn.	As at 30-Jun. Rs. Mn.	As at 30-Sep. Rs. Mn.	As at 31-Dec. Rs. Mn.
Group								
Net Loans and Advances	296,252.0	306,200.0	315,577.3	325,291.4	224,455.1	232,685.9	256,981.8	276,235.2
Investments	107,196.5	111,486.1	107,768.1	105,257.8	123,314.5	118,889.5	115,099.6	105,569.9
Other Assets	71,767.4	72,178.0	75,182.5	80,440.0	46,989.1	46,158.6	49,341.1	59,528.8
	475,215.9	489,864.1	498,527.9	510,989.2	394,758.7	397,734.0	421,422.5	441,333.9
Deposits	350,929.5	360,205.4	371,867.2	382,684.6	274,532.2	287,724.7	302,401.5	318,404.3
Other Liabilities	77,825.0	80,669.4	75,450.6	75,628.2	85,515.7	73,438.1	75,576.5	78,332.3
Shareholders' Funds	46,461.4	48,989.3	51,210.1	52,676.4	34,710.8	36,571.2	43,444.5	44,597.3
	475,215.9	489,864.1	498,527.9	510,989.2	394,758.7	397,734.0	421,422.5	441,333.9
Bank								
Net Loans and Advances	296,387.1	306,287.4	315,652.5	325,366.6	224,664.6	232,879.9	257,160.2	276,394.7
Investments	107,444.5	111,732.1	108,012.6	105,515.5	123,629.5	119,202.7	115,413.4	105,821.8
Other Assets	71,121.0	71,568.8	74,634.8	79,869.2	46,278.4	45,472.3	48,684.9	58,882.8
	474,952.6	489,588.3	498,299.9	510,751.3	394,572.5	397,554.9	421,258.5	441,099.3
Deposits	351,040.6	360,287.3	371,903.9	382,723.6	274,572.1	287,826.5	302,483.0	318,461.4
Other Liabilities	77,829.5	80,602.7	75,455.9	75,634.5	85,534.6	73,405.7	75,578.7	78,411.2
Shareholders' Funds	46,082.5	48,698.3	50,940.1	52,393.2	34,465.8	36,322.7	43,196.8	44,226.7
	474,952.6	489,588.3	498,299.9	510,751.3	394,572.5	397,554.9	421,258.5	441,099.3

2. Stock Exchange Listing

The following securities of the Bank are listed on the main board of the CSE:

Shares	Ordinary Voting Shares	
	Ordinary Non-Voting Shares	
Debentures	Fixed Rate	• December 2006/13
		• December 2006/16
	Floating Rate	• December 2006/13
		• December 2006/16

The unaudited Interim Financial Statements for the first three quarters of 2012 were submitted to the CSE within 45 days from the respective quarter ends as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2011).

The unaudited Interim Financial Statements for the fourth quarter of 2012 was submitted to the CSE on February 27, 2013, as required by the Rule No. 7.4 (a) (i) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2011).

The Audited Income Statement for the year ended December 31, 2012 and the Audited Statement of Financial Position as at December 31, 2012 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. 7.5 (a) of the Listing Rules of the CSE (The Bank duly complied with this requirement for 2011).

3. Information on Share Trading

	Ordinary Voting Shares		Ordinary Non-Voting Shares	
	2012	2011	2012	2011
Number of Transactions	17,214	12,857	9,137	7,211
Number of Shares Traded	117,120,816	64,123,760	21,436,592	12,911,700
Value of Shares Traded (Rs. Bn.)	12.08	12.48	1.78	1.50

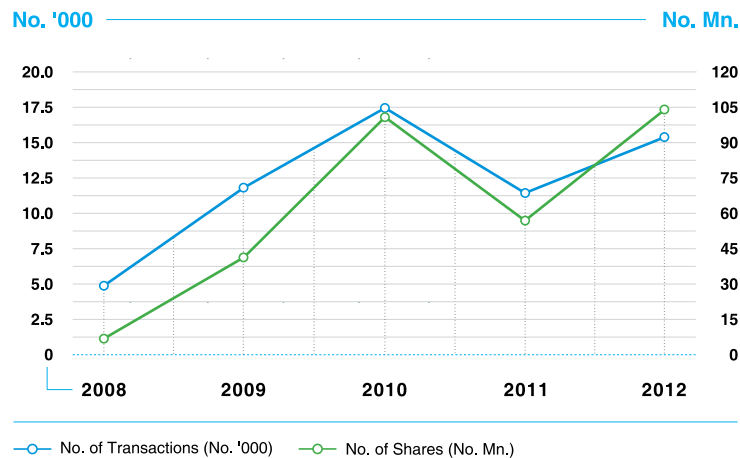
4. Information on Ratios, Market Prices of Shares and Credit Ratings (As per Rule No. 7.6 (XI) of The Colombo Stock Exchange)

(a) Information on Ratios

			2012	2011
Dividend per Share (Rs.)	Cash	First Interim Paid	1.50	1.50
		Second Interim Paid	1.00	1.00
		Final Proposed*/Paid	2.00	1.50
		Total	4.50	4.00
	Issue and Allotment of Shares	Final Proposed*/allotted	2.00	2.00
		Total Dividend	6.50	6.00
Dividend Payout Ratio (%)	Cash		37.15	41.48
	Total		53.66	62.26
Net Assets Value per Share (Rs.)			63.08	53.54

* 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, 2012 for approval by the shareholders at the 44th Annual General Meeting (AGM), to be held on March 28, 2013. (The Bank declared a final dividend of Rs. 3.50 per share for the year ended December 31, 2011 which consists of a cash dividend of Rs. 1.50 per share and balance entitlement of Rs. 2.00 per share satisfied in the form of issue and allotment of new shares).

Share Trading

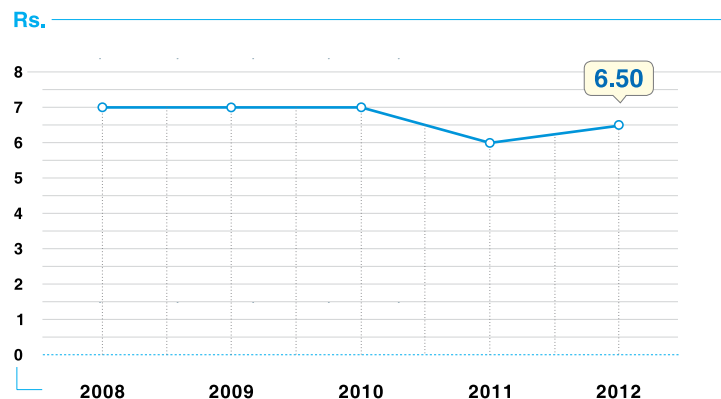


—○— No. of Transactions (No. '000) —○— No. of Shares (No. Mn.)



Reflecting the investor confidence on its potential and the increased float resulting from share splits, both the number of transactions and the volume of shares traded are showing an upward trend over the past five years.

Dividend Per Share



In accordance with the dividend policy of the Bank which ensures a reasonable return to the shareholders while funding future growth, the Bank has been paying a fairly consistent dividend in the past.

(b) Market Prices

	Ordinary Shares - Voting		Ordinary Shares - Non-Voting	
	2012	2011	2012	2011
Highest Price (*) (Rs.)	119.50	284.00	99.50	200.00
Date of the Highest Price	(17.09.2012)	(25.01.2011)	(17.09.2012)	(15.08.2011)
Lowest Price (Rs.)	96.80	97.00	73.00	69.10
Date of the Lowest Price	(25.07.2012)	(25.11.2011)	(06.07.2012)	(16.12.2011)
Year-end Price (Rs.)	103.00	100.00	91.10	74.50

(*) The highest prices indicated above for 2011 are based on share prices before the Rights Issue in September 2011 and share split made in September 2011.

(c) Credit Ratings

- The Bank's credit rating, AA(lka) was reaffirmed by Fitch Ratings Lanka Ltd. in 2012
- The Bank's Bangladesh Operation's credit rating was reaffirmed as AAA by Credit Rating Information Services Ltd. in 2012

5. Share Price Trend over last Ten Years

Year	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Ordinary Voting Shares										
Highest Price (Rs.)	119.50	284.00	295.00	192.00	149.75	250.00	192.50	269.00	170.00	226.00
Lowest Price (Rs.)	96.80	97.00	178.00	66.00	66.25	128.00	123.00	120.00	130.00	130.00
Last Traded Price (Rs.)	103.00	100.00	259.90	189.50	67.00	147.00	190.00	135.50	159.75	144.00
Ordinary Non-Voting Shares										
Highest Price (Rs.)	99.50	200.00	226.00	131.25	89.50	114.50	90.00	160.00	126.00	165.00
Lowest Price (Rs.)	73.00	69.10	75.00	48.25	48.00	60.00	54.00	51.00	80.00	100.00
Last Traded Price (Rs.)	91.10	74.50	162.00	124.75	49.00	74.50	89.00	57.50	90.00	100.00

Share Price Trend Over the Past Decade - Voting



Share Price Trend Over the Past Decade - Non-Voting



Reflecting the Bank's financial performance and the future potential as perceived by the investor, Bank's ordinary voting shares held steady over the years.



Prices of the non-voting shares too followed a pattern similar to that of the voting shares

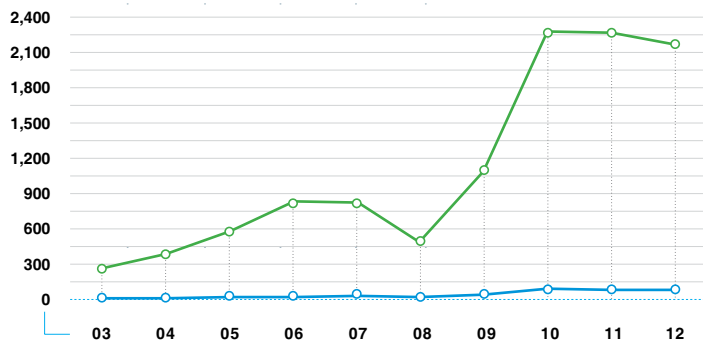
6. Information on Shareholders' Funds and Market Capitalisation

As at December 31,	Shareholders' Funds	Com Bank's Market Capitalisation (*)	Total Market Capitalisation of the CSE	Com Bank's Market Capitalisation as a % of CSE Market Capitalisation	Com Bank's Market Capitalisation Ranking
	Rs. Mn.	Rs. Mn.	Rs. Mn.	%	No.
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
2003	11,684	9,263	262,379	3.53	4

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

Market Capitalisation

Rs. Bn.



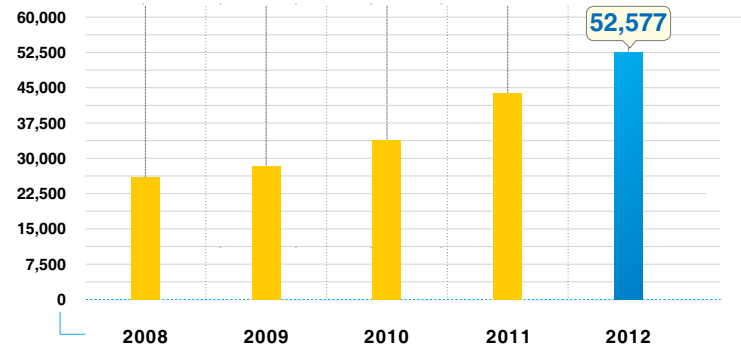
—○— Commercial Bank Market Capitalisation —○— Total Market Capitalisation of the CSE



Over the past decade, the Bank's market capitalisation accounted for approximately 4% of the total market capitalisation.

Shareholders' Funds

Rs. Mn.



Profitable operations, prudent dividend policy and supportive shareholder base have helped the Bank grow the shareholders' funds as a source of funding. This has enabled the Bank to have strong balance sheet with leeway for future business expansion.

7. Shareholder Base

	2012	2011
Number of Ordinary Voting Shareholders	9,509	9,299
Number of Ordinary Non-voting Shareholders	4,349	4,617
Total	13,858	13,916

8. Composition of Shareholders

	As at December 31, 2012				As at December 31, 2011			
	No. of Shareholders	%	No of Shares	%	No. of Shareholders	%	No. of Shares	%
Ordinary Voting Shares								
Resident	9,203	96.78	497,768,042	63.82	9,035	97.16	490,721,171	64.14
Non-Resident	306	3.22	282,246,190	36.18	264	2.84	274,364,149	35.86
Total	9,509	100.00	780,014,232	100.00	9,299	100.00	765,085,320	100.00
Individuals	8,934	93.95	130,953,368	16.79	8,729	93.87	146,849,692	19.19
Institutions	575	6.05	649,060,864	83.21	570	6.13	618,235,628	80.81
Total	9,509	100.00	780,014,232	100.00	9,299	100.00	765,085,320	100.00
Ordinary Non-Voting Shares								
Resident	4,251	97.75	41,852,800	78.27	4,527	98.05	48,040,440	91.74
Non-Resident	98	2.25	11,620,948	21.73	90	1.95	4,324,406	8.26
Total	4,349	100.00	53,473,748	100.00	4,617	100.00	52,364,846	100.00
Individuals	4,127	94.90	32,479,975	60.74	4,358	94.39	33,568,471	64.10
Institutions	222	5.10	20,993,773	39.26	259	5.61	18,796,375	35.90
Total	4,349	100.00	53,473,748	100.00	4,617	100.00	52,364,846	100.00

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, 2012				As at December 31, 2011			
	No. of Share-holders	%	No. of Shares	%	No. of Share-holders	%	No. of Shares	%
Ordinary Voting Shares								
1 - 1,000	4,244	44.63	1,134,312	0.15	4,066	43.73	1,295,905	0.17
1,001 - 10,000	3,335	35.07	12,108,082	1.55	3,326	35.77	12,633,857	1.65
10,001 - 100,000	1,619	17.03	46,674,954	5.98	1,615	17.37	45,811,698	5.99
100,001 - 1,000,000	242	2.54	65,737,603	8.43	235	2.53	63,971,206	8.36
Over 1,000,000	69	0.73	654,359,281	83.89	57	0.60	641,372,654	83.83
Total	9,509	100.00	780,014,232	100.00	9,299	100.00	765,085,320	100.00
Ordinary Non-Voting Shares								
1 - 1,000	2,268	52.15	614,606	1.15	2,408	52.16	730,781	1.40
1,001 - 10,000	1,455	33.46	4,912,907	9.19	1,558	33.74	5,327,353	10.17
10,001 - 100,000	530	12.19	14,785,750	27.65	552	11.96	15,713,890	30.01
100,001 - 1,000,000	90	2.07	23,616,204	44.16	92	1.99	21,375,776	40.82
Over 1,000,000	6	0.13	9,544,281	17.85	7	0.15	9,217,046	17.60
Total	4,349	100.00	53,473,748	100.00	4,617	100.00	52,364,846	100.00

10. 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 Voting Shares	2012		2011*	
	No of Shares	%	No of Shares	%
1. DFCC Bank A/C 1	116,009,375	14.87	113,985,956	14.90
2. Employees Provident Fund	74,641,168	9.57	71,714,288	9.37
3. CB NY S/A International Finance Corporation	47,476,548	6.09	57,924,400	7.57
4. Sri Lanka Insurance Corporation Ltd. - Life Fund	39,557,241	5.07	38,867,290	5.08
5. Sri Lanka Insurance Corporation Ltd. - General Fund	34,013,785	4.36	33,420,522	4.37
6. SBI Ven Holdings Pte Ltd.	28,900,925	3.71	54,257,040	7.09
7. HSBC International Nominees Ltd. - SSBT - Janus Overseas Fund	27,827,360	3.57	32,497,940	4.25
8. Mr. Y.S.H.I. Silva	17,876,644	2.29	23,935,294	3.13
9. HSBC International Nominees Ltd. - BPSS - LUX - Aberdeen Global - Asian Smaller Companies Fund	17,493,281	2.24	15,788,166	2.06
10. Distilleries Company of Sri Lanka PLC	17,063,102	2.19	16,765,490	2.19
11. HSBC International Nominees Ltd. - BPSS - LUX - Aberdeen Global - Emerging Markets Smaller Companies Fund	15,827,650	2.03	10,141,886	1.33
12. HSBC International Nominees Ltd. - SSBT - Janus Aspen Series Overseas Portfolio	12,617,508	1.62	14,734,068	1.93
13. HSBC International Nominees Ltd. - SSBT - Aberdeen Institutional Commingled Funds, LLC	12,560,004	1.61	11,682,656	1.53
14. HSBC International Nominees Ltd. - BPSS - LUX - Aberdeen Global Asia Pacific Equity Fund	10,559,487	1.35	10,375,310	1.36
15. Mrs. L.E.M. Yaseen	10,257,456	1.32	9,999,600	1.31
16. Mercantile Investments and Finance PLC	10,075,806	1.29	9,900,066	1.29
17. Goldman Sachs & Co. S/A Artha Master Fund Ltd.	9,943,837	1.27	-	-
18. The Bank of New York Mellon SA/NV - CF Ruffer Total Return Fund	7,938,683	1.02	-	-
19. HSBC International Nominees Ltd. - SSBT - Morgan Stanley Asset Management SA Acting on behalf of Morgan Stanley Galaxy Fund	7,729,057	0.99	5,136,772	0.67
20. HSBC International Nominees Ltd. - JPMLU - Franklin Templeton Investment Funds	7,584,878	0.97	-	-
Sub Total	525,953,795	67.43	531,126,744	69.42
Other Shareholders	254,060,437	32.57	233,958,576	30.58
Total	780,014,232	100.00	765,085,320	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, 2012 was 84.99% (84.62% as at December 31, 2011).

* Comparative shareholdings as at December 31, 2011 of the twenty largest shareholders as at December 31, 2012.

As at December 31,	2012		2011*	
Ordinary Non-Voting Shares	No. of Shares	%	No. of Shares	%
1. HSBC International Nominees Ltd. - JPMLU - Franklin Templeton Investment Funds	3,222,260	6.03	-	-
2. GF Capital Global Ltd.	1,413,199	2.64	1,334,930	2.55
3. HINL - JPMCB - Butterfield Trust (Bermuda) Ltd.	1,326,824	2.48	1,299,310	2.48
4. HSBC International Nominees Ltd. - SSBT - The Ashmoreemm Umbrella Funds Trust	1,277,783	2.39	-	-
5. Citi Bank NY S/A Forward International Dividend Fund	1,250,000	2.34	-	-
6. Mr. J.D. Bandaranayake	1,054,215	1.97	1,002,976	1.92
7. Waldock Mackenzie Ltd. / Mr. S.N.P. Palihena and Mrs. A.S. Palihena	1,000,000	1.87	-	-
8. MJF Exports Ltd.	914,765	1.71	895,796	1.71
9. Citi Bank NY S/A Forward Select EM Dividend Fund	900,000	1.68	-	-
10. MAS Capital (Private) Ltd.	785,902	1.47	174,214	0.33
11. Northern Trust Company S/A Polar Capital Funds PLC	715,676	1.34	-	-
12. Mr. M.F. Hashim	653,749	1.22	588,692	1.12
13. Saboor Chatoor (Pvt) Ltd.	620,000	1.16	471,000	0.90
14. Mr. M.A. Yaseen	612,761	1.15	600,054	1.15
15. Mr J.G. De Mel	561,300	1.05	558,166	1.07
16. Mr. M.J.C. Amarasuriya	538,151	1.01	497,614	0.95
17. Deutsche Bank AG - National Equity Fund	487,456	0.91	1,095,752	2.09
18. Asian Alliance Insurance PLC - A/C 2 - Life Fund	485,365	0.91	-	-
19. Dr. A.K.A. Jayawardene	472,032	0.88	500,972	0.96
20. Akbar Brothers (Pvt) Ltd. A/C 1	448,628	0.84	418,770	0.80
Sub Total	18,740,066	35.05	9,438,246	18.02
Other Shareholders	34,733,682	64.95	42,926,600	81.98
Total	53,473,748	100.00	52,364,846	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, 2012 was 99.96% (99.71% as at December 31, 2011).

* Comparative shareholdings as at December 31, 2011 of the twenty largest shareholders as at December 31, 2012.

11. Directors' Shareholding including the Chief Executive Officer's Shareholding (As per Rule No. 7.6 (V) of the Listing Rules of the Colombo Stock Exchange)

As at December 31,	Ordinary Voting Shares		Ordinary Non-Voting Shares	
	2012	2011	2012	2011
Mr. D.S. Weerakkody - Chairman	26,017	21,564	11,981	Nil
Mr. K.G.D.D. Dheerasinghe - Deputy Chairman	20,000	Nil	Nil	Nil
Mr. W.M.R.S. Dias - CEO/MD	685,123	673,174	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. J. Durairatnam	309,782	344,762	Nil	Nil
Mr. S. Swarnajothy	Nil	Nil	8,169	8,000

12. Information on Scrip Issues, Rights Issues and Share Splits

Year/Month	Details
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

13. 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 Colombo Stock Exchange)

December 31,	Details		Basis	No. of Shares			
				No. of Shares Issued/ (Redeemed)	Ordinary Voting Shares	Ordinary Non-Voting Shares	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
2005	ESOP	Voting		1,361,591	66,391,360	4,650,230	190,655,500
	Bonus Issue	Voting	1 for 1	66,389,162	132,780,522	4,650,230	190,655,500
	Bonus Issue	Non-Voting	1 for 1	4,650,230	132,780,522	9,300,460	190,655,500
2006	ESOP	Voting		737,742	133,518,264	9,300,460	190,655,500
	Redemption of Cumulative Redeemable Preference Shares			(90,655,500)	133,518,264	9,300,460	100,000,000
2007	Rights Issue	Voting	3 for 10	40,288,996	173,807,260	9,300,460	100,000,000
	Bonus Issue	Voting	1 for 3	58,204,268	232,011,528	9,300,460	100,000,000
	ESOP	Voting		919,649	232,931,177	9,300,460	100,000,000
	Rights Issue	Non-Voting	3 for 10	2,790,138	232,931,177	12,090,598	100,000,000
	Bonus Issue	Non-Voting	1 for 3	4,030,199	232,931,177	16,120,797	100,000,000

				No. of Shares			
December 31,	Details		Basis	No. of Shares Issued/ (Redeemed)	Ordinary Voting Shares	Ordinary Non-Voting Shares	Cumulative Redeemable Preference Shares
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	–

14. Information on Debentures of the Bank (As per Rule No. 7.6 (XI) of the Listing Rules of the Colombo Stock Exchange)

(a) Other Ratios

As at 31 December	2012	2011
Debt Equity Ratio (%)	18.25	2.35
Interest Cover (Times)	48.61	49.07
Liquid Assets Ratio (%) (Minimum 20%)	25.79	26.21

(b) Debenture Composition

As at 31 December	Fixed Interest Rate						Floating Interest Rate			
	2012			2011			2012		2011	
Type of Issue	Private	Public	Public	Private	Public	Public	Public	Public	Public	Public
Debenture Type	- N/A -	Type "A"	Type "B"	- N/A -	Type "A"	Type "B"	Type "D"	Type "E"	Type "D"	Type "E"
CSE Listing	Not Listed	Listed	Listed	Not Listed	Listed	Listed	Listed	Listed	Listed	Listed
Issue Date	May 2006	Dec 2006	Dec 2006	May 2006	Dec 2006	Dec 2006	Dec 2006	Dec 2006	Dec 2006	Dec 2006
Maturity Date	May 2016	Dec 2016	Dec 2013	May 2016	Dec 2016	Dec 2013	Dec 2016	Dec 2013	Dec 2016	Dec 2013
Interest Payable Frequency	Annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually	Annually
Offered Interest Rate	13.25% p.a.	14.00% p.a.	13.75% 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.	12 Months TB Rate (Gross) + 1% p.a.
Amount (Rs. Mn.)	505.000	467.260	0.250	505.000	467.260	0.250	0.400	0.300	0.400	0.300
Market Values										
- Highest (Rs.)	- N/A -	Not traded	Not traded	- N/A -	Not traded	Not traded	Not traded	Not traded	Not traded	Not traded
- Lowest (Rs.)	- N/A -	during the	during the	- N/A -	during the	during the	during the	during the	during the	during the
- Year-end (Rs.)	- N/A -	year	year	- N/A -	year	year	year	year	year	year
Interest Rates										
- Coupon Rate (%)	13.25	14.00	13.75	13.25	14.00	13.75	11.34	11.34	9.15	9.15
- Effective Annual Yield (%)	13.25	14.00	13.75	13.25	14.00	13.75	11.66	11.66	9.15	9.15
Interest rate of Comparable Government Security	11.70	11.50	11.40	8.40	8.50	8.00	13.65	13.65	9.15	9.15
Other Ratios as at Date of Last Trade										
- Interest Yield (%)	- N/A -	Not traded	Not traded	- N/A -	Not traded	Not traded	Not traded	Not traded	Not traded	Not traded
- Yield to Maturity (%)	- N/A -	during the	during the	- N/A -	during the	during the	during the	during the	during the	during the
		year	year		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.

(c) Credit Ratings - Debentures

The credit rating of the Bank's subordinated debentures, AA- (Ika) too reaffirmed in 2012 by Fitch Ratings Lanka Ltd.

15. Material Foreseeable Risk Factors (As per Rule No. 7.6 (VI) of the Listing Rules of the Colombo Stock Exchange)

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 229 to 268.

16. 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 Colombo Stock Exchange)

There were no material issues pertaining to employees and industrial relations pertaining to the Bank that occurred during the year under review which need to be disclosed.

	Group			Bank		
<i>For the year ended December 31,</i>	2012	2011	Change	2012	2011	Change
	US \$ '000	US \$ '000	%	US \$ '000	US \$ '000	%
Gross income	495,107	402,096	23.13	495,274	402,274	23.12
Interest income	411,429	336,086	22.42	411,605	336,452	22.34
Less: interest expenses	232,901	172,240	35.22	233,050	172,371	35.20
Net interest income	178,528	163,846	8.96	178,555	164,081	8.82
Fees and commission income	32,397	33,027	(1.91)	32,395	33,028	(1.92)
Less: fees and commission expenses	4,286	3,858	11.09	4,286	3,858	11.09
Net fees and commission income	28,111	29,169	(3.63)	28,109	29,170	(3.64)
Net gain/(loss) from trading	19,487	(4,049)	(581.28)	19,487	(4,049)	(581.28)
Net gain/(loss) from financial instruments designated at fair value through profit or loss	-	-	-	-	-	-
Net gain/(loss) from financial investments	246	334	(26.35)	246	334	(26.35)
Other operating income (net)	31,548	36,699	(14.04)	31,541	36,510	(13.61)
Total operating income	257,920	225,999	14.12	257,938	226,046	14.11
Impairment charges for loans and other losses	24,674	15,322	61.04	24,975	15,859	57.48
Net operating income	233,246	210,677	10.71	232,963	210,187	10.84
Less: Expenses						
Personnel expenses	61,228	55,670	9.98	60,701	55,173	10.02
Other expenses	44,770	45,424	(1.44)	45,054	46,064	(2.19)
Operating profit before value added tax (VAT)	127,248	109,583	16.12	127,208	108,950	(16.76)
Less: Value added tax (VAT) on financial services	15,526	13,359	16.22	15,526	13,359	16.22
Operating profit after value added tax (VAT)	111,722	96,224	16.11	111,682	95,591	(16.83)
Share of profits/(losses) of associates	97	95	2.11	-	-	-
Profit before income tax	111,819	96,319	16.09	111,682	95,591	16.83
Less: Income tax expense	33,061	26,736	23.66	32,789	26,442	24.00
Profit for the year	78,758	69,583	13.19	78,893	69,149	14.09
Profit attributable to:						
Equity owners of the Bank	78,748	69,581	13.17	78,893	69,149	14.09
Non-controlling interest	10	2	400.00	-	-	-
	78,758	69,583	13.19	78,893	69,149	14.09
Basic earnings per share (Rs.)	0.09	0.08	12.50	0.09	0.08	12.50
Diluted earnings per share (Rs.)	0.09	0.08	12.50	0.09	0.08	12.50
Dividend per ordinary share (Rs.)	-	-	-	0.05	0.05	-

US Dollar Accounts

The Income Statement and the Statement of Financial Position given on pages 286 and 287 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\$

	Group				Bank			
<i>For the year ended December 31,</i>	2012	2011	2010	Change	2012	2011	2010	Change
	US \$ '000	US \$ '000	US \$ '000	%	US \$ '000	US \$ '000	US \$ '000	%
ASSETS								
Cash and cash equivalents	154,314	113,465	74,794	36.00	154,163	113,254	74,369	36.12
Balances with central banks	141,938	152,131	109,612	(6.70)	141,938	152,131	109,612	(6.70)
Placements with banks	126,273	102,407	16,504	23.31	126,273	102,407	16,504	23.31
Derivative financial instruments	10,555	347	1,528	2,941.79	10,555	347	1,528	2,941.79
Other financial assets held for trading	47,196	56,298	93,318	(16.17)	47,196	56,298	93,318	(16.17)
Loans and receivables to banks	4,912	5,089	5,114	(3.48)	4,912	5,089	5,114	(3.48)
Loans and receivables to other customers	2,912,948	2,757,254	2,233,004	5.65	2,913,399	2,758,649	2,235,009	5.61
Financial investments - Available-for-sale	452,837	538,732	686,643	(15.94)	452,837	538,732	686,643	(15.94)
Financial investments - Held-to-maturity	-	-	-	-	-	-	-	-
Investments in subsidiaries	-	-	-	-	2,368	2,767	3,183	(14.42)
Investments in associates	732	1,052	961	(30.42)	346	389	399	(11.05)
Property, plant & equipment	69,898	74,590	59,256	(6.29)	64,227	69,360	53,323	(7.40)
Intangible assets	3,954	4,167	3,824	(5.11)	3,883	4,097	3,771	(5.22)
Leasehold property	873	993	1,031	(12.08)	604	686	712	(11.95)
Deferred tax assets	3,580	3,190	1,156	12.23	3,504	3,155	1,053	11.06
Other assets	71,714	63,950	51,775	12.14	71,783	63,952	51,885	12.25
Total assets	4,001,724	3,873,666	3,338,519	3.31	3,997,990	3,871,313	3,336,421	3.27
LIABILITIES								
Due to Banks	37,215	101,527	55,026	(63.34)	37,215	101,527	55,026	(63.34)
Derivative financial instruments	659	3,817	244	(82.74)	659	3,817	244	(82.74)
Other financial liabilities held for trading	-	-	-	-	-	-	-	-
Due to other customers	3,051,318	2,839,453	2,370,789	7.46	3,051,653	2,839,954	2,371,098	7.45
Other borrowings	371,609	433,816	484,837	(14.34)	372,759	435,115	485,906	(14.33)
Debt securities issued	-	-	-	-	-	-	-	-
Current tax liabilities	22,047	11,466	22,077	92.28	21,887	11,451	22,015	91.14
Deferred tax liabilities	14,765	14,384	10,083	2.65	13,266	13,983	9,078	(5.13)
Other provisions	19	5	21	280.00	19	5	21	280.00
Other liabilities	81,383	72,051	66,409	12.95	80,960	71,600	66,005	13.07
Due to subsidiaries	-	-	-	-	174	261	373	(33.33)
Subordinated term debts	8,641	9,699	21,216	(10.91)	8,641	9,699	21,216	(10.91)
Total liabilities	3,587,656	3,486,218	3,030,702	2.91	3,587,233	3,487,412	3,030,982	2.86
EQUITY								
Stated capital	140,694	144,508	97,223	(2.64)	140,694	144,508	97,223	(2.64)
Statutory reserves	26,823	25,354	22,229	5.79	26,823	25,354	22,229	5.79
Retained earnings	32,600	22,703	12,131	43.59	32,641	22,345	12,255	46.08
Other reserves	213,699	194,623	175,995	9.80	210,599	191,694	173,732	9.86
Total equity to equity owners of the Bank	413,816	387,188	307,578	6.88	410,757	383,901	305,439	7.00
Non-controlling interest	251	260	239	(3.46)	-	-	-	-
Total equity	414,067	387,448	307,817	6.87	410,757	383,901	305,439	7.00
Total liabilities and equity	4,001,724	3,873,666	3,338,519	3.31	3,997,990	3,871,313	3,336,421	3.27
Contingent liabilities and commitments	2,184,321	2,057,466	1,724,712	6.17	1,832,431	1,724,712	-	6.25
Net assets value per ordinary share (Rs.)	0.50	0.47	0.87	6.38	0.49	0.48	0.81	2.08

Exchange Rate of 1 US \$ was Rs. 128.00 as at December 31, 2012 (Rs. 114.00 as at December 31, 2011 and Rs. 111.20 as at December 31, 2010)

Bank - Based on Financial Statements Prepared Under SLAS

Year Ended December 31, Rs. Mn.	2003	2004	2005	2006	2007	2008	2009	2010
OPERATING RESULTS								
Income	10,059	12,290	16,100	24,470	35,223	44,115	43,741	41,522
Interest income	7,931	9,584	13,034	19,532	30,503	37,188	35,925	34,740
Interest expenses	(4,218)	(4,878)	(7,226)	(11,955)	(18,951)	(24,336)	(23,515)	(18,328)
Foreign exchange profit	397	874	587	1,439	1,545	2,633	2,962	1,741
Commission and other income	1,731	1,832	2,479	3,499	3,175	4,294	4,854	5,041
Operating expenses and provisions	(3,887)	(4,908)	(5,232)	(8,301)	(9,567)	(12,259)	(13,035)	(13,876)
Profit before income tax	1,954	2,504	3,642	4,214	6,705	7,520	7,191	9,318
Income tax on profit	(477)	(819)	(1,278)	(2,201)	(2,601)	(3,252)	(2,887)	(3,794)
Net profit for the year	1,477	1,685	2,364	2,013	4,104	4,268	4,304	5,524
ASSETS								
Cash and short term funds	9,002	12,136	18,663	13,739	16,208	24,115	24,057	10,557
Balances with Central Banks	5,233	6,320	9,045	12,574	11,576	10,322	11,795	12,189
Government Treasury Bills, Bonds and Other Securities	16,530	19,900	21,218	32,065	49,863	51,633	96,671	114,541
Commercial paper	546	560	408	423	-	-	-	-
Securities purchased under re-sale agreements	6,184	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	2,006	2,340	3,091	1,394	1,756	1,197	1,025	2,366
Bills of Exchange	2,495	2,799	2,790	3,204	3,195	3,059	2,847	5,291
Lease receivable	3,364	5,317	7,088	9,482	10,945	9,484	7,794	11,019
Loans and advances	60,585	82,605	108,884	137,846	160,184	167,858	161,329	200,729
	105,945	132,486	172,177	215,683	257,943	271,126	310,802	357,043
Investments in Associate Companies	78	109	107	44	44	44	44	44
Investments in Subsidiary Companies	429	429	434	434	434	434	279	354
Other assets	2,167	2,553	4,177	4,336	5,751	5,512	6,808	6,191
Property, Plant & Equipment and Intangible Assets	1,661	2,896	3,182	3,477	3,768	4,098	4,382	6,428
Total Assets	110,280	138,473	180,077	223,974	267,940	281,214	322,315	370,060
LIABILITIES								
Deposits from customers	75,185	98,730	127,601	157,496	183,110	199,881	234,745	259,779
Dividends payable	190	230	230	113	113	-	-	-
Borrowings	5,406	9,090	13,387	18,944	18,752	13,620	11,639	14,371
Securities sold under re-purchase agreements	10,580	9,050	11,389	14,330	23,342	25,075	29,905	45,774
Other liabilities	4,843	3,735	6,331	9,122	10,308	10,646	12,888	12,259
Tax payable	148	483	818	1,446	1,698	1,665	1,203	2,448
Debentures	2,244	3,244	4,553	6,680	6,680	4,436	3,436	2,127
	98,596	124,562	164,309	208,131	244,003	255,323	293,816	336,758

Bank - Based on Financial Statements Prepared Under SLFRS

Year Ended December 31,	2011	2012
Rs. Mn.		
OPERATING RESULTS		
Income	45,860	63,395
Interest income	38,356	52,685
Interest expenses	(19,650)	(29,830)
Foreign exchange profit	2,322	4,694
Commission and other income	5,182	6,016
Operating expenses and provisions	(15,313)	(19,270)
Profit before income tax	10,897	14,295
Income tax on profit	(3,014)	(4,197)
Net profit for the year	7,883	10,098
As at December 31,		
ASSETS		
Cash and cash equivalents	12,911	19,733
Balances with central banks	17,343	18,168
Placements with banks	11,674	16,163
Derivative financial instruments	40	1,351
Other financial assets held for trading	6,418	6,041
Loans and receivables to banks	580	629
Loans and receivables to other customers	314,486	372,915
Financial investments - Available-for-sale	61,415	57,963
Financial investments - Held-to-maturity	-	-
	424,867	492,963
Investments in Subsidiaries	315	303
Investments in Associates	44	44
Property, plant & equipment	7,907	8,221
Intangible assets	467	497
Leasehold property	78	77
Deferred tax assets	360	449
Other assets	7,291	9,189
Total Assets	441,329	511,743
LIABILITIES		
Due to Banks	11,574	4,764
Derivative financial instruments	435	84
Other financial liabilities held for trading	-	-
Due to other customers	323,755	390,612
Other borrowings	49,603	47,713
Debt Securities Issued	-	-
Current tax liabilities	1,305	2,802
Deferred tax liabilities	1,594	1,698
Other provisions	1	2
Other liabilities	8,162	10,363
Due to Subsidiaries	30	22
Subordinated term debts	1,106	1,106
Total Liabilities	397,565	459,166

Bank - Based on Financial Statements Prepared Under SLAS

Year Ended December 31, Rs. Mn.	2003	2004	2005	2006	2007	2008	2009	2010
SHAREHOLDERS' FUNDS								
Share capital	2,603	2,603	3,327	2,428	10,515	10,548	10,608	10,811
Statutory Reserves Fund	1,009	1,009	1,421	1,429	1,634	1,896	2,164	2,472
Reserves	8,072	10,299	11,020	11,986	11,788	13,447	15,727	20,019
Total Liabilities and Shareholders' Funds	110,280	138,473	180,077	223,974	267,940	281,214	322,315	370,060
Commitments and contingencies	38,158	43,942	47,154	56,418	116,212	115,809	146,072	196,617

RATIOS

Return on average Shareholders' Funds (%)	15.20	13.16	15.93	12.73	20.63	17.13	15.83	17.87
Income growth (%)	20.26	22.17	31.00	51.99	43.95	25.25	(0.85)	(5.07)
Return on average assets (%)	1.61	1.35	1.48	1.00	1.67	1.55	1.43	1.60
Rate of dividend (%)	50.00	60.00	45.00	50.00	-	-	-	-
Dividend per share (Rs.)	-	-	-	-	7.00	7.00	7.00	7.00
Ordinary share dividend cover (times)	3.70	3.48	3.34	2.54	2.29	2.42	2.46	2.09
Gross dividends to ordinary shareholders (Rs. Mn.)	348.25	420.00	639.36	714.00	1,743.13	1,745.81	1,751.47	2,642.25
Advances to deposits and refinance (%)	86.16	89.52	90.64	92.49	91.75	87.12	70.88	80.97
Property, Plant & Equipment to Shareholders' Funds (%)	14.22	20.81	20.75	21.33	15.74	15.83	15.38	19.30
Total assets to Shareholders' Funds (times)	9.44	9.95	11.42	14.14	11.19	10.86	11.31	11.11
Capital funds to liabilities including contingent liabilities (%)	8.54	8.26	7.46	6.05	7.87	6.98	6.48	6.26
Cost/Income Ratio (%)	55.87	56.78	54.28	61.10	47.87	50.46	56.86	54.69
Liquid assets to liabilities (%)	23.95	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	13.43	10.78	9.68	7.62	10.60	10.55	11.92	10.86
Tier I & II	15.46	13.16	12.08	11.58	13.71	13.13	13.93	12.26

SHARE INFORMATION

Market value of a share (Rs.)	144.00	159.75	135.50	190.00	147.00	67.00	189.50	259.90
Earnings per share (Rs.)	2	2	3	3	5	6	6	7
Price earnings ratio (times)	8	8	9	15	9	4	11	18
Net assets value per share (Rs.)	16	19	22	24	30	34	38	44
Earnings yield (%)	13	13	11	5	11	25	9	6
Dividend payout ratio (%) - Cash	27	29	30	39	44	41	41	34
Total dividend payout ratio (%)	-	-	-	-	-	-	-	48

OTHER INFORMATION

Number of employees	2,648	2,863	3,168	3,415	3,745	4,041	4,071	4,321
Number of delivery points - Sri Lanka	116	125	134	150	163	170	172	187
Number of delivery points - Bangladesh	4	4	5	7	9	11	15	17
Number of Automated Teller Machines	166	188	223	278	301	346	368	414

Bank - Based on Financial Statements Prepared Under SLFRS

Year Ended December 31,	2011	2012
Rs. Mn.		
SHAREHOLDERS' FUNDS		
Stated Capital	16,474	18,009
Statutory Reserves	2,890	3,433
Retained Earnings	2,547	4,178
Other Reserves	21,853	26,957
Total Liabilities & Shareholders' Funds	441,329	511,743
Commitments and contingencies	234,551	279,593
RATIOS		
Return on average Shareholders' Funds (%)	20.28	20.96
Income growth (%)	10.45	38.25
Return on average assets (%)	1.94	2.12
Rate of dividend (%)	-	-
Dividend per share (Rs.)	6.00	6.50
Ordinary share dividend cover (times)	1.61	1.86
Gross dividends to ordinary shareholders (Rs. Mn.)	4,904.70	5,418.20
Advances to deposits and refinance (%)	83.30	82.01
Property, Plant & Equipment to Shareholders' Funds (%)	19.31	16.73
Total assets to shareholders' funds (times)	9.92	10.27
Capital funds to liabilities including contingent liabilities (%)	6.92	7.12
Cost/Income Ratio (%)	50.70	47.02
Liquid assets to liabilities (%)	26.35	25.79
(As specified in the Banking Act No. 30 of 1988)		
Group Capital Adequacy (%) Tier I	12.11	12.64
Tier I & II	13.01	13.85
SHARE INFORMATION		
Market value of a share (Rs.)	100.00	103.00
Earnings per share (Rs.)	9	12
Price earnings ratio (times)	11	9
Net assets value per share (Rs.)	54	63
Earnings yield (%)	9	12
Dividend payout ratio (%) - Cash	42	37
Total dividend payout ratio (%)	62	54
OTHER INFORMATION		
Number of employees	4,524	4,602
Number of delivery points - Sri Lanka	213	227
Number of delivery points - Bangladesh	17	17
Number of Automated Teller Machines	514	555

February →

Commercial Bank presents scholarships to 25 more undergrads.



The fifth such programme by the CSR Trust of the Bank, saw the disbursement of over Rs 2 mn in scholarship grants.

Commercial Bank launches web services for instant remittance solutions with 'Xpress Money'.



Commercial Bank has integrated its systems with those of 'Xpress Money' - a global money transfer brand - to introduce a new dimension in speed, reliability and convenience to recipients of remittances in Sri Lanka.

March →

214th Service Point was Opened at Marawila.



Commercial Bank wins the 'Best Bank in Sri Lanka' Award for the 14th consecutive time from 'Global Finance', one of the world's most respected financial publications.



Commercial Bank entered into an agreement with Ceylinco Insurance to offer the latter's general and life insurance products through Bank's island wide network of branches.



Commercial Bank in milestone remittance agreement with Doha Bank.



Commercial Bank widens mobile access to online services.



Commercial Bank launched a dedicated WAP Portal to facilitate access to a wider segment of mobile phone users.

Commercial Bank Bangladesh 8th Annual Staff Conference.



April →

Commercial Bank joins Central Bank to promote financial literacy among SMEs



Seminar held in Thambuththegama.

215th Service Point was opened at Pelawatte

May →

216th and 217th Service Points were opened at Talawakelle and Godakawela



Godakawela Opening

Commercial Bank opens Islamic Banking Unit at Akkaraipattu.



Commercial Bank opens 7th Agriculture and Micro Finance Unit at Hingurakgod. .



Commercial Bank was adjudged the 'Best Sri Lankan Trade Bank' by the prestigious UK based 'Trade Finance' magazine



This is the third occasion that Commercial Bank has been honoured with the Trade Finance Award since the introduction of an award for this category in 2009.

Commercial Bank adjudged 'Most Productive Network' in South Asia by MoneyGram the global funds transfer Company



Commercial Bank has tied up with Ria Financial Services, the third largest money transfer Company in the world, substantially enhancing its offering in the sphere of remittances.



Commercial Bank first Sri Lankan Bank to Link its ATMs to China UnionPay



June →

218th Service Point was Opened at Middeniya



Commercial Bank records highest growth in 'Inter-Bank Electronic' Payments



Commercial Bank has been recognised as the 'Bank with the Highest Growth' in the 'High Volume Bank Category' among banks using the Sri Lanka Inter Bank Payment System (SLIPS) in 2011-12.

July →

219th, 220th & 221st Service Points were opened at Alawwa, Liberty Plaza Shopping Complex & Balagolla



Liberty Plaza opening

Commercial Bank among the Top 1000 Banks in the World again...



Sri Lanka is once again represented in the top 1,000 banks in the world, with the inclusion of the Commercial Bank to this prestigious annual ranking by the UK based 'The Banker' magazine.

Commercial Bank Wins Euromoney's 'Best Bank in Sri Lanka' Award



Hong Kong-based Finance Asia Ranks Commercial Bank as "Best Bank in Sri Lanka"



August →

Commercial Bank Awarded Gold at National HRM Awards 2012.



Commercial Bank Launches Exclusive Savings Account for Women.



September →

222nd, 223rd & 224th Service Points were opened at Maskeliya, Wellawatte & Makola.



Wellawatte Opening

Etisalat and Commercial Bank gives Sri Lanka, Power of Mobile Banking with USSD (Unstructured Supplementary Service Data) Technology



October →

225th Service Point was opened at Geliya



Commercial Bank partners with Ray Wijewardene Charitable Trust to help country's best inventor commercialise his or her Invention



The Bank has extended a grant of Rs. 1 Mn. to award-winning Sri Lankan inventor Indresri Karunatilaka.

November →

226th & 227th Service Points were opened at Kodikamam & Mulliyawalai



Kodikamam Opening

Commercial Bank took top honours for the best CSR projects in the 'Education & Training' category at the 2012 Best Corporate Citizen Awards presented by the Ceylon Chamber of Commerce



Commercial Bank Partnership with Allianz Lanka and Continental Insurance Lanka in Bancassurance



Commercial Bank's DotCom reaches out to youth with new outlook



Commercial Bank, announced the appointment of global award-winning singing sensations Iraj

Weeraratne and Infaaz Noorudeen, as Brand Icons for the re-launch of its 'DotCom Youth Savings Account.'

December →

Commercial Bank wins Gold for Best Annual Report in Banking sector.



Commercial Bank won three awards, including the Gold award in the Banking sector for its 2011 Annual Report, at the 4th annual reports awards ceremony organized by The Institute of Chartered Accountants of Sri Lanka.

Commercial Bank partner Continental Insurance for Bancassurance





297	—	299	—	301	—	302	—	303	→
Statement of Directors' Responsibility		Directors' Statement on Internal Control		Assurance Report on Internal Control		Managing Director's and Chief Financial Officer's Statement of Responsibility		Independent Auditors' Report	

306	—	307	—	308	—	310	—	314	—	316	→
Income Statement		Statement of Comprehensive Income		Statement of Financial Position		Statement of Changes in Equity		Statement of Cash Flows		Notes to the Financial Statements	

Financial Reports

2012

January

February — Consolidated Results, February 09

March — Annual Report release, March 6
Annual General Meeting, March 30

April

May — Interim Report - Quarter 1, May 10

June

July

August — Interim Report - Quarter 2, August 10

September

October

November — Interim Report - Quarter 3, November 07

December



	2012	2013
Final Dividend for the previous year paid/payable	on April 11, 2012	on April 09, 2013
Interim Dividend for the year paid/payable	on November 20, 2012 on February 18, 2013	in the second half 2013
Annual Report and Accounts for the year signed/to be signed	on February 27, 2013	in February 2014
Annual General Meeting to be held	on March 28, 2013	in March 2014
Final Dividend for the year to be proposed	on March 28, 2013	in March 2014
Final Dividend for the year to be paid	on April 09, 2013	in April 2014



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

	2012 Submitted on	2013 To be submitted on or before
For the 3 months ended March 31, (unaudited)	May 10, 2012	May 15, 2013
For the 3 and 6 months ended June 30, (unaudited)	August 10, 2012	August 15, 2013
For the 3 and 9 months ended September 30, (unaudited)	November 07, 2012	November 15, 2013
For the 3 months and year ended December 31, 2012 (unaudited)	February 27, 2013	February 28, 2014

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 303.

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, 2012, 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 27, 2013 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 2012, prepared and presented in this Annual Report have been prepared based on new Sri Lanka Accounting Standards (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 211 to 213. 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 306 to 437 including, appropriate Accounting Policies selected and applied based on the new financial reporting framework on a consistent basis, while reasonable and prudent judgements 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 page 299 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 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. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all shareholders in each category have been treated equitably in accordance with the original terms of issue.

Further, the Board of Directors wishes to confirm that the Bank and its quoted subsidiary have met all the requirements under 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 303.

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 402. 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 27, 2013

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, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the 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 211 to 213.
- 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 did not include subsidiaries of the Bank.

- As the current year was the first year of adoption of new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes that are required to comply with new requirements of recognition, measurement, classification and disclosures are being introduced, and as at the reporting date were not fully completed. These processes will be tested by Internal Audit on an ongoing basis from 2013 onwards.
- The comments made by External Auditors in connection with the internal control system during the financial year 2011 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 301.

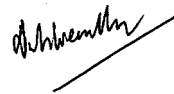
Confirmation

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.

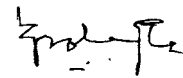
Review of the Statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Bank for the year ended December 31, 2012 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.

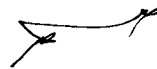
By order of the Board,



D.S. Weerakkody
Chairman



K.G.D.D. Dheerasinghe
Deputy Chairman



W.M.R.S. Dias
Managing Director

Colombo
February 27, 2013



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(Chartered Accountants)
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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, 2012, as set out on pages 299 to 300 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:

- Inquired 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 299 to 300 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 27, 2013

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
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

Ms. M.P. Perera 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

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

Managing Director's and Chief Financial Officer's Statement of Responsibility

This is Commercial Bank
Operating Highlights
Financial Highlights
Letter from the Chairman
Managing Director's Review
Management Discussion and Analysis
Stewardship
✓ Financial Reports
Annexes

Commercial Bank of Ceylon PLC
Annual Report 2012

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, 2011 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 changed to conform with the new Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, which became effective from January 1, 2012. The transition to the new reporting framework from the previous framework and the related adjustments has been presented in Note 59 to the Financial Statements. The new Significant Accounting Policies have been consistently applied by the Group. Application of Significant Accounting Policies and estimates that involve a high degree of judgement 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. 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. We also wish to inform that the Group was well aware of the changes required to the Financial Statements and are in the process of taking appropriate actions to design systems and procedures to meet the new requirements of the new/revised Accounting Standards which became effective from January 1, 2012. We were able to address the requirements of these new/revised Accounting Standards smoothly while making necessary disclosures in time.

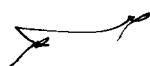
The Financial Statements of the Group were audited by Messrs KPMG, Chartered Accountants and their Report is given on page 303. The Board Audit Committee pre-approves the audit and non-audit services provided by Messrs KPMG, in order to ensure that the provision of such services does not contravene with 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 211 to 213. 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.

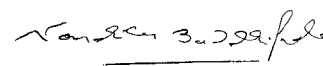
It is also declared and confirmed that the Bank has complied with and ensured compliance with the guidelines for the audit of listed companies where mandatory compliance is required.

We confirm that to the best of our knowledge:

- The Group has complied with all applicable laws and regulations and guidelines and there are no material litigation against the Group other than those disclosed in Note 49 on page 402 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. Buddhipala
Chief Financial Officer

Colombo
February 27, 2013



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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Colombo 00300,
Sri Lanka.

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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, 2012, 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 306 to 437 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, 2012 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2012, 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, 2012, 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 27, 2013

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	Ms. M.P. Perera FCA	P.Y.S. Perera FCA
C.P. Jayatilake FCA	T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA
Ms. S. Joseph FCA	Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyratne ACA
S.T.D.L. Perera FCA	G.A.U. Karunaratne ACA	R.M.D.B. Rajapakse ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

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For the year ended December 31,	Note No.	GROUP			BANK		
		2012 Rs. '000	2011 Rs. '000	Change %	2012 Rs. '000	2011 Rs. '000	Change %
Gross income		63,373,753	45,838,944	38.25	63,395,047	45,859,217	38.24
Interest income		52,662,964	38,313,748	37.45	52,685,427	38,355,543	37.36
Less : Interest expenses		29,811,305	19,635,348	51.82	29,830,397	19,650,329	51.81
Net interest income	7	22,851,659	18,678,400	22.34	22,855,030	18,705,214	22.19
Fees and commission income		4,146,878	3,765,075	10.14	4,146,525	3,765,188	10.13
Less : Fees and commission expenses		548,560	439,825	24.72	548,560	439,825	24.72
Net Fees and commission income	8	3,598,318	3,325,250	8.21	3,597,965	3,325,363	8.20
Net gain/(loss) from trading	9	2,494,298	(461,638)	640.31	2,494,298	(461,638)	640.31
Net gain/(loss) from financial instruments designated at fair value through profit or loss		-	-	-	-	-	-
Net gain/(loss) from financial investments	10	31,533	38,030	(17.08)	31,533	38,030	(17.08)
Other operating income (net)	11	4,038,080	4,183,729	(3.48)	4,037,264	4,162,094	(3.00)
Total operating income		33,013,888	25,763,771	28.14	33,016,090	25,769,063	28.12
Impairment charges for loans and other losses	12	3,158,291	1,746,745	80.81	3,196,760	1,807,899	76.82
Net operating income		29,855,597	24,017,026	24.31	29,819,330	23,961,164	24.45
Less: Expenses							
Personnel expenses	13	7,837,144	6,346,421	23.49	7,769,788	6,289,693	23.53
Other expenses	14	5,730,586	5,178,292	10.67	5,766,896	5,251,269	9.82
Operating profit before value added tax (VAT)		16,287,867	12,492,313	30.38	16,282,646	12,420,202	31.10
Less: Value added tax (VAT) on financial services		1,987,313	1,522,972	30.49	1,987,313	1,522,972	30.49
Operating profit after value added tax (VAT)		14,300,554	10,969,341	30.37	14,295,333	10,897,230	31.18
Share of profits/(losses) of associates		12,360	10,878	13.62	-	-	-
Profit before income tax		14,312,914	10,980,219	30.35	14,295,333	10,897,230	31.18
Less: Income tax expense	15	4,231,747	3,047,918	38.84	4,197,004	3,014,361	39.23
Profit for the year		10,081,167	7,932,301	27.09	10,098,329	7,882,869	28.10
Profit attributable to:							
Equity holders of the Bank		10,079,829	7,932,062	27.08	10,098,329	7,882,869	28.10
Non-controlling interest		1,338	239	459.83	-	-	-
Profit for the year		10,081,167	7,932,301	27.09	10,098,329	7,882,869	28.10
Earnings per share							
Basic earnings per share (Rs.)	16	12.11	9.53	27.07	12.13	9.47	28.09
Diluted earnings per share (Rs.)	16	11.98	9.42	27.18	12.00	9.37	28.07
Dividend per ordinary share (Rs.)					6.50	6.00	8.33

The notes appearing on pages 316 to 437 form an integral part of these Financial Statements.

For the year ended December 31,	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	Change %	2012 Rs. '000	2011 Rs. '000	Change %
Profit for the Year	10,081,167	7,932,301	27.09	10,098,329	7,882,869	28.10
Other comprehensive income, net of tax						
Changes in revaluation surplus	192,237	1,669,180	(88.48)	–	1,654,327	–
Deferred tax effect on revaluation surplus	(2,195)	(56,855)	96.14	121,178	(128,444)	194.34
Net gains and losses arising from translating the financial statements of a foreign operation	548,545	(753,908)	172.76	550,827	(754,433)	173.01
Net gains and losses on remeasuring available-for-sale financial assets	619,436	(959,919)	164.53	619,436	(959,919)	164.53
Sri Lanka Government Securities	619,421	(957,776)	164.67	619,421	(957,776)	164.67
Equity Securities - Quoted	15	(2,143)	100.70	15	(2,143)	100.70
Add/(Less): Share of other comprehensive income of associates	(28,967)	5,465	(630.05)	–	–	–
Other comprehensive income for the year, net of taxes	1,329,056	(96,037)	1,483.90	1,291,441	(188,469)	785.23
Total comprehensive income for the year	11,410,223	7,836,264	45.61	11,389,770	7,694,400	48.03
Attributable to:						
Equity holders of the Bank	11,405,132	7,831,314	45.63	11,389,770	7,694,400	48.03
Non-controlling interests	5,091	4,950	2.85	–	–	–
Total comprehensive income for the year	11,410,223	7,836,264	45.61	11,389,770	7,694,400	48.03

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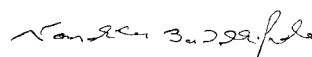
As at December 31,	Note No.	GROUP			
		2012	2011	January 1, 2011	Change
		Rs. '000	Rs. '000	Rs. '000	%
ASSETS					
Cash and cash equivalents	20	19,752,205	12,934,995	8,317,048	52.70
Balances with Central Banks	21	18,168,039	17,342,959	12,188,834	4.76
Placements with banks	22	16,162,970	11,674,363	1,835,260	38.45
Derivative financial instruments	23	1,351,095	39,612	169,916	3,310.82
Other financial assets held for trading	24	6,041,110	6,418,010	10,376,941	(5.87)
Loans and receivables to banks	25	628,760	580,158	568,704	8.38
Loans and receivables to other customers	26	372,857,337	314,326,998	248,310,047	18.62
Financial investments - Available-for-sale	27	57,963,192	61,415,395	76,354,654	(5.62)
Financial investments - Held-to-maturity		-	-	-	-
Investments in subsidiaries	28	-	-	-	-
Investments in associates	29	93,712	119,981	106,859	(21.89)
Property, plant & equipment	30	8,946,881	8,503,211	6,589,228	5.22
Intangible assets	31	506,161	475,038	425,255	6.55
Leasehold property	32	111,776	113,228	114,680	(1.28)
Deferred tax assets	33	458,258	363,711	128,496	26.00
Other assets	34	9,179,144	7,290,298	5,757,370	25.91
Total assets		512,220,640	441,597,957	371,243,292	15.99
LIABILITIES					
Due to banks	35	4,763,565	11,574,105	6,118,915	(58.84)
Derivative financial instruments	36	84,291	435,171	27,080	(80.63)
Other financial liabilities held for trading		-	-	-	-
Due to other customers	37	390,568,682	323,697,628	263,631,702	20.66
Other borrowings	38	47,565,945	49,455,005	53,913,913	(3.82)
Debt securities issued		-	-	-	-
Current tax liabilities		2,821,975	1,307,079	2,455,002	115.90
Deferred tax liabilities	33	1,889,983	1,639,827	1,121,206	15.26
Other provisions	39	2,409	535	2,369	350.28
Other liabilities	40	10,417,213	8,213,999	7,384,590	26.81
Due to subsidiaries	41	-	-	-	-
Subordinated term debts	42	1,106,016	1,105,639	2,359,245	0.03
Total liabilities		459,220,079	397,428,988	337,014,022	15.55
EQUITY					
Stated capital	43	18,008,796	16,473,861	10,811,193	9.32
Statutory reserves	44	3,433,395	2,890,305	2,471,830	18.79
Retained earnings	45	4,172,814	2,588,194	1,348,994	61.22
Other reserves	46	27,353,415	22,187,020	19,570,652	23.29
Total equity to equity owners of the Bank		52,968,420	44,139,380	34,202,669	20.00
Non-Controlling Interest	47	32,141	29,589	26,601	8.62
Total equity		53,000,561	44,168,969	34,229,270	20.00
Total liabilities and equity		512,220,640	441,597,957	371,243,292	15.99
Contingent liabilities and commitments	48	279,593,112	234,551,169	196,617,166	19.20
Net assets value per share (Rs.)		63.55	54.00	90.61	17.69

The notes appearing on pages 316 to 437 form an integral part of these Financial Statements.

BANK			
2012	2011	January 1, 2011	Change
Rs. '000	Rs. '000	Rs. '000	%
19,732,834	12,910,989	8,269,832	52.84
18,168,039	17,342,959	12,188,834	4.76
16,162,970	11,674,363	1,835,260	38.45
1,351,095	39,612	169,916	3,310.82
6,041,110	6,418,010	10,376,941	(5.87)
628,760	580,158	568,704	8.38
372,915,081	314,485,967	248,532,947	18.58
57,963,192	61,415,395	76,354,654	(5.62)
-	-	-	-
303,130	315,444	353,898	(3.90)
44,331	44,331	44,331	-
8,221,118	7,907,030	5,929,561	3.97
497,038	467,014	419,311	6.43
77,304	78,246	79,188	(1.20)
448,500	359,617	117,056	24.72
9,188,206	7,290,514	5,769,626	26.03
511,742,708	441,329,649	371,010,059	15.95
4,763,565	11,574,105	6,118,915	(58.84)
84,291	435,171	27,080	(80.63)
-	-	-	-
390,611,548	323,754,748	263,666,047	20.65
47,713,199	49,603,142	54,032,762	(3.81)
-	-	-	-
2,801,541	1,305,442	2,448,039	114.60
1,698,067	1,594,086	1,009,497	6.52
2,409	535	2,369	350.28
10,362,808	8,162,382	7,339,789	26.96
22,264	29,734	41,448	(25.12)
1,106,016	1,105,639	2,359,245	0.03
459,165,708	397,564,984	337,045,191	15.49
18,008,796	16,473,861	10,811,193	9.32
3,433,395	2,890,305	2,471,830	18.79
4,178,080	2,547,336	1,362,794	64.02
26,956,729	21,853,163	19,319,051	23.35
52,577,000	43,764,665	33,964,868	20.14
-	-	-	-
52,577,000	43,764,665	33,964,868	20.14
511,742,708	441,329,649	371,010,059	15.95
279,593,112	234,551,169	196,617,166	19.20
63.08	53.54	89.98	17.82

Certification

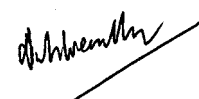
These Financial Statements have been prepared in compliance with requirements of the Companies Act No. 07 of 2007.



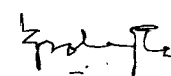
K.D.N. Buddhipala
Chief Financial Officer

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

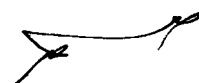
Approved and signed for and on behalf of the Board.



D.S. Weerakkody
Chairman



K.G.D.D. Dheerasinghe
Deputy Chairman



W.M.R.S. Dias
Managing Director



Mrs. R.R. Dunuwille
Company Secretary

Colombo
February 27, 2013

Statement of Changes in Equity

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Group	Stated Capital Rs. '000	Statutory Reserves	
		Statutory Reserve Fund Rs. '000	Primary Dealer Special Risk Reserve Rs. '000
Balance as at 01.01.2011	10,811,193	2,338,510	133,320
Effect of Transitional provisions			
Impairment adjustment to Opening Retained Earnings	-	-	-
Deposit EIR adjustment to Opening Retained Earnings	-	-	-
Derivative Financial Instruments - Interest Rate Swaps	-	-	-
Changes in Fair Value in AFS investments	-	-	-
Quoted Debentures - Urban Development Authority	-	-	-
Provision for Leave Encashment	-	-	-
Commission Derecognition	-	-	-
Share of Comprehensive Income of Associates	-	-	-
Share of Other Comprehensive Income of Associates	-	-	-
Adjusted SLFRS Balance as at 01.01.2011	10,811,193	2,338,510	133,320
Total comprehensive income for the year			
Profit for the year 2011	-	-	-
Other comprehensive income	-	-	-
Total Comprehensive Income for the Year	-	-	-
Transactions with owners, recorded directly in equity contributions by and distributions to owners			
Proceeds from Right Issue of Ordinary shares	4,859,658	-	-
Issue of Ordinary Shares under Employee Share Option Plans (Refer Note 43)	121,869	-	-
Dividends to equity owners			
Final cash dividend for 2010	-	-	-
Final scrip dividend for 2010	681,141	-	-
Interim Dividends for 2011 (Refer Note 17)	-	-	-
Share-based payment transactions	-	-	-
Transfers during the year (Refer Note 44 and 46)	-	402,391	16,084
Total transactions with equity owners	5,662,668	402,391	16,084
Balance as at 31.12.2011	16,473,861	2,740,901	149,404
Total comprehensive income for the year			
Profit for the year 2012	-	-	-
Other comprehensive income	-	-	-
Total Comprehensive Income for the Year	-	-	-
Transactions with owners, recorded directly in equity contributions by and distributions to owners			
Proceeds from Right Issue of Ordinary shares	-	-	-
Issue of Ordinary Shares under Employee Share Option Plans (Refer Note 43)	62,942	-	-
Dividends to equity owners			
Final cash dividend for 2011	-	-	-
Final scrip dividend for 2011	1,471,993	-	-
Interim Dividends for 2012 (Refer Note 17)	-	-	-
Write back of dividend payable	-	-	-
Transfers during the year (Refer Notes 44 and 46)	-	-	-
Share-based payment transactions	-	-	-
Transfers during the year (Refer Note 44 and 46)	-	504,917	38,173
Total transactions with equity owners	1,534,935	504,917	38,173
Balance as at 31.12.2012	18,008,796	3,245,818	187,577

	Other Reserves						Shareholders' Funds	Non-Controlling Interest	Total Equity
	Retained Earnings*	Revaluation Reserve	Available-for-Sale Reserve	Foreign Currency Translation Reserve	Investment Fund Account	General Reserve			
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	1,474,851	2,943,222	–	(549,738)	–	16,361,218	33,512,576	26,601	33,539,177
	(11,630)	–	–	–	–	–	(11,630)	–	(11,630)
	286,855	–	–	–	–	–	286,855	–	286,855
	59	–	–	–	–	–	59	–	59
	–	–	815,950	–	–	–	815,950	–	815,950
	1,400	–	–	–	–	–	1,400	–	1,400
	(302,574)	–	–	–	–	–	(302,574)	–	(302,574)
	(127,244)	–	–	–	–	–	(127,244)	–	(127,244)
	(1,788)	–	–	–	–	–	(1,788)	–	(1,788)
	29,065	–	–	–	–	–	29,065	–	29,065
	1,348,994	2,943,222	815,950	(549,738)	–	16,361,218	34,202,669	26,601	34,229,270
	7,932,062	–	–	–	–	–	7,932,062	239	7,932,301
	5,465	1,607,614	(959,919)	(753,908)	–	–	(100,748)	4,711	(96,037)
	7,937,527	1,607,614	(959,919)	(753,908)	–	–	7,831,314	4,950	7,836,264
	–	–	–	–	–	–	4,859,658	–	4,859,658
	–	–	–	–	–	–	121,869	–	121,869
	(756,823)	–	–	–	–	–	(756,823)	(654)	(757,477)
	(756,823)	–	–	–	–	–	(75,682)	–	(75,682)
	(2,043,625)	–	–	–	–	–	(2,043,625)	(1,308)	(2,044,933)
	–	–	–	–	–	–	–	–	–
	(3,141,056)	–	–	–	1,194,328	1,528,253	–	–	–
	(6,698,327)	–	–	–	1,194,328	1,528,253	2,105,397	(1,962)	2,103,435
	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

		Statutory Reserves	
	Stated Capital Rs. '000	Statutory Reserve Fund Rs. '000	Primary Dealer Special Risk Reserve Rs. '000
Bank			
Balance as at 01.01.2011	10,811,193	2,338,510	133,320
Effect of Transitional provisions			
Impairment adjustment to Opening Retained Earnings	-	-	-
Deposit EIR adjustment to Opening Retained Earnings	-	-	-
Derivative Financial Instruments - Interest Rate Swaps	-	-	-
Changes in Fair Value in AFS investments	-	-	-
Quoted Debentures - Urban Development Authority	-	-	-
Provision for Leave Encashment	-	-	-
Commission De-recognition	-	-	-
Adjusted SLFRS Balance as at 01.01.2011	10,811,193	2,338,510	133,320
Total comprehensive income for the year			
Profit for the year 2011	-	-	-
Other comprehensive income	-	-	-
Total Comprehensive Income for the year	-	-	-
Transactions with owners, recorded directly in equity contributions by and distributions to owners			
Proceeds from Right Issue of Ordinary shares	4,859,658	-	-
Issue of Ordinary Shares under Employee Share Option Plans (Refer Note 43)	121,869	-	-
Dividends to equity owners			
Final cash dividend for 2010	-	-	-
Final scrip dividend for 2010	681,141	-	-
Interim Dividends for 2011 (Refer Note 17)	-	-	-
Share-based payment transactions	-	-	-
Transfers during the year (Refer Note 44 and 46)	-	402,391	16,084
Total transactions with equity owners	5,662,668	402,391	16,084
Balance as at 31.12.2011	16,473,861	2,740,901	149,404
Total comprehensive income for the year			
Profit for the year 2012	-	-	-
Other comprehensive income	-	-	-
Total Comprehensive Income for the year	-	-	-
Transactions with owners, recorded directly in equity contributions by and distributions to owners			
Proceeds from Right Issue of Ordinary shares	-	-	-
Issue of Ordinary Shares under Employee Share Option Plans (Refer Note 43)	62,942	-	-
Dividends to equity owners			
Final cash dividend for 2011	-	-	-
Final scrip dividend for 2011	1,471,993	-	-
Interim Dividends for 2012 (Refer Note 17)	-	-	-
Share-based payment transactions	-	-	-
Transfers during the year (Refer Note 44 and 46)	-	-	-
Share-based payment transactions	-	-	-
Transfers during the year (Refer Note 44 and 46)	-	504,917	38,173
Total transactions with equity owners	1,534,935	504,917	38,173
Balance as at 31.12.2012	18,008,796	3,245,818	187,577

	Other Reserves						Shareholders' Funds	Non-Controlling Interest	Total Equity
	Retained Earnings*	Revaluation Reserve	Available-for-Sale Reserve	Foreign Currency Translation Reserve	Investment Fund Account	General Reserve			
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	1,515,928	2,696,171	–	(554,288)	–	16,361,218	33,302,052	–	33,302,052
	(11,630)	–	–	–	–	–	(11,630)	–	(11,630)
	286,855	–	–	–	–	–	286,855	–	286,855
	59	–	–	–	–	–	59	–	59
	–	–	815,950	–	–	–	815,950	–	815,950
	1,400	–	–	–	–	–	1,400	–	1,400
	(302,574)	–	–	–	–	–	(302,574)	–	(302,574)
	(127,244)	–	–	–	–	–	(127,244)	–	(127,244)
	1,362,794	2,696,171	815,950	(554,288)	–	16,361,218	33,964,868	–	33,964,868
	7,882,869	–	–	–	–	–	7,882,869	–	7,882,869
	–	1,525,883	(959,919)	(754,433)	–	–	(188,469)	–	(188,469)
	7,882,869	1,525,883	(959,919)	(754,433)	–	–	7,694,400	–	7,694,400
	–	–	–	–	–	–	4,859,658	–	4,859,658
	–	–	–	–	–	–	121,869	–	121,869
	(756,823)	–	–	–	–	–	(756,823)	–	(756,823)
	(756,823)	–	–	–	–	–	(75,682)	–	(75,682)
	(2,043,625)	–	–	–	–	–	(2,043,625)	–	(2,043,625)
	–	–	–	–	–	–	–	–	–
	(3,141,056)	–	–	–	1,194,328	1,528,253	–	–	–
	(6,698,327)	–	–	–	1,194,328	1,528,253	2,105,397	–	2,105,397
	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

Statement of Cash Flows

This is Commercial Bank
Operating Highlights
Financial Highlights
Letter from the Chairman
Managing Director's Review
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Annexes

Commercial Bank of Ceylon PLC
Annual Report 2012

For the year ended December 31,	Note No.	GROUP		BANK	
		2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Cash Flows from Operating Activities					
Profit before taxation		14,312,914	10,980,219	14,295,333	10,897,230
Adjustment for:					
Non-cash items included in profits before tax	56	4,276,612	2,580,484	4,231,432	2,555,502
Change in operating assets	57	(65,822,764)	(66,255,383)	(65,683,731)	(66,202,112)
Change in operating liabilities	58	59,375,657	61,780,477	59,352,385	61,816,240
Net gains from investing activities		(10,385)	(30,950)	3,866	(26,114)
Share of profits in associates		(12,360)	(10,878)	-	-
Dividend income from subsidiaries and associates		8,615	2,509	(78,430)	(37,638)
Interest expense on subordinated debt		132,806	228,547	132,806	228,547
Others		-	-	-	-
Contribution paid to defined benefit plans		652,472	518,107	647,883	515,165
Tax paid		(2,563,437)	(3,969,290)	(2,564,629)	(3,943,374)
Net cash generated from operating activities		10,350,130	5,823,842	10,336,915	5,803,446
Cash Flows from Investing Activities					
Net purchase of property, plant & equipment		(1,234,473)	(967,997)	(1,221,478)	(956,675)
Proceeds from the sale of property, plant & equipment		70,715	42,683	11,722	33,758
Purchase of financial investments		-	-	-	-
Proceeds from the sale and maturity of financial investments		-	-	-	-
Net purchase of intangible assets		(205,227)	(147,955)	(204,079)	(145,821)
Net cash flow from disposal of subsidiaries		-	-	-	-
Net cash flow from acquisition of investment in subsidiaries and associates		-	-	(20,628)	-
Proceeds from disposal of associates and joint ventures		-	-	-	-
Dividends received from investment in subsidiaries and associates		-	-	78,430	37,638
Net unrealised gain from translation of financial statements of foreign operation		548,545	(753,908)	550,827	(754,433)
Net cash (used in)/from investing activities		(820,440)	(1,827,177)	(805,206)	(1,785,533)

For the year ended December 31,	Note No.	GROUP		BANK	
		2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Cash Flows from Financing Activities					
Net proceeds from the issue of ordinary share capital		62,942	4,981,527	62,942	4,981,527
Net proceeds from the issue of other equity instruments		-	-	-	-
Net proceeds from the issue of subordinated debt		-	-	-	-
Repayment of subordinated debt		-	(1,153,820)	-	(1,153,820)
Interest paid on subordinated debt		(132,429)	(328,333)	(132,429)	(328,333)
Dividend paid to non-controlling interest		(2,616)	(1,962)	-	-
Dividend paid to shareholders of the parent company		(2,640,377)	(2,876,130)	(2,640,377)	(2,876,130)
Dividend paid to holders of other equity instruments		-	-	-	-
Write-back of dividend payable		-	-	-	-
Net cash from financing activities		(2,712,480)	621,282	(2,709,864)	623,244
Net increase/(decrease) in cash and cash equivalents		6,817,210	4,617,947	6,821,845	4,641,157
Cash and cash equivalents at beginning of the year		12,934,995	8,317,048	12,910,989	8,269,832
Exchange difference in respect of cash and cash equivalent		-	-	-	-
Cash and cash equivalents at the end of the year (Refer Note 20)		19,752,205	12,934,995	19,732,834	12,910,989

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 page 468.

The staff strength of the Bank as at December 31, 2012 was 4,602 (4,524 as at December 31, 2011).

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of the Bank as at and for the year ended December 31, 2012, 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 Activities and Nature of Operations of the Bank and 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, rural credit, issuing of local and international debit and credit cards, tele-banking facilities, internet banking, money remittance facilities, dealing in Government Securities and treasury-related products, salary remittance package, bullion trading, export and domestic factoring, pawning, margin trading, e-Banking services, Bancassurance and Islamic banking products and services, etc.
Subsidiaries	
Commercial Development Company PLC.	Property development & 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 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, provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Sri Lanka Accounting Standards are available at www.casrilanka.com.

For all periods up to and including the year ended December 31, 2011, the Group and the Bank prepared their Financial Statements in accordance with Sri Lanka Accounting Standards which were in effect up to that date. Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), all existing/new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS (referred to as 'SLFRS' in these Financial Statements) to represent Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards and Sri Lanka Accounting Standards corresponding to International Accounting Standards (IASs), respectively. Accordingly, the Group and the Bank adopted these new Sri Lanka Accounting Standards (which are commonly known as SLFRSs) applicable for financial periods commencing from January 1, 2012.

These Financial Statements for the year ended December 31, 2012 are the first the Group and the Bank prepared in accordance with SLFRS and Sri Lanka Accounting Standard – SLFRS 1 on 'First-time Adoption of Sri Lanka Accounting Standards' has been applied.

An explanation of how the transition to SLFRSs has affected the reported financial position, financial performance and cash flows of the Group and the Bank is provided in Note 59 on pages 418 to 431.

The Group and the Bank did not adopt any inappropriate accounting treatments which are not complying with the requirements of the SLFRSs and other laws and regulations governing the preparation and presentation of Financial Statements.

The formats used in the preparation of the Financial Statements and disclosures made comply with the specified format prescribed by the Central Bank of Sri Lanka for the preparation of Annual Statement of Licensed Commercial Banks.

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 the new Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and in the statement following the Statement of Financial Position on pages 218, 297 and 309 respectively.

These Financial Statements include the following components:

- a Statement of Comprehensive Income providing the information on the financial performance of the Group and the Bank for the year under review (Refer page 306);
- 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 308);
- 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 310 to 313);
- 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 pages 314 and 315); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 316 to 437).

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, 2012 (including comparatives) were approved and authorised for issue by the Board of Directors on February 27, 2013.

2.4 Bases 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:

Item and basis of measurement	Note No./s	Page reference
Held for trading investments in quoted equity instruments are measured at fair value;	24	353
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	392
Available-for-sale financial assets are measured at fair value	27	371
Land & Buildings which are stated at valuation	30	380

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 'Stewardship' on pages 286 and 287 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 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 403 to 407.

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 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 thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard-LKAS 1 on 'Presentation of Financial Statements'.

2.9 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements of the Group and the Bank in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most 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 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 inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values. The valuation of financial instruments is described in more detail in Note 3.3.9 on page 328.

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 328.

2.9.3 Financial Assets and Liability Classification

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances

- In classifying financial assets or liabilities as 'Trading', the Bank has determined that it meets the description of trading assets and liabilities set out in Note 3.3.9 on pages 328 and 329.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met the criteria for this designation set out in Note 3.3.3.1 on page 324. 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 3.3.3.4 on page 325.

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 allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorising them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan to collateral ratio, level of restructured performing loans, etc.), and judgment on the effect of concentrations of risks and economic data (including policy rates, inflation, growth in GDP, sovereign rating, etc).

The impairment loss on loans and advances is disclosed in more detail in Note 26.2 on page 365.

2.9.5 Impairment Losses on Available for Sale Investments

The Bank reviews its debt securities classified as available for sale investments at each Reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 27 on page 371.

2.9.6 Impairment Losses on Other Assets

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

Specific Accounting Policies on impairment of assets are discussed in Note 3.3.10 on page 328.

2.9.7 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 the 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 340).

2.9.8 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 407 for the assumptions used.

2.9.9 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 337.

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 416 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 and in preparing the opening SLFRS Statement of Financial Position at January 1, 2011 for the purposes of the transition to SLFRSs, unless otherwise indicated.

These Accounting Policies have been applied consistently by Group entities.

3. Significant Accounting Policies - Statement of Financial Position

3.1 Basis of Consolidation

The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Centre and the international operations of the Bank. The Group's Financial Statements comprise consolidation of the Financial Statements of the Bank, its Subsidiaries in terms of the Sri Lanka Accounting Standard - LKAS 27 on 'Consolidated and Separate Financial Statements' and the proportionate share of the profit or loss and net assets of its Associates in terms of the Sri Lanka Accounting Standard - LKAS 28 on 'Investments in Associates'.

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 Interest 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 interest 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 (formerly known as discount on acquisition) 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.

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 Interest 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 transaction, income and expenses are eliminated in full.

There are no significant restrictions on the ability of Subsidiaries to transfer funds to the Parent (Bank) in the form of cash dividend or repayment of loans and advances.

All Subsidiaries of the Bank have been incorporated in Sri Lanka except Commex Sri Lanka 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 376 and 402.

The Bank's interests in all its Subsidiaries together with the summarised financial information including total assets, total liabilities, revenue, profit or loss and the dividend are given in the Section on 'Group Structure' on page 459.

3.1.3 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 (equity accounted investees) 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 this, 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 378 and 402.

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 459.

3.1.4 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 equity-accounted investee 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.

3.1.5 Transactions Eliminated on Consolidations

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated 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.

3.1.6 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.

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 Operation 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 end of the year.

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.

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.

3.3 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 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 immediately 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.
 - Available-for-sale.
- Loans and receivables;
- Held to maturity; or

The subsequent measurement of financial assets depends on their classification.

Please refer accounting policies 3.3.3.1.1, 3.3.3.1.2 and 3.3.3.1.3 on pages 324 and 325.

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 353 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.

Details of derivatives recorded at fair value through profit or loss are given in Notes 23 and 36 on pages 353 and 391.

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 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 & 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 allowance 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 362 and 363 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 allowance 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 363.

3.3.3.4 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.

3.3.3.5 Available for Sale Financial Investments

Available-for-sale 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.

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 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 371.

3.3.3.6 Cash and cash equivalents

Cash and Short-term funds 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 351.

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 8% on all deposit liabilities denominated in Sri Lankan Rupees (8% in 2011). The Bank's Bangladesh operation is required to maintain the statutory liquidity requirement of 19% (19% in 2011) on time and demand liabilities (both local and foreign currencies), inclusive of 6% (6% in 2011) in the form of a Cash Reserve Requirement and the balance 13% (13% in 2011) by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank.

Cash and cash equivalents 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 352.

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 on page 326.

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.

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 Term Debts' 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 and 42 on pages 390 and 393.

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 Standards - 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 investment 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 expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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 Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the Statement of Financial Position as the Bank 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, including accrued interest as a liability under 'securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its Statement of Financial Position to 'financial assets held for trading pledged as collateral' or to 'financial investments available for sale pledged as collateral', as appropriate.

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 analyses, 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 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. Their fair value is determined by using valuation models that have been tested against prices or inputs to actual market transactions and also using the Bank's 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 (See Note 3.3.2.1 on page 323).

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 323.

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 addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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 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 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 an allowance 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 as part of 'Interest income'.

Loans together with the associated allowance 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 allowance account. If a future write-off is later recovered, the recovery is credited to the 'credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original 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. 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 allowance on loans and advances by class are given in Note 12 on page 343.

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, 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 valued 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 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 loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Comprehensive Income is removed from equity and recognised in the Statement of Comprehensive Income. 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 Investment - Available-for-Sale when they are determined to be uncollectible.

3.4 Non-Current Assets Held-for-Sale and Disposal Groups

These are Non-current Assets and disposal groups classified as held-for-sale as at the Reporting date. The Bank intends to recover the value of these assets 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 Bank assesses at each Reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Bank recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. As a result, once classified, the 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 items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income 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 389.

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 lessor) 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 building 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income 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 & buildings as at December 31, 2011.

3.6.3 Subsequent Cost

These are costs that are recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within that part 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 Operating Income/Other 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.

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 380.

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.

3.7.4 Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in 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 388.

Amortisation recognised during the year in respect of intangible assets is included under the item of 'Amortisation and impairment 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 or Cash Generating Unit'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, 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 effective interest method. Interest paid/payable on these borrowings is recognized in profit or loss.

Details of the 'Due to banks and other financial institutions' are given in Notes 35 and 37 on pages 390 and 391, 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 cost using the effective interest 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 391.

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 effective interest method, except where the Group designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognized in profit or loss.

3.9.4 Securities Purchased Under Resale 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.

Securities purchased under agreements to resell at a specified future date are initially recognised in the Statement of Financial Position at the consideration paid, including accrued interest thereon. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the effective interest 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.

Details of 'Securities purchased under resale agreements' are given in Note 38 on page 392.

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 392.

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.

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 16 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 01, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees who joined the Bank on or before December 31, 2001, were in pensionable service of the Bank.
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 01, 2002, as they are not in pensionable service of the Bank under either the DBP or DCP. However, if any of these employees resigns before retirement, the Bank is liable to pay gratuity to such employees. This liability although not funded has been provided for in full in the Financial Statements.

The Subsidiaries of the Bank do not operate Pension Funds.

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 16 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 407.

3.13.1.1.4 Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the profit or loss in the period in which they arise. The past service cost is recognised as an expense on a straight-line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

3.13.1.1.5 Recognition of Retirement Benefit Obligation

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

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 343.

3.13.2.1 Defined Contribution Pension Plans

As explained in Note 3.13.1.1.1, during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and a future service package. The shortfall on account of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at 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.

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.

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 more than 12 months after the Reporting Period, then they are discounted to their present value.

3.13.5 Other Long-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 Group 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 Group. Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group does not operate any cash-settled share based payment transactions.

The Group applies the requirements of the Sri Lanka Accounting Standard - SLFRS 2 on 'Share-based Payment' in accounting for equity settled share-based payment transaction, if any, that were granted after January 01, 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 Group does not grant any share-based payment transaction after January 01, 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 on page 395.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 16 on page 346).

3.14 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities as explained in Note 3.15 below. The Bank's share of any Contingencies and capital commitments of a Subsidiary or an Associate for which the Bank is also liable severally or otherwise is included with appropriate disclosures.

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - 36 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Details of the commitments and contingencies are given in Note 48 to the Financial Statements on page 400.

3.15 Contingent Liabilities, Commitments and 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.

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 (See Note 60 on page 432).

All discernible risks are accounted for in determining the amount of other liabilities as explained in Note 39 on page 392.

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 402.

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 are given in Note 48 on page 400.

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 346.

3.17 Segment Reporting

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 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 net as management primarily relies on net interest revenue as a performance measure, 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 2012 or 2011.

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 409.

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 Standards and Interpretations not yet Adopted

A number of new standards, amendments to standards and interpretations which have been issued but not yet effective as at the reporting date have not been applied in preparing these Consolidated Financial Statements. None of these is expected to have a significant effect on the Consolidated Financial Statements of the Group. The extent of the impact has not been determined.

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 Bank 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 bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income and expense are recognised in profit or loss using the Effective Interest Rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the EIR, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes all material transaction costs and fees and points paid or received 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 payments or receipts. 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 and similar expense' 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 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 in Other Comprehensive Income.

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 Effective Interest Rate.

4.6 Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over 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 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 recognized in the profit or loss in the period in which they occur.

5. Significant Accounting Policies - Tax Expense

As per the Sri Lanka Accounting Standards - 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 Statement of Comprehensive Income 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 344. 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 389.

5.3 Withholding Tax on Dividends, Distributed by the Bank, Subsidiaries and Associates

- *Withholding tax on dividends distributed by the Bank*
 Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised.
- *Withholding tax on dividends distributed by the Subsidiaries and Associates*
 Dividends received by the Bank from its Subsidiaries and Associates, have attracted a 10% deduction at source.

5.4 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. Currently, the ESC is payable at 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.

5.5 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 306.

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', whereby gross cash receipts and gross cash payments on operating activities, investing activities and financing activities are separately recognised. Cash and Cash Equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and Cash Equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 20 on page 351.

The Statement of Cash Flows is given on pages 314 and 315.

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
7. Net Interest Income				
Interest Income				
Cash and cash equivalents	470,764	176,192	470,764	176,192
Placements with banks	339,115	88,254	339,115	88,254
Derivative financial instruments	314	4,320	314	4,320
Financial assets held-for-trading	421,315	280,459	421,315	280,459
Loans and receivables to banks	19,557	20,134	19,557	20,134
Loans and receivables to other customers	45,037,407	31,174,117	45,057,595	31,216,003
Financial investments - Available-for-sale	6,374,471	6,570,181	6,374,471	6,570,181
Financial investments - Held-to-maturity	-	-	-	-
Other interest income - Subsidiaries	21	91	2,296	-
Total interest income	52,662,964	38,313,748	52,685,427	38,355,543
Interest Expenses				
Due to banks	3,877,367	3,516,102	3,877,367	3,516,102
Derivative financial instruments	314	4,340	314	4,340
Financial liabilities at fair value through profit or loss	-	-	-	-
Due to other customers	25,284,506	15,419,270	25,289,941	15,423,509
Other borrowings	516,312	467,089	529,969	477,831
Debt securities issued	-	-	-	-
Subordinated term debts	132,806	228,547	132,806	228,547
Total Interest expenses	29,811,305	19,635,348	29,830,397	19,650,329
Net interest income	22,851,659	18,678,400	22,855,030	18,705,214
7.1 Net Interest Income from Sri Lanka Government Securities				
Interest income	9,277,397	8,673,110	9,277,397	8,673,110
Less: Interest expenses	3,441,531	3,305,293	3,441,531	3,305,293
Sub total	5,835,866	5,367,817	5,835,866	5,367,817
7.2 Interest Income from Financial Assets Fair Value through Profit and Loss				
Derivative financial instruments	314	4,320	314	4,320
Financial assets held-for-trading	421,315	280,459	421,315	280,459
Sub total	421,629	284,779	421,629	284,779
7.3 Interest Income on impaired financial assets				
Interest income from impaired loans and receivables to other customers	359,350	196,243	359,350	196,243
Add: Unwinding interest	249,760	285,139	249,760	285,139
Sub total	609,110	481,382	609,110	481,382

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
8. Net Fees and Commission Income				
Fees and commission income [Refer Note 8.1]	4,146,878	3,765,075	4,146,525	3,765,188
Less: Fees and commission expenses [Refer Note 8.2]	548,560	439,825	548,560	439,825
Net fees and commission income	3,598,318	3,325,250	3,597,965	3,325,363
8.1 Fees and Commission Income				
Loans and advances	370,601	374,051	370,601	374,051
Cards	1,141,231	914,720	1,141,231	914,720
Trade and remittances	1,661,914	1,571,826	1,661,914	1,571,826
Investment banking	-	-	-	-
Deposits	330,976	242,194	331,028	242,307
Guarantees	439,225	456,880	439,225	456,880
Derivatives	-	-	-	-
Other financial services	202,931	205,404	202,526	205,404
Sub total	4,146,878	3,765,075	4,146,525	3,765,188
8.2 Fees and Commission Expenses				
Loans and advances	30,396	39,070	30,396	39,070
Cards	425,589	321,152	425,589	321,152
Trade and remittances	30,295	31,073	30,295	31,073
Investment banking	-	-	-	-
Deposits	-	-	-	-
Guarantees	-	-	-	-
Derivatives	-	-	-	-
Other financial services	62,280	48,530	62,280	48,530
Sub total	548,560	439,825	548,560	439,825
9. Net Gain/(Loss) from Trading				
Foreign exchange				
From banks	-	-	-	-
From others customers	2,334,295	(299,493)	2,334,295	(299,493)
Interest rates				
Net mark to market gain/(loss)	44,794	(166,080)	44,794	(166,080)
Net capital gain/(loss)	86,374	26,129	86,374	26,129
Equities				
Net mark to market gain/(loss)	15,945	(42,393)	15,945	(42,393)
Net capital gain/(loss)	3,864	15,155	3,864	15,155
Dividend income	9,026	5,044	9,026	5,044
Total	2,494,298	(461,638)	2,494,298	(461,638)

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
10. Net Gain/(Loss) from Financial Investments				
Assets Available-for-Sale				
Government securities	-	-	-	-
Equities	2,584	2,535	2,584	2,535
Loans and receivables				
Government securities	-	-	-	-
Debt securities	28,949	35,495	28,949	35,495
Total	31,533	38,030	31,533	38,030
11. Other Operating Income (Net)				
Gain/(Loss) on sale of property, plant & equipment	10,385	30,950	(3,866)	26,114
Gain/(Loss) on revaluation of foreign exchange	2,352,716	2,621,117	2,352,716	2,621,117
Recovery of provision made/recovery of loans written-off	1,475,232	1,268,103	1,475,232	1,268,103
Dividend from subsidiaries	-	-	70,428	35,583
Dividend from associates	8,615	2,509	8,002	2,055
Rental and other income	199,747	263,559	134,752	209,122
Less: Dividends received from associates transferred to investment	(8,615)	(2,509)	-	-
Total	4,038,080	4,183,729	4,037,264	4,162,094
12. Impairment Charges for Loans and Other Losses				
Loans and receivables				
To banks [Refer Note 25.2]	-	-	-	-
To other customers	3,158,291	1,746,745	3,158,291	1,746,745
Charge/(write back) to the Income Statement on Individual Impairment [Refer Note 26.2]	1,296,697	2,592,879	1,296,697	2,592,879
Charge/(write back) to the Income Statement on Collective Impairment [Refer Note 26.2]	1,856,688	(869,609)	1,856,688	(869,609)
Direct write-offs	4,906	23,475	4,906	23,475
Investment in subsidiaries [Refer Note 28.1]	-	-	32,942	38,454
Due from subsidiaries	-	-	5,527	22,700
Total	3,158,291	1,746,745	3,196,760	1,807,899
13. Personnel Expenses				
Salary and bonus [Refer Note 13.1]	5,881,820	4,797,281	5,837,733	4,758,170
Pension costs				
Contributions to defined contribution plans	444,673	374,181	439,525	369,564
Contributions to defined benefit plans	652,472	518,107	647,883	515,165
Others	858,179	656,852	844,647	646,794
Total	7,837,144	6,346,421	7,769,788	6,289,693

13.1 Salary and Bonus

Salary and bonus and contributions to defined contribution/benefit plans reported above includes the amounts paid to and contributions made on behalf of Executive Directors.

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
14. Other Expenses				
Directors' emoluments [Refer Note 14.1]	20,549	20,699	19,524	19,937
Auditors' remunerations	21,210	19,470	17,235	15,408
Audit fee and expenses	11,207	15,819	7,929	12,246
Audit related fee and expenses	5,631	1,332	5,230	1,332
Non-audit fee and expenses	4,372	2,319	4,076	1,830
Professional and legal expenses	280,154	253,289	275,987	253,920
Depreciation of property, plant & equipment [Refer Note 30]	942,765	734,115	859,675	648,543
Amortisation of leasedhold property [Refer Note 32]	1,452	1,452	942	942
Amortisation of intangible assets [Refer Note 31]	174,104	98,172	174,055	98,118
Office administration and establishment expenses	3,536,867	3,377,787	3,663,775	3,538,029
Maintenance of fixed assets	753,485	673,308	755,703	676,372
Total	5,730,586	5,178,292	5,766,896	5,251,269

14.1 Directors' Emoluments

Directors emoluments represent the fees paid to both the Executive and Non-Executive Directors of the Bank/Group.

15. Income Tax Expense

15.1 Entity-wise Breakup of the Income Tax Expense is as follows:

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Bank				
Current Year Tax expense				
Current year Income tax expense of Domestic banking unit	3,082,348	2,392,800	3,082,348	2,392,800
Current year Income tax expense of Off-shore banking centre	204,960	37,544	204,960	37,544
Current year Income tax expense of Bangladesh operations	827,480	596,317	827,480	596,317
Profit remittance tax of Bangladesh operations	81,406	–	81,406	–
Prior years				
(Over)/Under provision of taxes in respect of prior years	(140,315)	(223,522)	(140,315)	(223,522)
Deferred Tax Expense				
Effect of change in tax rates	–	–	–	–
Temporary differences	141,125	211,222	141,125	211,222
	4,197,004	3,014,361	4,197,004	3,014,361
Subsidiaries				
Income tax expense of Commercial Development Company PLC	25,216	30,518	–	–
Income tax expense of ONEzero Company Ltd.	8,456	2,327	–	–
Associates				
Share of income tax expense of Equity Investments Lanka Ltd.	18	18	–	–
Share of income tax expense of Commercial Insurance Brokers (Pvt) Ltd.	1,053	694	–	–
Total Income tax expense	4,231,747	3,047,918	4,197,004	3,014,361
Effective tax rate (excluding deferred tax)			28.37%	25.72%

The Bank's and Subsidiary's, income tax for 2012 and 2011 have been provided on the taxable income at the rates shown below:

	2012 %	2011 %
Domestic operations of the Bank	28.0	28.0
Off-shore banking Centre of the Bank	28.0	28.0
Bangladesh operations of the Bank	42.5	42.5
Commercial Development Company PLC	28.0	10.0 - 35.0
ONEzero Company Ltd.	28.0	10.0 - 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. 331.288 Mn. and Rs. 329.922 Mn. respectively (Rs. 351.687 Mn. and Rs. 350.026 Mn. respectively in 2011).

15.3 A Reconciliation between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate is as Follows:

	Tax Rate		GROUP		BANK	
	2012 %	2011 %	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Accounting profit before tax from operations			14,312,914	10,980,219	14,295,333	10,897,230
Tax effect at the statutory income tax rates-			4,333,483	3,339,001	4,300,497	3,320,911
Domestic operations of the bank	28	28	3,287,958	2,722,966	3,287,958	2,722,966
Operations of the off-shore banking centre of the bank (on-shore and off-shore)	28	28	189,513	(8,161)	189,513	(8,161)
Bangladesh operation	42.5	42.5	823,026	606,106	823,026	606,106
Subsidiaries	28	10 - 35	32,986	18,090	-	-
Tax effect of exempt income			(574,543)	(455,403)	(574,543)	(455,403)
Tax effect of non-deductible expenses			4,301,816	3,009,877	4,279,897	3,009,743
Tax effect of deductible expenses			(3,919,113)	(2,848,693)	(3,891,063)	(2,848,589)
Remittance tax of Bangladesh operation			81,406	-	81,406	-
Share of income tax expense of Associates			1,070	712	-	-
Social responsibility levy at 1.5% of income tax			-	145	-	-
(Over)/under provision of taxes in respect of prior years			(140,243)	(222,274)	(140,315)	(223,523)
Deferred tax expense [Refer Note 33]			147,871	224,553	141,125	211,222
Income tax expense reported in the income statement at the effective income tax rate			4,231,747	3,047,918	4,197,004	3,014,361

16. Earnings Per Share (EPS)

	GROUP		BANK	
	2012	2011	2012	2011
Amounts used as the numerator:				
Profit for the year attributable to equity holders of the Bank for basic and diluted earnings per share (Rs. '000)	10,079,829	7,932,062	10,098,329	7,882,869
Number of ordinary shares used as the denominator:				
Weighted average number of ordinary shares used for basic earnings per share calculation	832,618,649	832,618,649	832,618,649	832,618,649
Effect of dilution:				
Number of outstanding options under ESOP 2008, as at the year end [Refer Note 43.2]	9,018,320	9,018,320	9,018,320	9,018,320
Number of outstanding options under ESOP 2002, as at the year end [Refer Note 43.3]	–	–		
Weighted average number of ordinary shares adjusted for the effect of dilution	841,636,969	841,636,969	841,636,969	841,636,969
Basic earnings per ordinary share (Rs.)	12.11	9.53	12.13	9.47
Diluted earnings per ordinary share (Rs.)	11.98	9.42	12.00	9.37

17. Dividends

	GROUP		BANK	
	2012	2011	2012	2011
	Interim Rs. 1.50 (Paid during 2012) Rs. '000	Interim Rs. 2.50 (Paid during 2011) Rs. '000	Interim Rs. 1.50 (Paid during 2012) Rs. '000	Interim Rs. 2.50 (Paid during 2011) Rs. '000
On Ordinary Shares				
Net dividend paid to the ordinary shareholders	1,132,618	1,854,690	1,132,618	1,854,690
Withholding tax deducted at source	117,543	188,935	117,543	188,935
Gross ordinary dividend paid	1,250,161	2,043,625	1,250,161	2,043,625

18. Measurement of Financial Instruments - Group

18.1 Group - 2012

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Others Rs.'000	Total Rs.'000
ASSETS						
Cash and cash equivalents	–	–	19,752,205	–	–	19,752,205
Balances with central banks	–	–	18,168,039	–	–	18,168,039
Placements with banks	–	–	16,162,970	–	–	16,162,970
Derivative financial instruments	1,351,095	–	–	–	–	1,351,095
Financial assets held for trading	6,041,110	–	–	–	–	6,041,110
Loans and receivables to banks	–	–	628,760	–	–	628,760
Loans and receivables to other customers	–	–	372,857,337	–	–	372,857,337
Financial investments	–	–	–	57,963,192	–	57,963,192
Other assets	–	–	–	–	–	–
Total financial assets	7,392,205	–	427,569,311	57,963,192	–	492,924,708
Investments in subsidiaries	–	–	–	–	–	–
Investments in associates	–	–	–	–	93,712	93,712
Intangible assets	–	–	–	–	506,161	506,161
Property, plant & equipment	–	–	–	–	8,946,881	8,946,881
Leasehold property	–	–	–	–	111,776	111,776
Deferred tax assets	–	–	–	–	458,414	458,414
Other assets	–	–	–	–	9,179,258	9,179,258
Total non-financial assets	–	–	–	–	19,295,932	19,295,932
Total assets	7,392,205	–	427,569,311	57,963,192	19,295,932	512,220,640

	Held for Trading (HFT) Rs.'000	Amortised cost Rs.'000	Others Rs.'000	Total Rs.'000
LIABILITIES				
Due to banks	–	4,763,565	–	4,763,565
Derivative financial instruments	84,291	–	–	84,291
Other financial liabilities held for trading	–	–	–	–
Due to other customers	–	390,568,682	–	390,568,682
Other borrowings	–	47,565,945	–	47,565,945
Debt securities issued	–	–	–	–
Other liabilities	–	–	–	–
Subordinated term debts	–	1,106,016	–	1,106,016
Total financial liabilities	84,291	444,004,208	–	444,088,499
Current tax liabilities	–	–	2,821,975	2,821,975
Deferred tax liabilities	–	–	1,889,983	1,889,983
Other provisions	–	–	2,409	2,409
Other liabilities	–	–	10,417,213	10,417,213
Due to subsidiaries	–	–	–	–
Total non-financial liabilities	–	–	15,131,580	15,131,580
Total liabilities	84,291	444,004,208	15,131,580	459,220,079

18.2 Group - 2011

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Others Rs.'000	Total Rs.'000
ASSETS						
Cash and cash equivalents	–	–	12,934,995	–	–	12,934,995
Balances with central banks	–	–	17,342,959	–	–	17,342,959
Placements with banks	–	–	11,674,363	–	–	11,674,363
Derivative financial instruments	39,612	–	–	–	–	39,612
Financial assets held for trading	6,418,010	–	–	–	–	6,418,010
Loans and receivables to banks	–	–	580,158	–	–	580,158
Loans and receivables to other customers	–	–	314,326,998	–	–	314,326,998
Financial investments	–	–	–	61,415,395	–	61,415,395
Other assets	–	–	–	–	–	–
Total financial assets	6,457,622	–	356,859,473	61,415,395	–	424,732,490
Investments in subsidiaries	–	–	–	–	–	–
Investments in associates	–	–	–	–	119,981	119,981
Intangible assets	–	–	–	–	475,038	475,038
Property, plant & equipment	–	–	–	–	8,503,211	8,503,211
Leasehold property	–	–	–	–	113,228	113,228
Deferred tax assets	–	–	–	–	363,711	363,711
Other assets	–	–	–	–	7,290,298	7,290,298
Total non-financial assets	–	–	–	–	16,865,467	16,865,467
Total assets	6,457,622	–	356,859,473	61,415,395	16,865,467	441,597,957

	Held for Trading (HFT) Rs.'000	Amortised cost Rs.'000	Others Rs.'000	Total Rs.'000
LIABILITIES				
Due to banks	–	11,574,105	–	11,574,105
Derivative financial instruments	435,171	–	–	435,171
Other financial liabilities held for trading	–	–	–	–
Due to other customers	–	323,697,628	–	323,697,628
Other borrowings	–	49,455,005	–	49,455,005
Debt securities issued	–	–	–	–
Other liabilities	–	–	–	–
Subordinated term debts	–	1,105,639	–	1,105,639
Total financial liabilities	435,171	385,832,377	–	386,267,548
Current tax liabilities	–	–	1,307,079	1,307,079
Deferred tax liabilities	–	–	1,639,827	1,639,827
Other provisions	–	–	535	535
Other liabilities	–	–	8,213,999	8,213,999
Due to Subsidiaries	–	–	–	–
Total non-financial liabilities	–	–	11,161,440	11,161,440
Total liabilities	435,171	385,832,377	11,161,440	397,428,988

19. Measurement of Financial Instruments - Bank

19.1 Bank - 2012

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Others Rs.'000	Total Rs.'000
ASSETS						
Cash and cash equivalents	–	–	19,732,834	–	–	19,732,834
Balances with central banks	–	–	18,168,039	–	–	18,168,039
Placements with banks	–	–	16,162,970	–	–	16,162,970
Derivative financial instruments	1,351,095	–	–	–	–	1,351,095
Financial assets held for trading	6,041,110	–	–	–	–	6,041,110
Loans and receivables to banks	–	–	628,760	–	–	628,760
Loans and receivables to other customers	–	–	372,915,081	–	–	372,915,081
Financial investments	–	–	–	57,963,192	–	57,963,192
Other assets	–	–	–	–	–	–
Total financial assets	7,392,205	–	427,607,684	57,963,192	–	492,963,081
Investments in subsidiaries	–	–	–	–	303,130	303,130
Investments in associates	–	–	–	–	44,331	44,331
Intangible assets	–	–	–	–	497,038	497,038
Property, plant & equipment	–	–	–	–	8,221,118	8,221,118
Leasehold property	–	–	–	–	77,304	77,304
Deferred tax assets	–	–	–	–	448,500	448,500
Other assets	–	–	–	–	9,188,206	9,188,206
Total non-financial assets	–	–	–	–	18,779,627	18,779,627
Total assets	7,392,205	–	427,607,684	57,963,192	18,779,627	511,742,708

	Held for Trading (HFT) Rs.'000	Amortised cost Rs.'000	Others Rs.'000	Total Rs.'000
LIABILITIES				
Due to banks	–	4,763,565	–	4,763,565
Derivative financial instruments	84,291	–	–	84,291
Other financial liabilities held for trading	–	–	–	–
Due to other customers	–	390,611,548	–	390,611,548
Other borrowings	–	47,713,199	–	47,713,199
Debt securities issued	–	–	–	–
Other liabilities	–	–	–	–
Subordinated term debts	–	1,106,016	–	1,106,016
Total financial liabilities	84,291	444,194,328	–	444,278,619
Current tax liabilities	–	–	2,801,541	2,801,541
Deferred tax liabilities	–	–	1,698,067	1,698,067
Other provisions	–	–	2,409	2,409
Other liabilities	–	–	10,362,808	10,362,808
Due to subsidiaries	–	–	22,264	22,264
Total non-financial liabilities	–	–	14,887,089	14,887,089
Total liabilities	84,291	444,194,328	14,887,089	459,165,708

19.2 Bank - 2011

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Others Rs.'000	Total Rs.'000
ASSETS						
Cash and cash equivalents	–	–	12,910,989	–	–	12,910,989
Balances with central banks	–	–	17,342,959	–	–	17,342,959
Placements with banks	–	–	11,674,363	–	–	11,674,363
Derivative financial instruments	39,612	–	–	–	–	39,612
Financial assets held for trading	6,418,010	–	–	–	–	6,418,010
Loans and receivables to banks	–	–	580,158	–	–	580,158
Loans and receivables to other customers	–	–	314,485,967	–	–	314,485,967
Financial investments	–	–	–	61,415,395	–	61,415,395
Other assets	–	–	–	–	–	–
Total financial assets	6,457,622	–	356,994,436	61,415,395	–	424,867,453
Investments in subsidiaries	–	–	–	–	315,444	315,444
Investments in associates	–	–	–	–	44,331	44,331
Intangible assets	–	–	–	–	467,014	467,014
Property, plant & equipment	–	–	–	–	7,907,030	7,907,030
Leasehold property	–	–	–	–	78,246	78,246
Deferred tax assets	–	–	–	–	359,617	359,617
Other assets	–	–	–	–	7,290,514	7,290,514
Total non-financial assets	–	–	–	–	16,462,196	16,462,196
Total assets	6,457,622	–	356,994,436	61,415,395	16,462,196	441,329,649

	Held for Trading (HFT) Rs.'000	Amortised cost Rs.'000	Others Rs.'000	Total Rs.'000
LIABILITIES				
Due to banks	–	11,574,105	–	11,574,105
Derivative financial instruments	435,171	–	–	435,171
Other Financial liabilities held for trading	–	–	–	–
Due to other customers	–	323,754,748	–	323,754,748
Other borrowings	–	49,603,142	–	49,603,142
Debt securities issued	–	–	–	–
Other liabilities	–	–	–	–
Subordinated term debts		1,105,639		1,105,639
Total financial liabilities	435,171	386,037,634	–	386,472,805
Current tax liabilities	–	–	1,305,442	1,305,442
Deferred tax liabilities	–	–	1,594,086	1,594,086
Other provisions	–	–	535	535
Other liabilities	–	–	8,162,382	8,162,382
Due to Subsidiaries	–	–	29,734	29,734
Total non-financial liabilities	–	–	11,092,179	11,092,179
Total liabilities	435,171	386,037,634	11,092,179	397,564,984

20. Cash and Cash Equivalents

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Cash in hand						
Coins and notes held in local currency	9,993,872	7,926,727	5,610,040	9,974,501	7,902,721	5,562,824
Coins and notes held in foreign currency	1,100,258	612,124	573,927	1,100,258	612,124	573,927
Balances with banks	4,140,608	2,707,563	1,553,139	4,140,608	2,707,563	1,553,139
Money at call and short notice	4,517,467	1,688,581	579,942	4,517,467	1,688,581	579,942
Total	19,752,205	12,934,995	8,317,048	19,732,834	12,910,989	8,269,832

21. Balances with Central Banks

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Statutory balances with central banks						
Central Bank of Sri Lanka	15,786,899	15,354,543	10,110,850	15,786,899	15,354,543	10,110,850
Bangladesh Bank	2,381,140	1,988,416	2,077,984	2,381,140	1,988,416	2,077,984
Non-statutory balances with central banks	-	-	-	-	-	-
Central Bank of Sri Lanka	-	-	-	-	-	-
Bangladesh Bank	-	-	-	-	-	-
Total	18,168,039	17,342,959	12,188,834	18,168,039	17,342,959	12,188,834

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, 2012, the minimum cash reserve requirement was 8.00% of the rupee deposit liabilities (8.00% in 2011). There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Off-shore Banking Centre in Sri Lanka.

As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement is 19.00% (19.00% in 2011) on time and demand liabilities (both local and foreign currencies), which includes a 6.00% (6.00% in 2011) 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.

22. Placements with Banks

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Placements - Sri Lanka	3,584,000	3,432,390	1,112,000	3,584,000	3,432,390	1,112,000
Placements - Outside Sri Lanka	12,578,970	8,241,973	723,260	12,578,970	8,241,973	723,260
Total	16,162,970	11,674,363	1,835,260	16,162,970	11,674,363	1,835,260

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
23. Derivative Financial Instruments						
Interest rate derivatives						
Interest rate swaps	–	109	1,006	–	109	1,006
Foreign currency derivatives						
Forward foreign exchange contracts	1,351,095	39,503	168,910	1,351,095	39,503	168,910
Total	1,351,095	39,612	169,916	1,351,095	39,612	169,916

24. Other Financial Assets Held for Trading

Sri Lanka Government Securities [Refer Note 24.1]	5,718,231	6,193,392	10,192,150	5,718,231	6,193,392	10,192,150
Equity shares [Refer Note 24.2]	322,879	224,618	184,791	322,879	224,618	184,791
Total	6,041,110	6,418,010	10,376,941	6,041,110	6,418,010	10,376,941

24.1 Investments in Government Securities

Treasury Bills	4,175,815	4,062,170	3,772,580	4,175,815	4,062,170	3,772,580
Treasury Bonds	1,542,416	2,013,449	5,812,444	1,542,416	2,013,449	5,812,444
Sri Lanka Sovereign Bonds	–	117,773	607,126	–	117,773	607,126
Sri Lanka development bond	–	–	–	–	–	–
Sub Total	5,718,231	6,193,392	10,192,150	5,718,231	6,193,392	10,192,150

24.2 Equity Shares

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Quoted Shares:						
Tokyo Cement Company (Lanka) PLC	15,502	10,326	11,490	11,104	14,865	18,934
(535,050 Non-Voting Ordinary Shares)		(@ Rs. 19.30)		(@ Rs. 30.50)		(@ Rs. 40.30)
(364,050 Non-Voting Ordinary Shares as at December 31, 2011)						
Dipped Products PLC	24,239	22,000	24,239	21,300	10,539	10,452
(200,000 Ordinary Shares)		(@ Rs. 110.00)		(@ Rs. 106.50)		(@ Rs. 120.00)
(200,000 Ordinary Shares as at December 31, 2011)						
Lanka IOC PLC	6,740	7,020	4,925	4,625	4,925	4,725
(360,009 Ordinary Shares)		(@ Rs. 19.50)		(@ Rs. 18.50)		(@ Rs. 18.90)
(250,000 Ordinary Shares as at December 31, 2011)						
Dialog Axiata PLC	19,243	24,063	6,757	4,778	20,930	20,796
(2,899,098 Ordinary Shares)		(@ Rs. 8.30)		(@ Rs. 7.80)		(@ Rs. 11.80)
(612,500 Ordinary Shares as at December 31, 2011)						
ACL Cables PLC	10,288	8,176	7,595	6,075	983	919
(121,300 Ordinary Shares)		(@ Rs. 67.40)		(@ Rs. 74.00)		(@ Rs. 85.10)
(82,100 Ordinary Shares as at December 31, 2011)						
Pelwatte Sugar Industries PLC	351	289	351	289	351	337
(12,300 Ordinary Shares)		(@ Rs. 23.50)		(@ Rs. 23.50)		(@ Rs. 27.40)
(12,300 Ordinary Shares as at December 31, 2011)						
Overseas Reality Ceylon PLC	2,512	2,506	2,512	2,436	8,056	7,650
(174,000 Ordinary Shares)		(@ Rs. 14.40)		(@ Rs. 14.00)		(@ Rs. 15.30)
(174,000 Ordinary Shares as at December 31, 2011)						
Distilleries Company of Sri Lanka PLC	69,341	71,449	49,488	44,866	21,909	27,020
(430,417 Ordinary Shares)		(@ Rs. 166.00)		(@ Rs. 147.10)		(@ Rs. 178.00)
(305,000 Ordinary Shares as at December 31, 2011)						
Lanka Milk Foods (CWE) PLC	27,866	25,000	27,866	26,775	27,866	28,250
(250,000 Ordinary Shares)		(@ Rs. 100.00)		(@ Rs. 107.10)		(@ Rs. 113.00)
(250,000 Ordinary Shares as at December 31, 2011)						
Chemical Industries Colombo PLC	11,692	8,909	14,590	15,508	14,590	19,556
(161,400 Non-Voting Ordinary Shares)		(@ Rs. 55.20)		(@ Rs. 77.00)		(@ Rs. 97.10)
(201,400 Non-Voting Ordinary Shares as at December 31, 2011)						

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost	Market Value	Cost	Market Value	Cost	Market Value
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
15,502	10,326	11,490	11,104	14,865	18,934
	(@ Rs. 19.30)		(@ Rs. 30.50)		(@ Rs. 40.30)
24,239	22,000	24,239	21,300	10,539	10,452
	(@ Rs. 110.00)		(@ Rs. 106.50)		(@ Rs. 120.00)
6,740	7,020	4,925	4,625	4,925	4,725
	(@ Rs. 19.50)		(@ Rs. 18.50)		(@ Rs. 18.90)
19,243	24,063	6,757	4,778	20,930	20,796
	(@ Rs. 8.30)		(@ Rs. 7.80)		(@ Rs. 11.80)
10,288	8,176	7,595	6,075	983	919
	(@ Rs. 67.40)		(@ Rs. 74.00)		(@ Rs. 85.10)
351	289	351	289	351	337
	(@ Rs. 23.50)		(@ Rs. 23.50)		(@ Rs. 27.40)
2,512	2,506	2,512	2,436	8,056	7,650
	(@ Rs. 14.40)		(@ Rs. 14.00)		(@ Rs. 15.30)
69,341	71,449	49,488	44,866	21,909	27,020
	(@ Rs. 166.00)		(@ Rs. 147.10)		(@ Rs. 178.00)
27,866	25,000	27,866	26,775	27,866	28,250
	(@ Rs. 100.00)		(@ Rs. 107.10)		(@ Rs. 113.00)
11,692	8,909	14,590	15,508	14,590	19,556
	(@ Rs. 55.20)		(@ Rs. 77.00)		(@ Rs. 97.10)

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Haycarb PLC	31,748	35,070	1,251	1,101	1,251	1,196
(204,968 Ordinary Shares)		(@ Rs. 171.10)		(@ Rs. 155.00)		(@ Rs. 168.50)
(7,100 Ordinary Shares as at December 31, 2011)						
Ceylon Hospitals PLC	4,423	4,094	4,423	3,849	411	456
(61,100 Non-Voting Ordinary Shares)		(@ Rs. 67.00)		(@ Rs. 63.00)		(@ Rs. 82.90)
(61,100 Non-Voting Ordinary Shares as at December 31, 2011)						
Lanka Walltile PLC	5	4	5	6	3,431	4,234
(60 Ordinary Shares)		(@ Rs. 60.80)		(@ Rs. 94.50)		(@ Rs. 131.90)
(60 Ordinary Shares as at December 31, 2011)						
NDB Bank PLC	13,348	13,790	18,884	13,810	-	-
(100,000 Ordinary Shares)		(@ Rs. 137.90)		(@ Rs. 138.10)		-
(100,000 Ordinary Shares as at December 31, 2011)						
Ceylon Hospitals PLC	16,665	14,435	16,665	13,337	-	-
(156,900 Ordinary Shares)		(@ Rs. 92.00)		(@ Rs. 85.00)		-
(156,900 Ordinary Shares as at December 31, 2011)						
Kotagala Plantations PLC	156	104	156	90	-	-
(1,400 Ordinary Shares)		(@ Rs. 74.00)		(@ Rs. 64.30)		-
(1,400 Ordinary Shares as at December 31, 2011)						
Hatton National Bank PLC	5,013	6,031	21,567	18,653	-	-
(53,608 Non-Voting Ordinary Shares)		(@ Rs. 112.50)		(@ Rs. 83.20)		-
(224,200 Ordinary Shares as at December 31, 2011)						
DFCC Bank PLC	6,353	6,142	11,141	10,771	-	-
(54,400 Ordinary Shares)		(@ Rs. 112.90)		(@ Rs. 112.90)		-
(95,400 Ordinary Shares as at December 31, 2011)						
Royal Ceramics Lanka PLC	7,772	5,445	7,772	7,783	-	-
(55,000 Ordinary Shares)		(@ Rs. 99.00)		(@ Rs. 141.50)		-
(55,000 Ordinary Shares as at December 31, 2011)						
COCO Lanka PLC	7,062	7,316	-	-	3,087	3,364
(201,000 Ordinary Shares)		(@ Rs. 36.40)		-		(@ Rs. 60.50)
(2011 - Nil)						
Citizen Development Bank PLC	4,130	3,719	-	-	-	-
(123,950 Non-Voting Ordinary Shares)		(@ Rs. 30.00)		-		-
(2011 - Nil)						

As at December 31, 2012		BANK As at December 31, 2011		As at January 1, 2011	
Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
31,748	35,070	1,251	1,101	1,251	1,196
	(@ Rs. 171.10)		(@ Rs. 155.00)		(@ Rs. 168.50)
4,423	4,094	4,423	3,849	411	456
	(@ Rs. 67.00)		(@ Rs. 63.00)		(@ Rs. 82.90)
5	4	5	6	3,431	4,234
	(@ Rs. 60.80)		(@ Rs. 94.50)		(@ Rs. 131.90)
13,348	13,790	18,884	13,810	-	-
	(@ Rs. 137.90)		(@ Rs. 138.10)		-
16,665	14,435	16,665	13,337	-	-
	(@ Rs. 92.00)		(@ Rs. 85.00)		-
156	104	156	90	-	-
	(@ Rs. 74.00)		(@ Rs. 64.30)		-
5,013	6,031	21,567	18,653	-	-
	(@ Rs. 112.50)		(@ Rs. 83.20)		-
6,353	6,142	11,141	10,771	-	-
	(@ Rs. 112.90)		(@ Rs. 112.90)		-
7,772	5,445	7,772	7,783	-	-
	(@ Rs. 99.00)		(@ Rs. 141.50)		-
7,062	7,316	-	-	3,087	3,364
	(@ Rs. 36.40)		-		(@ Rs. 60.50)
4,130	3,719	-	-	-	-
	(@ Rs. 30.00)		-		-

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Lanka Venture PLC	3,033	3,200	-	-	-	-
(100,000 Ordinary Shares)		(@ Rs. 32.00)		-		-
(2011 - Nil)						
COCO Lanka PLC	15	15	-	-	-	-
(500 Non-Voting Ordinary Shares)		(@ Rs. 29.50)		-		-
(2011 - Nil)						
Renuka Holdings PLC	2,477	2,450	-	-	-	-
(100,000 Non-Voting Ordinary Shares)		(@ Rs. 24.50)		-		-
(2011 - Nil)						
Renuka Holdings PLC	1,770	1,805	-	-	-	-
(50,000 Ordinary Shares)		(@ Rs. 36.10)				
(2011 - Nil)						
Hemas Power PLC	4,622	4,864	-	-	-	-
(222,100 Ordinary Shares)		(@ Rs. 21.90)				
(2011 - Nil)						
Hatton National Bank PLC	29,925	30,728	-	-	-	-
(207,623 Ordinary Shares)		(@ Rs. 148.00)				
(2011 - Nil)						
Property Developments Ltd.	4,693	3,929	-	-	-	-
(83,235 Ordinary Shares)		(@ Rs. 47.20)				
(2011 - Nil)						
Tokyo Cement Company (Lanka) PLC	-	-	1,603	1,703	-	-
(2012 - Nil)		-		(@ Rs. 44.00)		-
(38,700 Ordinary Shares as at December 31, 2011)						
Chevron Lubricants Lanka PLC	-	-	15,391	15,759	-	-
(2012 - Nil)				(@ Rs. 170.00)		-
(92,700 Ordinary Shares as at December 31, 2011)						
Hemas Holdings PLC	-	-	-	-	3,642	4,072
(2012 - Nil)		-		-		(@ Rs. 44.50)
(2011 - Nil)						
Chemical Industries Colombo PLC	-	-	-	-	5,102	5,723
(2012 - Nil)		-		-		(@ Rs. 139.10)
(2011 - Nil)						

As at December 31, 2012		BANK		As at January 1, 2011	
Cost	Market Value	Cost	Market Value	Cost	Market Value
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
3,033	3,200	-	-	-	-
	(@ Rs. 32.00)		-		-
15	15	-	-	-	-
	(@ Rs. 29.50)		-		-
2,477	2,450	-	-	-	-
	(@ Rs. 24.50)		-		-
1,770	1,805	-	-	-	-
	(@ Rs. 36.10)		-		-
4,622	4,864	-	-	-	-
	(@ Rs. 21.90)		-		-
29,925	30,728	-	-	-	-
	(@ Rs. 148.00)		-		-
4,693	3,929	-	-	-	-
	(@ Rs. 47.20)		-		-
-	-	1,603	1,703	-	-
	-		(@ Rs. 44.00)		-
-	-	15,391	15,759	-	-
	-		(@ Rs. 170.00)		-
-	-	-	-	3,642	4,072
	-		-		(@ Rs. 44.50)
-	-	-	-	5,102	5,723
	-		-		(@ Rs. 139.10)

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
Ceylinco Insurance PLC	-	-	-	-	9,169	11,367
(2012 - Nil)		-		-		(@ Rs. 270.00)
(2011 - Nil)						
Citizen Development Bank PLC	-	-	-	-	1,051	1,048
(2012 - Nil)		-		-		(@ Rs. 52.40)
(2011 - Nil)						
Sri Lanka Telecom PLC	-	-	-	-	13,543	13,757
(2012 - Nil)		-		-		(@ Rs. 48.00)
(2011 - Nil)						
Laugfs Gas PLC	-	-	-	-	750	935
(2012 - Nil)		-		-		(@ Rs. 18.70)
(2011 - Nil)						
Sub total	330,984	322,879	248,671	224,618	166,451	184,791
Mark to market gain/(loss)	(8,105)		(24,053)		18,340	
Total	322,879		224,618		184,791	

24.3 Equity Shares - Composition

Issued by

Banks	58,769	60,410	51,592	43,234	1,051	1,048
Corporate entities	272,215	262,469	197,079	181,384	165,400	183,743
Sub total	330,984	322,879	248,671	224,618	166,451	184,791

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost	Market Value	Cost	Market Value	Cost	Market Value
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
-	-	-	-	9,169	11,367
	-		-		(@ Rs. 270.00)
-	-	-	-	1,051	1,048
	-		-		(@ Rs. 52.40)
-	-	-	-	13,543	13,757
	-		-		(@ Rs. 48.00)
-	-	-	-	750	935
	-		-		(@ Rs. 18.70)
330,984	322,879	248,671	224,618	166,451	184,791
(8,105)		(24,053)		18,340	
322,879		224,618		184,791	
58,769	60,410	51,592	43,234	1,051	1,048
272,215	262,469	197,079	181,384	165,400	183,743
330,984	322,879	248,671	224,618	166,451	184,791

25. Loans and Receivables to Banks

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Loans and receivables to banks						
Gross loans and receivables	628,760	580,158	568,704	628,760	580,158	568,704
Less: Allowance for Individual impairment [Refer 25.2]	-	-	-	-	-	-
Net loans and receivables	628,760	580,158	568,704	628,760	580,158	568,704

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	104,778	105,000	95,000	104,778	105,000
Others (*)	533,760	475,380	463,704	533,760	475,380	463,704
Gross total	628,760	580,158	568,704	628,760	580,158	568,704

(*) The Bank did not make payments to counter party 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 counter party bank appropriated USD 4.172 Mn. (Rs. 533.760 Mn.) which was kept as a deposit with them. This action has been contested by the Bank. In view of the stance taken by the Bank in this regard, both the deposit and the amount due to the said counter party bank were recorded in the Statement of Financial Position.

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
25.1 (b) By currency						
Sri Lankan Rupee	95,000	104,778	105,000	95,000	104,778	105,000
United States Dollar	533,760	475,380	463,704	533,760	475,380	463,704
Great Britain Pounds	-	-	-	-	-	-
Bangladesh Taka	-	-	-	-	-	-
Others	-	-	-	-	-	-
Gross total	628,760	580,158	568,704	628,760	580,158	568,704

25.2 Movement in Allowance for Individual 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, 2012		As at December 31, 2011		As at January 1, 2011		As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Nations Trust Bank PLC (20.53% - 2013)												
(95,000 Debentures of Rs. 1,000.00 each)	95,000	95,000	104,778	104,778	95,000	95,000	95,000	95,000	104,778	104,778	95,000	95,000
(95,000 Debentures of Rs. 1,000.00 each as at December 31, 2011)	(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)		(@ Rs. 1,000.00)	
DFCC Bank PLC (Floating rate - 2011)	-	-	-	-	10,000	10,000	-	-	-	-	10,000	10,000
(2012 - Nil)		-		-	(@ Rs. 1,000.00)			-		-	(@ Rs. 1,000.00)	
(2011 - Nil)												
Total	95,000	95,000	104,778	104,778	105,000	105,000	95,000	95,000	104,778	104,778	105,000	105,000

26. Loans and Receivables to Other Customers

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Gross loans and receivables [Refer Note 26.1]	386,358,564	325,927,890	259,656,153	386,416,308	326,086,859	259,879,053
Less: Allowance for individual impairment [Refer 26.2]	3,402,168	3,363,859	2,231,520	3,402,168	3,363,859	2,231,520
Allowance for collective impairment [Refer 26.2]	10,099,059	8,237,033	9,114,586	10,099,059	8,237,033	9,114,586
Net loans and receivables	372,857,337	314,326,998	248,310,047	372,915,081	314,485,967	248,532,947

26.1 Analysis

26.1 (a) By product

Loans and advances

Overdrafts	69,476,949	60,306,298	48,879,783	69,477,242	60,309,228	48,879,783
Trade finance	39,006,056	35,666,637	33,290,177	39,006,056	35,666,637	33,290,177
Lease receivable (*)	25,188,248	21,511,965	11,684,434	25,245,649	21,668,460	11,906,631
Credit cards	2,779,375	2,186,796	1,657,829	2,779,375	2,186,796	1,657,829
Pawning	10,947,448	11,700,829	2,152,821	10,947,448	11,700,829	2,152,821
Staff loans	3,175,953	2,845,463	2,740,105	3,175,953	2,844,982	2,739,440
Housing loans	25,466,504	22,549,457	18,098,050	25,466,504	22,549,457	18,098,050
Personal loans	18,016,009	20,558,927	17,432,072	18,016,009	20,558,927	17,432,072
Term loans						
Short-term	29,144,209	19,007,256	18,043,680	29,144,259	19,007,281	18,045,047
Long-term	111,155,039	84,113,158	68,708,463	111,155,039	84,113,158	68,708,463
Bills of Exchange	5,685,865	7,652,428	5,396,602	5,685,865	7,652,428	5,396,602
Securities purchased under resale agreements	3,697,682	1,544,693	12,954	3,697,682	1,544,693	12,954
Sub total of gross loans and advances	343,739,337	289,643,907	228,096,970	343,797,081	289,802,876	228,319,869
Others						
Government securities	39,283,936	32,546,230	29,188,343	39,283,936	32,546,230	29,188,344
Investments	3,335,291	3,737,753	2,370,840	3,335,291	3,737,753	2,370,840
Sub total	42,619,227	36,283,983	31,559,183	42,619,227	36,283,983	31,559,184
Total of gross loans and receivables	386,358,564	325,927,890	259,656,153	386,416,308	326,086,859	259,879,053

* The product wise analysis was based on the criteria used for the purpose of impairment computation. Therefore, the lease rentals receivable amount classified based on the impairment criterion.

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
26.1 (b) By currency						
Sri Lanka rupee	285,107,232	247,572,721	188,065,971	285,164,976	247,731,690	188,288,871
United States dollar	69,930,980	57,379,038	51,548,023	69,930,980	57,379,038	51,548,023
Great Britain pound	525,914	382,953	117,338	525,914	382,953	117,338
Euro currency	867,484	1,113,916	312,724	867,484	1,113,916	312,724
Australian dollar	105,795	72,611	57,674	105,795	72,611	57,674
Japanese yen	12,111	212,508	65,225	12,111	212,508	65,225
Singapore dollars	715	59,541	107,095	715	59,541	107,095
Bangladesh taka	29,779,782	19,128,919	19,369,292	29,779,782	19,128,919	19,369,292
Others	28,551	5,683	12,811	28,551	5,683	12,811
Gross total	386,358,564	325,927,890	259,656,153	386,416,308	326,086,859	259,879,053
26.1 (c) By Industry (*)						
Agriculture and fishing	37,799,861	33,103,202	26,174,187	37,799,861	33,103,202	26,174,187
Manufacturing	43,557,515	42,411,190	35,272,857	43,557,515	42,411,190	35,272,857
Tourism	12,203,840	10,919,354	7,727,796	12,203,840	10,919,354	7,727,796
Transport	5,665,451	4,754,633	2,678,048	5,665,451	4,754,633	2,678,048
Construction	29,425,050	26,598,500	19,448,857	29,425,050	26,598,500	19,448,857
Traders	49,426,885	31,053,542	20,175,744	49,426,885	31,053,542	20,175,744
New economy	5,456,003	4,475,863	2,947,975	5,456,003	4,475,863	2,947,975
Financial and Business Services	15,112,163	13,410,350	10,118,060	15,112,163	13,410,350	10,118,060
Infrastructure	6,917,962	2,557,929	1,716,001	6,917,962	2,557,929	1,716,001
Other Services	27,135,490	26,106,613	21,341,692	27,135,490	26,106,613	21,341,692
Other Customers	111,039,177	94,252,731	80,495,753	111,096,861	94,411,700	80,718,652
Gross total	343,739,337	289,643,907	228,096,970	343,797,081	289,802,876	228,319,869

* Industry-wise breakdown is provided only for loans and advances.

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
26.2 Movement in Allowance for Individual and Collective Impairment during the Year						
<i>Movement in Allowance for Individual Impairment</i>						
Opening balance	3,363,859	2,231,520	–	3,363,859	2,231,520	–
Charge/(write back) to the income statement	1,296,697	2,592,879	3,524,491	1,296,697	2,592,879	3,524,491
Net write-off/(recoveries) during the year	(1,491,247)	(1,351,607)	(1,278,953)	(1,491,247)	(1,351,607)	(1,278,953)
Exchange rate variance on foreign currency provisions	14,807	1,853	(14,018)	14,807	1,853	(14,018)
Interest accrued on impaired loans and advances	(249,760)	(285,139)	–	(249,760)	(285,139)	–
Other movements	467,812	174,353	–	467,812	174,353	–
Closing balance	3,402,168	3,363,859	2,231,520	3,402,168	3,363,859	2,231,520
<i>Movement in Allowance for Collective Impairment</i>						
Opening balance	8,237,033	9,114,586	–	8,237,033	9,114,586	–
Charge/(write back) to the income statement	1,856,688	(869,609)	9,122,689	1,856,688	(869,609)	9,122,689
Exchange rate variance on foreign currency provisions	5,338	(7,944)	(8,103)	5,338	(7,944)	(8,103)
Closing balance	10,099,059	8,237,033	9,114,586	10,099,059	8,237,033	9,114,586
Total of individual and collective impairment	13,501,227	11,600,892	11,346,106	13,501,227	11,600,892	11,346,106
26.3 Lease Rentals Receivable						
26.3 (a) Lease Rentals Receivable within One Year						
Total lease rentals receivable within one year	11,658,721	9,228,926	5,905,473	11,692,130	9,315,662	6,005,734
Less: Unearned lease income	3,315,301	2,761,696	1,714,562	3,315,301	2,787,726	1,754,275
Provision for individual impairment	16,366	10,194	6,346	16,366	10,194	6,346
Provision for collective impairment	192,440	106,201	70,004	192,440	106,201	70,004
Sub total	8,134,614	6,350,835	4,114,561	8,168,023	6,411,541	4,175,109
26.3 (b) Lease Rentals Receivable from One to Five Years						
Total lease rentals receivable from one to five years	20,005,414	17,427,346	8,781,282	20,029,406	17,539,828	8,987,022
Less: Unearned lease income	3,305,888	2,516,142	1,417,705	3,305,888	2,532,835	1,461,797
Provision for individual impairment	33,735	24,137	11,528	33,735	24,137	11,528
Provision for collective impairment	396,667	251,449	127,160	396,667	251,449	127,160
Sub total	16,269,124	14,635,618	7,224,889	16,293,116	14,731,407	7,386,537

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
26.3 (c) Lease Rentals Receivable after Five Years						
Total lease rentals receivable after five years	209	4,186	2,211	209	4,186	2,211
Less: Unearned lease income	6	130	114	6	130	114
Provision for individual impairment	–	7	3	–	7	3
Provision for collective impairment	5	68	35	5	68	35
Sub total	198	3,981	2,059	198	3,981	2,059
Total gross lease receivable	25,043,149	21,382,490	11,556,585	25,100,550	21,538,985	11,778,781
Total net lease receivable	24,403,936	20,990,434	11,341,509	24,461,337	21,146,929	11,563,705

26.3 (d) Movement in Allowance for Individual Impairment on Lease Rentals Receivable

Opening balance	34,337	17,877	–	34,337	17,877	–
Charge/(write back) to the income statement	74,471	214,385	310,276	74,471	214,385	310,276
Net write-off/(recoveries) during the year	(58,114)	(171,038)	(292,399)	(58,114)	(171,038)	(292,399)
Exchange rate variance on foreign currency provisions	–	–	–	–	–	–
Interest accrued on impaired loans and advances	(1,270)	(27,615)	–	(1,270)	(27,615)	–
Other movements	676	728	–	676	728	–
Closing balance	50,100	34,337	17,877	50,100	34,337	17,877

26.3 (e) Movement in the Allowance for Collective Impairment on Lease Rentals Receivable

Opening balance	357,719	197,201	–	357,719	197,201	–
Charge/(write back) to the Income Statement	231,394	160,518	197,201	231,394	160,518	197,201
Exchange rate variance on foreign currency provisions	–	–	–	–	–	–
Other movements	–	–	–	–	–	–
Closing balance	589,113	357,719	197,201	589,113	357,719	197,201
Total of Individual and Collective impairment on Lease Rental Receivable	639,213	392,056	215,078	639,213	392,056	215,078

26.4 Summary of Gross Loans and Receivables to Other Customers

26.4 (a) Gross Loans and Receivables to Other Customers

Bill of Exchange	5,685,865	7,652,428	5,396,602	5,685,865	7,652,428	5,396,602
Loans and advances	309,167,542	258,934,821	211,002,980	309,167,885	258,937,295	211,003,682
Lease receivable	25,188,248	21,511,965	11,684,434	25,245,649	21,668,460	11,906,631
Securities purchased under resale agreements	3,697,682	1,544,693	12,954	3,697,682	1,544,693	12,954
Total gross loans and advances	343,739,337	289,643,907	228,096,970	343,797,081	289,802,876	228,319,869

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
26.4 (b) Gross Other Receivables						
Government Securities [Refer Note 26.5]	39,283,936	32,546,230	29,188,343	39,283,936	32,546,230	29,188,343
Investments [Refer Note 26.6]	3,335,291	3,737,753	2,370,840	3,335,291	3,737,753	2,370,840
Total gross other receivables	42,619,227	36,283,983	31,559,183	42,619,227	36,283,983	31,559,183
Total gross loans and receivables to other customers	386,358,564	325,927,890	259,656,153	386,416,308	326,086,859	259,879,053
26.5 Investment in Government Securities						
Investments in Government Securities - Sri Lanka						
Treasury bills	17,000	82,960	55,499	17,000	82,960	55,499
Treasury bonds	605,859	605,827	605,859	605,859	605,827	605,859
Sri Lanka development bond	33,694,269	27,345,345	26,177,448	33,694,269	27,345,345	26,177,448
Sub Total	34,317,128	28,034,132	26,838,806	34,317,128	28,034,132	26,838,806
Investments in Government Securities - Bangladesh						
Treasury bills and bonds	4,966,808	4,512,098	2,349,537	4,966,808	4,512,098	2,349,537
Sub Total	4,966,808	4,512,098	2,349,537	4,966,808	4,512,098	2,349,537
Total of Investment in Government Securities	39,283,936	32,546,230	29,188,343	39,283,936	32,546,230	29,188,343
26.6 Investments						
Debentures [Refer Note 26.6 (a)]	447,296	447,296	447,847	447,296	447,296	447,847
Investments in preference shares [Refer Note 26.6 (b)]	–	298,998	597,514	–	298,998	597,514
Lease backed securities [Refer Note 26.6 (c)]	106,477	333,927	471,760	106,477	333,927	471,760
Trust certificates [Refer Note 26.6 (d)]	2,137,534	2,537,245	696,317	2,137,534	2,537,245	696,317
Corporate debts [Refer Note 26.6 (e)]	539,831	–	–	539,831	–	–
Corporate bonds in Bangladesh [Refer Note 26.6 (f)]	104,153	120,287	157,402	104,153	120,287	157,402
Total investment	3,335,291	3,737,753	2,370,840	3,335,291	3,737,753	2,370,840

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	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						
Urban Development Authority	102,652	92,687	102,652	96,649	103,203	98,600
(1,000,000 Debentures)		(@ Rs. 92.68)		(@ Rs. 96.64)		(@ Rs. 98.60)
(1,000,000 Debentures as at December 31, 2011)						
Urban Development Authority (11% - 2015)	344,644	335,740	344,644	335,740	344,644	335,740
(3,357,400 Debentures of Rs. 100.00 each)		(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
(3,357,400 Debentures of Rs. 100.00 each as at December 31, 2011)						
Sub total	447,296	428,427	447,296	432,389	447,847	434,340
26.6 (b) Investments in Preference Shares						
Dialog Telekom PLC	-	-	298,998	292,500	597,514	585,000
(2012 - Nil)				(@ Rs. 1.00)		(@ Rs. 1.00)
(585,500,000 Preference Shares as at December 31, 2011)						
Sub total	-	-	298,998	292,500	597,514	585,000
26.6 (c) Lease backed securities						
People's Leasing Company PLC	106,477	106,477	333,927	280,700	471,760	448,100
Sub total	106,477	106,477	333,927	280,700	471,760	448,100
26.6 (d) Trust Certificates						
People's Leasing Company PLC	1,297,269	1,297,269	1,334,506	1,256,400	255,159	250,000
LB Finance PLC	573,835	573,835	678,510	615,300	441,158	428,700
Softlogic Finance PLC	184,879	184,879	213,937	199,400	-	-
Central Finance PLC	81,551	81,551	310,292	292,200	-	-
Sub total	2,137,534	2,137,534	2,537,245	2,363,300	696,317	678,700
26.6 (e) Corporate Debts						
Singer Sri Lanka PLC - 2012/2013	539,831	539,831	-	-	-	-
Sub total	539,831	539,831	-	-	-	-
26.6 (f) Bonds in Bangladesh						
Corporate Bonds in Bangladesh	104,153	104,153	120,287	112,589	157,402	157,402
Sub total	104,153	104,153	120,287	112,589	157,402	157,402

As at December 31, 2012		BANK		As at January 1, 2011	
Cost	Market Value	As at December 31, 2011		Cost	Market Value
Rs. '000	Rs. '000	Cost	Market Value	Rs. '000	Rs. '000
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
102,652	92,687	102,652	96,649	103,203	98,600
	(@ Rs. 92.68)		(@ Rs. 96.64)		(@ Rs. 98.60)
344,644	335,740	344,644	335,740	344,644	335,740
	(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
447,296	428,427	447,296	432,389	447,847	434,340
-	-	298,998	292,500	597,514	585,000
			(@ Rs. 1.00)		(@ Rs. 1.00)
-	-	298,998	292,500	597,514	585,000
106,477	106,477	333,927	280,700	471,760	448,100
106,477	106,477	333,927	280,700	471,760	448,100
1,297,269	1,297,269	1,334,506	1,256,400	255,159	250,000
573,835	573,835	678,510	615,300	441,158	428,700
184,879	184,879	213,937	199,400	-	-
81,551	81,551	310,292	292,200	-	-
2,137,534	2,137,534	2,537,245	2,363,300	696,317	678,700
539,831	539,831	-	-	-	-
539,831	539,831	-	-	-	-
104,153	104,153	120,287	112,589	157,402	157,402
104,153	104,153	120,287	112,589	157,402	157,402

	2012		2011		January 1, 2011	
	Impaired Loans and Advances Rs. '000	Individual Impairment Rs. '000	Impaired Loans and Advances Rs. '000	Individual Impairment Rs. '000	Impaired Loans and Advances Rs. '000	Individual Impairment Rs. '000
26.7 Summary of Gross Impaired Loans and Receivables						
Loans and advances						
Overdrafts	999,942	594,264	1,036,023	508,293	302,093	114,849
Trade finance	1,958,765	1,142,987	1,927,963	1,206,391	2,659,271	878,654
Lease rental receivable	105,247	50,099	65,864	34,337	51,150	17,878
Credit cards						
Pawning						
Staff loans						
Housing loans			9,960	6,981	55,717	10,197
Personal loans	1,927	1,927	1,736	1,736	1,486	1,486
Term loans	2,905,405	1,612,891	2,717,997	1,584,073	3,124,730	1,208,456
Bills of exchange			22,345	22,048		
Securities purchased under resale agreements						
Total impaired loans and advances	5,971,286	3,402,168	5,781,888	3,363,859	6,194,447	2,231,520
Other receivables						
Government securities	-		-			
Investments	-		-			
Total Impaired other receivable	-	-	-	-	-	-
Total impaired loans and receivable	5,971,286	3,402,168	5,781,888	3,363,859	6,194,447	2,231,520

27. Financial Investments - Available-for-Sale

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Government securities [Refer Note 27.1]	57,923,776	61,385,225	76,293,937	57,923,776	61,385,225	76,293,937
Equity securities [Refer Note 27.2]	39,416	30,170	60,717	39,416	30,170	60,717
Quoted shares - (Marked to market value)	3,737	3,723	5,866	3,737	3,723	5,866
Unquoted shares	35,679	26,447	54,851	35,679	26,447	54,851
Total	57,963,192	61,415,395	76,354,654	57,963,192	61,415,395	76,354,654

27.1 Government Securities

Treasury Bills	29,872,941	45,903,707	61,805,599	29,872,941	45,903,707	61,805,599
Treasury Bonds	28,050,835	14,303,785	13,274,086	28,050,835	14,303,785	13,274,086
Sri Lanka Sovereign Bonds	-	1,177,733	1,214,252	-	1,177,733	1,214,252
Total	57,923,776	61,385,225	76,293,937	57,923,776	61,385,225	76,293,937

27.2 Equity Securities

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	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	315	1,740	315	1,748	315	3,072
(11,760 Ordinary Shares)		(@ Rs. 148.00)		(@ Rs. 151.30)		(@ Rs. 399.90)
(11,550 Ordinary Shares as at December 31, 2011)						
Sampath Bank PLC	72	723	72	687	72	937
(3,606 Ordinary Shares)		(@ Rs. 200.50)		(@ Rs. 195.00)		(@ Rs. 271.90)
(3,525 Ordinary Shares as at December 31, 2011)						
Seylan Bank PLC	24	56	24	68	24	98
(1,000 Ordinary Shares)		(@ Rs. 56.00)		(@ Rs. 67.60)		(@ Rs. 97.80)
(1,000 Ordinary Shares as at December 31, 2011)						
DFCC Bank PLC	155	395	155	395	155	700
(3,496 Ordinary Shares)		(@ Rs. 112.90)		(@ Rs. 112.90)		(@ Rs. 200.20)
(3,496 Ordinary Shares as at December 31, 2011)						
Nations Trust Bank PLC	22	75	22	76	22	111
(1,333 Ordinary Shares)		(@ Rs. 56.00)		(@ Rs. 57.00)		(@ Rs. 83.40)
(1,333 Ordinary Shares as at December 31, 2011)						
NDB Bank PLC	215	748	215	749	215	948
(5,424 Ordinary Shares)		(@ Rs. 137.90)		(@ Rs. 138.10)		(@ Rs. 349.50)
(5,424 Ordinary Shares as at December 31, 2011)						
Sub total	803	3,737	803	3,723	803	5,866

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
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
315	1,740	315	1,748	315	3,072
	(@ Rs. 148.00)		(@ Rs. 151.30)		(@ Rs. 399.90)
72	723	72	687	72	937
	(@ Rs. 200.50)		(@ Rs. 195.00)		(@ Rs. 271.90)
24	56	24	68	24	98
	(@ Rs. 56.00)		(@ Rs. 67.60)		(@ Rs. 97.80)
155	395	155	395	155	700
	(@ Rs. 112.90)		(@ Rs. 112.90)		(@ Rs. 200.20)
22	75	22	76	22	111
	(@ Rs. 56.00)		(@ Rs. 57.00)		(@ Rs. 83.40)
215	748	215	749	215	948
	(@ Rs. 137.90)		(@ Rs. 138.10)		(@ Rs. 349.50)
803	3,737	803	3,723	803	5,866

	GROUP					
	As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
	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
Unquoted Shares:						
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares) (4,400 Ordinary Shares as at December 31, 2011)	440 (@ Rs. 100.00)	440 (@ Rs. 100.00)	440 (@ Rs. 100.00)	440 (@ Rs. 100.00)	440 (@ Rs. 100.00)	440 (@ Rs. 100.00)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares) (62,500 Ordinary Shares as at December 31, 2011)	625 (@ Rs. 10.00)	625 (@ Rs. 10.00)	625 (@ Rs. 10.00)	625 (@ Rs. 10.00)	625 (@ Rs. 10.00)	625 (@ Rs. 10.00)
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares) (1,000,000 Ordinary Shares as at December 31, 2011)	10,000 (@ Rs. 10.00)	10,000 (@ Rs. 10.00)	10,000 (@ Rs. 10.00)	10,000 (@ Rs. 10.00)	10,000 (@ Rs. 10.00)	10,000 (@ Rs. 10.00)
Lanka Financial Service Bureau Ltd. (225,000 Ordinary Shares) (225,000 Ordinary Shares as at December 31, 2011)	2,250 (@ Rs. 10.00)	2,250 (@ Rs. 10.00)	2,250 (@ Rs. 10.00)	2,250 (@ Rs. 10.00)	2,250 (@ Rs. 10.00)	2,250 (@ Rs. 10.00)
SWIFT (47 Ordinary Shares) (Nil - Ordinary Shares as at December 31, 2011)	7,259 -	7,259 -	- -	- -	- -	- -
Central Depository of Bangladesh Ltd. (342,782 Shares of Bangladesh Taka 27.47 each. Converted @ Rs.1.60411 per Taka) (342,782 Shares of Bangladesh Taka 27.47 each. Converted @ Rs. 1.39458 per Taka as at December 31, 2011)	15,105 35,679	15,105 35,679	13,132 26,447	13,132 26,447	41,536 54,851	41,536 54,851
Total	36,482	39,416	27,250	30,170	55,654	60,717

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
440	440	440	440	440	440
	(@ Rs. 100.00)		(@ Rs. 100.00)		(@ Rs. 100.00)
625	625	625	625	625	625
	(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
10,000	10,000	10,000	10,000	10,000	10,000
	(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
2,250	2,250	2,250	2,250	2,250	2,250
	(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
7,259	7,259	-	-	-	-
	(@ Rs. 10.00)		-		-
15,105	15,105	13,132	13,132	41,536	41,536
35,679	35,679	26,447	26,447	54,851	54,851
36,482	39,416	27,250	30,170	55,654	60,717

28. Investments in Subsidiaries

	Holding %	GROUP					
		As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
		Market Value/ Directors' Valuation		Market Value/ Directors' Valuation		Market Value/ Directors' Valuation	
		Balance Rs. '000	Rs. '000	Balance Rs. '000	Rs. '000	Balance Rs. '000	Rs. '000
Local Subsidiaries:							
Quoted:							
Commercial Development Company PLC	94.55	-	-	-	-	-	-
(11,345,705 Ordinary Shares)							
(11,345,705 Ordinary Shares as at December 31, 2011)							
Unquoted:							
ONEzero Company Ltd.	100.00	-	-	-	-	-	-
(500,002 Ordinary Shares)							
(500,002 Ordinary Shares as at December 31, 2011)							
Foreign Subsidiary:							
Unquoted:							
Commex - Sri Lanka S.R.L (Incorporated in Italy)	100.00	-	-	-	-	-	-
Gross Total							
Less: Allowance for impairment [Refer Note 28.1]							
Net Total		-	-	-	-	-	-

28.1 Movement in Allowance for Impairment during the year

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	-	-	-	38,454	-	-
Charge/(write back) to the Income Statement	-	-	-	32,942	38,454	-
Net write-off during the year	-	-	-	-	-	-
Other movements	-	-	-	-	-	-
Closing balance	-	-	-	71,396	38,454	-

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
274,393	692,088	274,393	1,249,162	274,393	612,668
	(@ Rs. 61.00)		(@ Rs. 110.10)		(@ Rs. 54.00)
5,000	5,000	5,000	5,000	5,000	5,000
	(@ Rs. 10.00)		(@ Rs. 10.00)		(@ Rs. 10.00)
95,133	95,133	74,505	74,505	74,505	74,505
374,526	792,221	353,898	1,328,667	353,898	692,173
(71,396)	(71,396)	(38,454)	(38,454)	-	-
303,130	720,825	315,444	1,290,213	353,898	692,173

29. Investments in Associates

	GROUP					
	As at December 31, 2012			As at December 31, 2011		As at January 1, 2011
	Holding %	Balance Rs. '000	Market Value/Directors' Valuation Rs. '000	Balance Rs. '000	Market Value/Directors' Valuation Rs. '000	Balance Rs. '000
Local Associates:						
Unquoted:						
Equity Investments Lanka Ltd.	22.92	44,331		44,331		44,331
(4,110,938 Ordinary Shares)						
(4,110,938 Ordinary Shares as at December 31, 2011)						
Add: Share of profit applicable to the Bank:						
Balance at the beginning of the year		47,580		37,472		3,352
Current year's share of profit after tax		(21,198)		12,163		37,278
Less: Dividend received during the year		(8,002)		(2,055)		(3,158)
Current year's retained profit		(29,200)		10,108		34,120
Balance at the end of the year		18,380		47,580		37,472
Total		62,711	62,711	91,911	91,911	81,803
Commercial Insurance Brokers (Pvt) Ltd.	18.91	100		100		100
(120,000 Ordinary Shares)						
(120,000 Ordinary Shares as at December 31, 2011)						
Add: Share of profit applicable to the Bank:						
Balance at the beginning of the year		27,970		24,956		24,850
Current year's share of profit after tax		3,544		3,468		538
Less: Dividend received during the year		(613)		(454)		(432)
Current year's retained profit		2,931		3,014		106
Balance at the end of the year		30,901		27,970		24,956
Total		31,001	31,001	28,070	28,070	25,056
Total value of Investments in Unquoted Associates at carrying value on equity basis		93,712		119,981		106,859
Less: Allowance for Impairment		-		-		-
Net Total		93,712		119,981		106,859
Total Market Value/Directors' Valuation of Investments in Associates			93,712		119,981	106,859

BANK					
As at December 31, 2012		As at December 31, 2011		As at January 1, 2011	
Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
44,331		44,331		44,331	
44,331		44,331		44,331	
-	-	-	-	-	-
-	-	-	-	-	-
44,331		44,331		44,331	
-		-		-	
44,331		44,331		44,331	

30. Property, Plant & Equipment

30.1 Group - 2012

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	Total 31.12.2012	Total 31.12.2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	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	2012			2011			January 1, 2011		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Land	556,930	-	556,930	387,559	-	387,559	394,746	-	394,746
Freehold buildings	1,006,822	243,973	762,849	923,021	218,802	704,219	646,172	195,727	450,445
Leasehold buildings	241,492	88,290	153,202	237,945	82,252	155,693	237,945	76,304	161,641
Total	1,805,244	332,263	1,472,981	1,548,525	301,054	1,247,471	1,278,863	272,031	1,006,832

30.2 Group - 2011

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	Total 31.12.2011	Total 01.01.2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation									
Opening balance	2,151,957	1,544,529	621,745	2,656,294	422,826	2,562,847	317,603	10,277,801	7,897,416
Additions during the year	–	276,849	–	346,824	14,904	629,260	123,556	1,391,393	921,436
Transfer of accumulated depreciation on assets revalued	–	(161,279)	–	–	–	–	–	(161,279)	(159,575)
Surplus on revaluation of property	1,195,599	458,730	14,853	–	–	–	–	1,669,182	1,738,876
Disposals during the year	(7,187)	–	–	–	(26,705)	(495)	–	(34,387)	(61,367)
Exchange rate variance	–	–	–	(11,352)	(3,662)	(27,061)	(27)	(42,102)	(17,533)
Transfers/adjustments	–	–	(9,843)	–	–	7,498	(378,949)	(381,294)	(41,452)
Closing 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
Accumulated Depreciation									
Opening balance	–	61,703	84,222	1,829,120	214,480	1,499,048	–	3,688,573	3,287,959
Charge for the year	–	99,576	27,570	267,920	70,403	268,646	–	734,115	629,050
Transfer of accumulated depreciation on assets revalued	–	(161,279)	–	–	–	–	–	(161,279)	(159,575)
Disposals during the year	–	–	–	–	(22,616)	(38)	–	(22,654)	(57,745)
Exchange rate variance	–	–	–	(8,945)	(2,329)	(11,320)	–	(22,594)	(10,967)
Transfers/adjustments	–	–	–	(146)	–	88	–	(58)	(149)
Closing balance	–	–	111,792	2,087,949	259,938	1,756,424	–	4,216,103	3,688,573
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	
Net book value as at 01.01.2011	2,151,957	1,482,826	537,523	827,174	208,346	1,063,799	317,603		6,589,228

30.3 Bank - 2012

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	Total 31.12.2012	Total 31.12.2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	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
Transfer of accumulated depreciation on assets revalued	–	–	–	–	–	–	–	–	(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:

	2012			2011			January 1, 2011		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Class of Asset									
Land	556,930	–	556,930	387,559	–	387,559	394,746	–	394,746
Freehold buildings	1,006,822	243,973	762,849	923,021	218,802	704,219	646,172	195,727	450,445
Leasehold buildings	102,726	35,869	66,857	102,726	33,301	69,425	102,726	30,733	71,993
Total	1,666,478	279,842	1,386,636	1,413,306	252,103	1,161,203	1,143,644	226,460	917,184

30.4 Bank - 2011

	Freehold Land	Freehold Buildings	Leasehold Buildings	Computer Equipment	Motor Vehicles	Office Equipment & Furniture	Capital Work-in- Progress	Total 31.12.2011	Total 01.01.2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost/Valuation									
Opening balance	2,151,957	1,544,529	104,625	2,653,279	88,771	2,505,072	302,896	9,351,129	7,008,176
Additions during the year	–	276,849	–	345,775	10,002	626,530	120,451	1,379,607	862,678
Accumulated depreciation	–	(161,279)	–	–	–	–	–	(161,279)	(159,575)
Surplus on revaluation of property	1,195,599	458,730	–	–	–	–	–	1,654,329	1,738,876
Disposals during the year	(7,187)	–	–	–	–	(495)	–	(7,682)	(40,041)
Exchange rate variance	–	–	–	(11,352)	(3,662)	(27,061)	–	(42,075)	(17,533)
Transfers/adjustments	–	–	–	–	–	(1,908)	(378,949)	(380,857)	(41,452)
Closing 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
Accumulated Depreciation									
Opening balance	–	61,703	19,922	1,827,905	58,722	1,453,316	–	3,421,568	3,093,426
Charge for the year	–	99,576	3,649	267,530	12,530	265,258	–	648,543	537,657
Transfer of accumulated depreciation on assets revalued	–	(161,279)	–	–	–	–	–	(161,279)	(159,575)
Disposals during the year	–	–	–	–	–	(38)	–	(38)	(38,857)
Exchange rate variance	–	–	–	(8,945)	(2,329)	(11,320)	–	(22,594)	(10,967)
Transfers/adjustments	–	–	–	(146)	–	88	–	(58)	(116)
Closing balance	–	–	23,571	2,086,344	68,923	1,707,304	–	3,886,142	3,421,568
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	
Net book value as at 01.01.2011	2,151,957	1,482,826	84,703	825,374	30,049	1,051,756	302,896		5,929,561

30.5 Information on the Freehold Land and Buildings of the Bank

[As required by Rule No. 7.6 (viii) of the Continuing Listing Requirements of the Colombo Stock Exchange]

Location	Extent (Perches)	Buildings (Square Feet)	Revalued Amounts Buildings Rs. '000	Revalued Amounts Land Rs. '000	Net Book Value Rs. '000	As a % of Total NBV
Holiday Bungalow - Haputale No. 23, Lily Avenue, Welimada Road, Haputale	207	4,533	15,300	25,700	40,237	0.71
Holiday Bungalow - Bandarawela Ambatenne Estate, Bandarawela	423	5,546	11,400	51,400	62,345	1.10
CEO's Bungalow - No. 27, Queens Road, Colombo 3	64	5,616	8,350	416,650	423,815	7.51
Union Place - No. 1, Union Place, Colombo 2	30	63,385	640,000	360,000	978,696	17.34
Kandy - No. 120, Kotugodella Veediya, Kandy	45	44,500	231,000	342,000	565,311	10.01
Galle Fort - No. 22, Church Street, Fort, Galle	100	11,625	50,000	100,000	148,751	2.64
Jaffna - No. 474, Hospital Road, Jaffna	77	5,146	12,865	272,135	284,485	5.04
Matara - No. 18, Station Road, Matara	37	8,137	24,145	28,155	51,690	0.92
Matale - No. 70, King Street, Matale	51	9,950	62,000	60,000	120,452	2.13
Galewela - No. 49/57, Matale Road, Galewela	99	6,380	13,200	19,800	32,670	0.58
Wellawatte - No. 343, Galle Road, Colombo 6	45	15,050	35,900	204,100	238,209	4.22
Kollupitiya - No. 285, Galle Road, Colombo 3	17	16,254	63,000	100,000	161,427	2.86
Kotahena - No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	28	33,017	218,846	110,000	323,389	5.73
Negombo - No. 24, 26, Fernando Avenue, Negombo	37	14,439	25,500	49,500	74,171	1.31
Hikkaduwa - No. 217, Galle Road, Hikkaduwa	37	6,713	21,260	16,740	37,469	0.66
Kurunegala - No. 4, Suratissa Mawatha, Kurunegala	15	8,916	85,000	140,000	222,877	3.95
Maharagama - No. 154, High Level Road, Maharagama	18	8,000	43,200	62,125	103,887	1.84
Borella - No. 92, D.S. Senanayake Mawatha, Borella, Colombo 8	16	12,566	62,202	70,335	130,466	2.31
Nugegoda - No. 100, Stanley Thilakaratne Mawatha, Nugegoda	39	11,138	44,552	195,000	237,773	4.21

Location	Extent (Perches)	Buildings (Square Feet)	Revalued Amounts Buildings Rs. '000	Revalued Amounts Land Rs. '000	Net Book Value Rs. '000	As a % of Total NBV
Kegalle - No. 186, Main Street, Kegalle	85	2,650	7,000	115,000	121,767	2.16
Narahenpita - No. 201, Kirula Road, Narahenpita, Colombo 5	22	11,193	70,775	99,225	167,644	2.97
Mutwal - No. 160, St. James Street, Colombo 15	17	–	–	22,300	22,300	0.40
Pettah - People's Park Shopping Complex, Colombo 11	–	3,183	50,000	–	48,573	0.86
Pettah - Stores - People's Park Shopping Complex, Colombo 11	–	218	4,000	–	3,840	0.07
Wennappuwa - No. 262, 264, Colombo Road, Wennappuwa	36	8,852	22,500	37,500	59,438	1.05
Galle City - No. 130, Main Street, Galle	7	3,675	7,250	33,750	40,759	0.72
Battaramulla - No. 213, Kaduwela Road, Battaramulla	14	11,216	61,483	24,517	83,953	1.49
Minuwangoda - No. 42, Siriwardena Mawatha, Minuwangoda	25	4,950	36,956	37,500	73,522	1.30
Nuwara Eliya - No. 36, Buddha Jayanthi Mawatha, Nuwara Eliya	42	10,184	69,000	72,000	139,277	2.47
Trincomalee - No. 474, Power House Road, Trincomalee	100	–	–	75,000	75,000	1.33
Keyzer Street - No. 32, Keyzer Street, Colombo 11	7	5,608	25,000	45,000	69,376	1.23
Panadura - No. 375, Galle Road, Panadura	12	6,168	19,735	18,450	37,200	0.66
Chilaw - No. 44, Colombo Road, Chilaw	35	10,000	68,200	61,750	128,227	2.27
Narammala - No. 55, Negombo Road, Narammala	43	5,760	15,450	44,550	59,614	1.06
Ja-Ela - No. 140, Negombo Road, Ja-Ela	13	7,755	16,813	23,187	39,580	0.70
Pettah - Main Street - No. 280, Main Street, Pettah, Colombo 11	30	22,760	67,748	169,371	236,458	4.19
Total			2,209,630	3,502,740	5,644,648	100.00

30.5 Information on the Feehold Land and Buildings of the Bank

As required by Rule No. 7.6 (viii) of the Continuing Listing Requirements of the Colombo Stock Exchange.

Year of Valuation 2011

Location	Address	Professional Valuer	Method of Valuation	Net Book Value before Revaluation		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
				Buildings	Land	Buildings	Land	Buildings	Land
				Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Wellawatte	No. 343, Galle Road, Colombo 6	K.C.B. Condegama	Investment Method	33,444	187,375	35,900	204,100	2,456	16,725
Kollupitiya	No. 285, Galle Road, Colombo 3	P.B. Kalugalagedara	Investment Method	56,842	82,000	63,000	100,000	6,158	18,000
Kotahena	No. 198, George R. De Silva Mawatha, Kotahena, Colombo 13	P.B. Kalugalagedara	Investment Method	374,928	85,000	208,984	110,000	(165,944)	25,000
Mutwal	No. 160, St. James Street, Colombo 15	P.B. Kalugalagedara	Direct Capital Comparison Method	–	20,592	–	22,300	–	1,708
Minuwangoda	No. 42, Siriwardena Mawatha, Minuwangoda	P.B. Kalugalagedara	Direct Capital Comparison Method	4,348	8,575	32,500	37,500	28,152	28,925
Keyzer Street	No. 32, Keyzer Street, Colombo 11	P.B. Kalugalagedara	Investment Method	6,401	14,940	25,000	45,000	18,599	30,060
Chilaw	No. 44, Colombo Road, Chilaw	P.B. Kalugalagedara	Direct Capital Comparison Method	65,673	25,850	67,000	61,750	1,327	35,900
Maharagama	No. 154, Highlevel Road, Maharagama	Ranjan J. Samarakone	Contractor's Method	13,518	5,238	43,200	62,125	29,682	56,887
Borella	No. 92, D.S. Senanayake Mawatha, Colombo 8	Ranjan J. Samarakone	Contractor's Method	30,000	23,000	62,202	70,335	32,202	47,335
Nugegoda	No. 100, Stanley Thilakaratne Mawatha, Nugegoda	Ranjan J. Samarakone	Contractor's Method	15,876	39,000	44,552	195,000	28,676	156,000
Panadura	No. 375, Galle Road, Panadura	Ranjan J. Samarakone	Contractor's Method	11,592	8,930	19,735	18,450	8,143	9,520
Galle Fort	No. 22, Church Street, Fort, Galle	S.A.S. Fernando	Comparison Method	17,500	90,000	50,000	100,000	32,500	10,000
Matara	No. 18, Station Road, Matara	S.A.S. Fernando	Comparison Method	7,116	16,893	23,595	28,155	16,479	11,262
Hikkaduwa	No. 217, Galle Road, Hikkaduwa	S.A.S. Fernando	Comparison Method	4,293	1,303	21,260	16,740	16,967	15,437
Galle City	No. 130, Main Street, Galle	S.A.S. Fernando	Comparison Method	4,445	5,064	7,250	33,750	2,805	28,687
Trincomalee	No. 474, Power House Road, Trincomalee	S.A.S. Fernando	Comparison Method	–	27,500	–	75,000	–	47,500
Jaffna	No. 474, Hospital Road, Jaffna	S.T. Sanmuganathan	Depreciated Replacement Cost Method/Investment Method	6,432	137,135	12,865	272,135	6,433	135,000
Kandy	No. 120, Kotugodella Veediya, Kandy	Sarath G. Fernando	Comparative Method/Income Method	181,078	333,832	231,000	342,000	49,922	8,168
Matale	No. 70, King Street, Matale	Sarath G. Fernando	Comparative Method/Income Method	36,203	8,000	62,000	60,000	25,797	52,000
Kegalle	No. 186, Main Street, Kegalle	Sarath G. Fernando	Comparative Method/Income Method	–	100,000	–	122,000	–	22,000
Nuwara Eliya	No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya	Sarath G. Fernando	Comparative Method/Income Method	61,492	61,800	69,000	72,000	7,508	10,200
Holiday Bungalow - Haputale	No. 23, Lily Avenue, Welimada Road, Haputale	Sarath G. Fernando	Comparative Method	945	5,189	15,300	25,700	14,355	20,512

Location	Address	Professional Valuer	Method of Valuation	Net Book Value before Revaluation		Revalued Amount of		Revaluation Gain/(Loss) Recognised on	
				Buildings	Land	Buildings	Land	Buildings	Land
				Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Holiday Bungalow - Bandarawela	Ambatenne Estate, Bandarawela	Sarath G. Fernando	Comparative Method	2,347	8,468	11,400	51,400	9,053	42,932
Narahenpita	No. 201, Kirula Road, Narahenpita, Colombo 5	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	59,593	88,200	70,775	99,225	11,182	11,025
Battaramulla	No. 213, Kaduwela Road, Battaramulla	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	31,453	11,208	61,483	24,517	30,030	13,309
Union Place	No. 1, Union Place, Colombo 2	Siri Nissanka	Income Method/ Depreciated Replacement Cost Method	554,464	300,000	640,000	360,000	85,536	60,000
CEO's Bungalow	No. 27, Queens Road, Colombo 3	Siri Nissanka	Depreciated Replacement Cost Method	4,967	352,550	8,350	416,650	3,383	64,100
Negombo	No. 24, 26, Fernando Avenue, Negombo	W.D.P. Rupananda	Contractor's Test Method	16,929	16,000	25,516	49,500	8,587	33,500
Pettah	People's Park Shopping Complex, Colombo 11	W.D.P. Rupananda	Investment Method	11,288	–	54,000	–	42,712	–
Wennappuwa	No. 262, 264, Colombo Road, Wennappuwa	W.D.P. Rupananda	Contractor's Test Method	14,710	8,665	22,500	37,500	7,790	28,835
Ja-Ela	No. 140, Negombo Road, Ja-Ela	W.D.P. Rupananda	Contractor's Test Method	15,382	11,021	16,812	23,187	1,430	12,163
Galewela	No. 49/57, Matale Road, Galewela	W.S. Pematratne	Contractor's Method/ Comparison Method	1,936	10,455	13,200	19,800	11,264	9,346
Kurunegala	No. 4, Suratissa Mawatha, Kurunegala	W.S. Pematratne	Investment Method	10,542	39,481	85,000	140,000	74,458	100,519
Narammala	No. 55, Negombo Road, Narammala	W.S. Pematratne	Investment Method	4,360	11,510	15,450	44,550	11,090	33,040
Total				1,660,097	2,144,774	2,118,829	3,340,369	458,732	1,195,595

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 Balance Sheet date.

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 Balance Sheet date is as follows:

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Computer equipment	1,463,312	1,317,053	1,436,314
Equipment, furniture and fixtures	986,218	880,674	746,719
Motor vehicles	36,494	34,255	22,176

30.10 Temporarily Idle Property, Plant & Equipment

Following property, plant & equipment of the Bank were temporarily idle as at the Balance Sheet date:

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Computer equipment	46,637	278,143	98,714
Equipment, furniture and fixtures	66,594	117,503	45,651

30.11 Property, Plant & Equipment Retired from Active Use

Following property, plant & equipment of the Bank were retired from active use as at the Balance Sheet date.

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Computer equipment	67,773	41,917	41,917
Equipment, furniture and fixtures	9,309	9,293	9,293

31. Intangible Assets

31.1 Computer Software

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Cost/Valuation						
At the beginning of the year	1,121,243	956,478	796,289	1,120,917	956,152	796,243
Additions during the year	139,161	167,193	162,195	139,161	167,193	161,915
Disposals during the year	-	-	(1,973)	-	-	(1,973)
Exchange rate variance	2,944	(2,428)	(33)	2,944	(2,428)	(33)
Transfers/adjustments	(741)	-	-	(741)	-	-
At the end of the year	1,262,607	1,121,243	956,478	1,262,281	1,120,917	956,152
Accumulated Amortisation						
At the beginning of the year	731,326	633,880	551,042	731,216	633,824	551,041
Amortisation for the year	174,104	98,172	84,260	174,055	98,118	84,238
Disposals during the year	-	-	(1,290)	-	-	(1,290)
Exchange rate variance	1,298	(726)	(281)	1,298	(726)	(281)
Transfers/adjustments	(142)	-	149	(142)	-	116
At the end of the year	906,586	731,326	633,880	906,427	731,216	633,824
Net book value	356,021	389,917	322,598	355,854	389,701	322,328

31.2 Software Under Development

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Cost/Valuation						
At the beginning of the year	85,121	102,657	142,313	77,313	96,983	142,313
Additions during the year	116,486	40,317	138,847	116,486	37,559	133,173
Transfers/adjustments during the year	(52,615)	(57,229)	(178,503)	(52,615)	(57,229)	(178,503)
Exchange rate variance	1,148	(624)	-	-	-	-
Disposals during the year	-	-	-	-	-	-
At the end of the year	150,140	85,121	102,657	141,184	77,313	96,983
Total net book value [Refer Notes 31.1 and 31.2]	506,161	475,038	425,255	497,038	467,014	419,311

There were no restrictions existed on the title of the intangible assets of the group as at the Balance Sheet date. Further, there were no items pledged as securities for liabilities.

32. Leasehold Property

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Cost/Valuation						
At the beginning of the year	128,700	128,700	128,700	84,840	84,840	84,840
Additions during the year	-	-	-	-	-	-
At the end of the year	128,700	128,700	128,700	84,840	84,840	84,840
Accumulated Amortisation						
At the beginning of the year	15,472	14,020	12,568	6,594	5,652	4,710
Amortisation for the year	1,452	1,452	1,452	942	942	942
At the end of the year	16,924	15,472	14,020	7,536	6,594	5,652
Net book value	111,776	113,228	114,680	77,304	78,246	79,188

33. Deferred Tax Assets and Liabilities

33.1 Summary of Net Deferred Tax Liability

	GROUP						BANK					
	2012		2011		January 1, 2011		2012		2011		January 1, 2011	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at the beginning of the year	5,169,073	1,276,116	3,575,420	992,710	2,384,452	767,117	4,744,455	1,234,469	3,203,581	892,441	2,002,354	633,382
Amount originating/(reversing) during the year	528,111	147,871	1,120,070	224,534	(356,981)	(94,637)	504,018	141,125	1,082,144	211,222	24,796	(71,142)
Deferred tax effect on revaluation surplus on property	477,732	133,765	473,583	56,510	1,547,949	319,354	-	-	458,730	128,444	1,176,431	329,401
Unwinding of the deferred tax effect on revaluation surplus on freehold buildings	(432,779)	(121,178)	-	-	-	-	(432,779)	(121,178)	-	-	-	-
Exchange rate variance	-	(4,849)	-	2,362	-	876	-	(4,849)	-	2,362	-	800
As at the end of the year	5,742,137	1,431,725	5,169,073	1,276,116	3,575,420	992,710	4,815,694	1,249,567	4,744,455	1,234,469	3,203,581	892,441

33.2 Reconciliation of Net Deferred Tax Liability

	GROUP						BANK					
	Balance Sheet			Income Statement			Balance Sheet			Income Statement		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000		2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	
Deferred Tax Liabilities on:												
Accelerated depreciation for tax purposes - Own assets	342,038	341,626	257,840	(412)	(83,805)		312,132	324,130	246,310	11,998	(77,820)	
Accelerated depreciation for tax purposes - Leased assets	1,049,259	812,102	433,777	(237,157)	(378,325)		1,049,259	812,102	433,777	(237,157)	(378,325)	
Revaluation surplus on freehold buildings	619,855	486,090	429,580	-	-		457,845	457,845	329,401	-	-	
Unwinding of the deferred tax effect on revaluation surplus on freehold buildings	(121,178)	-	-	-	-		(121,178)	-	-	-	-	
Effect of exchange rate variance	9	9	9	(4,849)	2,362		9	9	9	(4,849)	2,362	
	1,889,983	1,639,827	1,121,206	(242,418)	(459,768)		1,698,067	1,594,086	1,009,497	(230,008)	(453,783)	
Deferred Tax Assets on:												
Finance leases	5,090	2,208	9,152	2,882	(6,944)		-	-	-	-	-	
Defined benefit plans	203,903	134,150	110,446	69,753	23,704		199,234	132,264	108,158	66,970	24,106	
General provision on loans and advances	18,567	14,706	8,898	3,861	5,808		18,568	14,706	8,898	3,862	5,808	
Specific provision on lease receivable	119,536	119,536	-	-	119,536		119,536	119,536	-	-	119,536	
Leave encashment	111,162	93,111	-	18,051	93,111		111,162	93,111	-	18,051	93,111	
	458,258	363,711	128,496	94,547	235,215		448,500	359,617	117,056	88,883	242,561	
Deferred income tax on income/ (expenses)	-	-	-	(147,871)	(224,553)		-	-	-	(141,125)	(211,222)	
Net deferred tax liability	1,431,725	1,276,116	992,710				1,249,567	1,234,469	892,441			

34. Other Assets

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Receivable	34,999	20,091	13,291	34,999	20,091	13,291
Deposits and prepayments	1,365,559	586,296	507,343	1,358,727	547,037	510,925
Clearing account balance	4,126,806	3,581,426	2,599,857	4,126,806	3,581,426	2,599,857
Unamortised staff cost	2,106,871	1,792,580	1,591,862	2,106,768	1,792,551	1,591,817
Other accounts	1,544,909	1,309,905	1,045,017	1,560,906	1,349,409	1,053,736
Total	9,179,144	7,290,298	5,757,370	9,188,206	7,290,514	5,769,626

35. Due to Banks

Borrowings	4,763,565	11,574,105	6,118,915	4,763,565	11,574,105	6,118,915
Local Currency borrowings	65,018	2,754,484	3,390,933	65,018	2,754,484	3,390,933
Foreign Currency borrowings	4,698,547	8,819,621	2,727,982	4,698,547	8,819,621	2,727,982
Total	4,763,565	11,574,105	6,118,915	4,763,565	11,574,105	6,118,915

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
36. Derivative Financial Instruments						
Interest rate derivatives						
Interest rate swaps	-	-	806	-	-	806
Foreign currency derivatives						
Forward foreign exchange contracts	84,291	435,171	26,274	84,291	435,171	26,274
Total	84,291	435,171	27,080	84,291	435,171	27,080

37. Due to Other Customers

At amortised cost

Local currency deposits	291,139,626	248,864,952	193,969,595	291,168,788	248,874,072	194,003,940
Foreign currency deposits	99,429,056	74,832,676	69,662,107	99,442,760	74,880,676	69,662,107
Sub total	390,568,682	323,697,628	263,631,702	390,611,548	323,754,748	263,666,047

37.1 An Analysis of Due to Customers

(a) By product

Current account deposits	32,076,534	30,919,255	28,529,532	32,076,534	30,919,280	28,560,442
Savings deposits	141,810,844	136,040,261	117,894,801	141,840,006	136,049,356	117,898,236
Time deposits	208,095,610	150,182,539	112,309,751	208,109,314	150,230,539	112,309,751
Certificates of deposits	8,585,694	6,555,573	4,897,618	8,585,694	6,555,573	4,897,618
Sub total	390,568,682	323,697,628	263,631,702	390,611,548	323,754,748	263,666,047

(b) By currency

Sri Lanka rupee	291,139,626	248,864,952	193,969,595	291,168,788	248,874,072	194,003,940
United State dollar	52,783,593	38,384,040	31,451,361	52,797,297	38,432,040	31,451,361
Bangladesh taka	24,964,651	16,777,348	19,457,975	24,964,651	16,777,348	19,457,975
Great Britain pound	6,476,478	6,024,260	6,279,427	6,476,478	6,024,260	6,279,427
Australian dollar	8,322,024	7,423,510	6,133,964	8,322,024	7,423,510	6,133,964
Euro currency	5,591,752	5,244,070	5,526,169	5,591,752	5,244,070	5,526,169
Other currencies	1,290,558	979,448	813,211	1,290,558	979,448	813,211
Sub total	390,568,682	323,697,628	263,631,702	390,611,548	323,754,748	263,666,047

(c) By institutes/customers

Deposits from Banks	2,957,256	1,280,547	59,659	2,957,256	1,280,547	59,659
Deposits from Finance Companies	3,004,452	2,302,574	2,538,869	3,004,452	2,302,574	2,538,869
Deposits from other Customers	384,606,974	320,114,507	261,033,174	384,649,840	320,171,627	261,067,519
Sub total	390,568,682	323,697,628	263,631,702	390,611,548	323,754,748	263,666,047

The maturity analysis of Deposits is given in Note 50.

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
38. Other Borrowings						
Refinance Borrowings	7,633,595	8,367,697	8,258,309	7,633,595	8,367,697	8,258,309
Securities sold under repurchase (repo) agreements	31,612,350	41,087,308	45,655,604	31,759,604	41,235,445	45,774,453
IFC Borrowings	8,320,000	–	–	8,320,000	–	–
Total	47,565,945	49,455,005	53,913,913	47,713,199	49,603,142	54,032,762
39. Other Provisions						
Provision for contingencies	2,409	535	2,369	2,409	535	2,369
Total	2,409	535	2,369	2,409	535	2,369
40. Other Liabilities						
Accrued expenditure	1,856,614	1,264,265	1,358,556	1,850,635	1,251,500	1,347,203
Cheques sent on clearing	4,150,799	3,528,970	2,490,740	4,150,799	3,528,970	2,490,740
Provision for gratuity payable [Refer Note 40.1]	494,507	317,114	242,841	478,506	303,773	232,441
Provision for Un-funded pension scheme [Refer Note 40.2]	227,637	141,072	129,309	227,637	141,072	129,309
Payable on oil hedging transactions	794,108	707,252	689,881	794,108	707,252	689,881
Impairment charges in respect of off-balance sheet credit exposure	–	–	–	–	–	–
Other payable	2,893,548	2,255,326	2,473,263	2,861,123	2,229,815	2,450,215
Total	10,417,213	8,213,999	7,384,590	10,362,808	8,162,382	7,339,789
40.1 Provision for Gratuity Payable						
At the beginning of the year	317,115	242,841	176,201	303,774	232,441	167,463
Expense recognised in the income statement [Refer Note 40.1 (a)]	179,083	89,691	79,287	174,680	86,750	77,625
Exchange difference	9,509	(6,016)	(2,766)	9,509	(6,016)	(2,766)
Paid during the year	(11,200)	(9,401)	(9,881)	(9,457)	(9,401)	(9,881)
At the end of the year	494,507	317,115	242,841	478,506	303,774	232,441
40.1 (a) Gratuity Expense Recognised in the Income Statement						
Interest cost	26,090	19,325	14,446	25,062	18,508	13,640
Current service cost	63,547	41,765	34,360	62,142	40,672	33,397
Provision made during the year	56,594	15,296	12,999	55,758	14,461	12,184
Actuarial loss	32,852	13,305	17,482	31,718	13,109	18,404
Total	179,083	89,691	79,287	174,680	86,750	77,625

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
40.2 Provision for Un-funded Pension Scheme						
At the beginning of the year	141,072	129,309	119,072	141,072	129,309	119,072
Expense recognised in the income statement	49,710	31,719	29,382	49,710	31,719	29,382
Paid during the year	(23,388)	(19,956)	(19,145)	(23,388)	(19,956)	(19,145)
At the end of the year	167,394	141,072	129,309	167,394	141,072	129,309

40.2 (a) Pension Expense for Un-funded scheme Recognised in the Income Statement

Interest cost	14,107	12,931	13,098	14,107	12,931	13,098
Current service cost	-	-	12,394	-	-	12,394
Provision made during the year	-	-	-	-	-	-
Actuarial loss	35,603	18,788	3,890	35,603	18,788	3,890
Total	49,710	31,719	29,382	49,710	31,719	29,382

41. Due to Subsidiaries

Local Subsidiaries

Commercial Development Company PLC	-	-	-	7,823	14,735	26,146
ONEzero Company Ltd.	-	-	-	14,441	14,999	15,302
Sub Total	-	-	-	22,264	29,734	41,448

Foreign Subsidiaries

Commex Sri Lanka S.R.L. - Italy	-	-	-	-	-	-
Sub Total	-	-	-	-	-	-
Total	-	-	-	22,264	29,734	41,448

42. Subordinated Term Debts

As at beginning of the year	973,210	2,127,030	3,436,030	973,210	2,127,030	3,436,030
Redemptions during the year	-	(1,153,820)	(1,309,000)	-	(1,153,820)	(1,309,000)
Balance before adjusting for amortised interest [Refer Note 42.1]	973,210	973,210	2,127,030	973,210	973,210	2,127,030
Net effect on amortised interest payable	132,806	132,429	232,215	132,806	132,429	232,215
As at end of the year	1,106,016	1,105,639	2,359,245	1,106,016	1,105,639	2,359,245

Outstanding debentures as at December 31, 2011, consisted of 973,210 Unsecured Subordinated Redeemable debentures of Rs. 1,000/- each issued by the Bank in 2006, details of which is given below:

42.1 Debenture Categories

Debenture Categories	BANK				Effective Annual Yield		Value as at		
	Colombo Stock Exchange Listing	Interest Payable Frequency	Allotment Date	Maturity Date	2012 %	01.01.2011 %	31.12.2012 Rs. '000	31.12.2011 Rs. '000	01.01.2011 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	505,000
2006/2013 - 13.75% p.a.	Listed	Annually	18.12.2006	18.12.2013	13.75	13.75	250	250	250
2006/2016 - 14.00% p.a.	Listed	Annually	18.12.2006	18.12.2016	14.00	14.00	467,260	467,260	467,260
Debenture Redeemed During the Year									
2006/2011 - 12.00% p.a.	Not listed	Annually	16.05.2006	16.05.2011	-	12.00	-	-	15,000
2006/2011 - 13.50% p.a.	Listed	Annually	18.12.2006	18.12.2011	-	13.50	-	-	527,800
							972,510	972,510	1,515,310
Floating Rate Debentures									
2006/2013 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2013	9.15	9.40	300	300	300
2006/2016 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2016	9.15	9.40	400	400	400
Debenture Redeemed During the Year									
2006/2011 - 3 months TB rate (Net) + 2% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	-	9.25	-	-	15,000
2006/2011 - 3 months TB rate (Gross) + 1% p.a.	Not listed	Quarterly	16.05.2006	16.05.2011	-	9.05	-	-	465,000
2006/2011 - 12 months TB rate (Gross) + 1% p.a.	Listed	Annually	18.12.2006	18.12.2011	-	9.40	-	-	131,020
							700	700	611,720
Total debentures							973,210	973,210	2,127,030

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

42.2 Debentures by Maturity

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Due within 1 year	550	–	1,153,820	550	–	1,153,820
Due after 1 year	972,660	973,210	973,210	972,660	973,210	973,210
Total	973,210	973,210	2,127,030	973,210	973,210	2,127,030

43. Stated Capital

As at December 31,	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	16,473,861	10,811,193	10,607,792	16,473,861	10,811,193	10,607,792
Issue of Ordinary Voting Shares under Employee Share Option Plans	62,942	121,869	203,401	62,942	121,869	203,401
Issue of Ordinary Shares as part of the final dividend satisfied in the form of issue and allotment of new shares	1,471,993	681,141	–	1,471,993	681,141	–
Rights Issue of ordinary voting shares	–	4,632,517	–	–	4,632,517	–
Rights Issue of ordinary non-voting shares	–	227,141	–	–	227,141	–
Closing balance	18,008,796	16,473,861	10,811,193	18,008,796	16,473,861	10,811,193

43.1 Movement in Number of Ordinary Shares

	No. of Ordinary Voting Shares			No. of Ordinary Non-Voting Shares		
	2012	2011	January 1, 2011	2012	2011	January 1, 2011
Opening balance	765,085,320	353,305,387	233,821,271	52,364,846	24,181,195	16,120,797
Issue of ordinary shares under Employee Share Option Plans	1,341,768	1,457,645	2,081,508	–	–	–
Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares	13,587,144	2,277,195	–	1,108,902	255,734	–
Rights Issue of ordinary shares	–	25,502,433	–	–	1,745,494	–
Shares created due to the share split	–	382,542,660	117,402,608	–	26,182,423	8,060,398
Closing balance	780,014,232	765,085,320	353,305,387	53,473,748	52,364,846	24,181,195

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 made a Rights Issue of ordinary shares (both voting & non-voting) on the basis of one new ordinary share for every fourteen shares held in August 2011. The Bank also made a subdivision of shares on the basis of 1:1 immediately after conclusion of the aforesaid Rights Issue of shares. The objective of the rights issue of shares was to increase the Tier-I capital of the Bank in order to facilitate future business growth.

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 detail below:

	Tranche I			Total
Date granted	April 30, 2008	April 30, 2008	April 30, 2008	
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 scrip issues	660,824	768,924	1,049,861	2,479,609
Options cancelled due to resignations, retirements and deaths	(63,613)	(63,613)	(63,613)	(190,839)
Options vested/to be vested	1,374,519	1,482,619	1,763,556	4,620,694
Options cancelled due to non-acceptance and resignations	(4,514)	(4,514)	(40,011)	(49,039)
Number of options exercised up to December 31, 2012	(950,040)	(941,060)	(942,539)	(2,833,639)
Number of options outstanding as at December 31, 2012	419,965	537,045	781,006	1,738,016

(*) 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.

(**) Adjusted for dividend, paid in the form of shares right issue of shares and sub-division of shares.

(***) 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 right 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 prices are suitably adjusted as per the applicable rules of ESOP - 2008 which have been drafted in line with the accepted market practices.

	Tranche II			Total
Date granted	April 30, 2011	April 30, 2011	April 30, 2011	
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	1,213,384	1,213,384	1,213,384	3,640,152
Options to be vested as at December 31, 2012	2,426,768	2,426,768	2,426,768	7,280,304

(*) 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.

(**) 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 right 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 prices are suitably adjusted as per the applicable rules of ESOP - 2008 which are in line with the accepted market practices.

43.3 Employee Share Option Plan - 2002

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held in September 2002, to introduce an Employee Share Option Plan for the benefit of all the Executive Officers in Grade III and above by creating up to 5% of the ordinary voting shares at the rate of 1.25% of shares each year over a period of four years, upon the Bank achieving specified performance targets.

The details relating to the four Tranches of the Employee Share Option Plan - 2002 are given below:

	Tranche I	Tranche II	Tranche III	Tranche IV	Total
Date granted	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006	
Price (Rs.) - (*)	36.00	57.85	56.13	74.25	
Exercisable between	April 01, 2004 to March 31, 2008	April 01, 2005 to March 31, 2009	April 01, 2006 to March 31, 2010	April 01, 2007 to March 31, 2011	
Original number of options - (**)	650,000	812,500	1,637,947	1,659,756	4,760,203
Additions consequent to scrip issues	-	17,922	241,051	1,193,196	1,452,169
Options cancelled due to non-acceptance and resignations	(25,057)	(28,293)	(42,327)	(161,882)	(257,559)
Number of options exercised up to December 31, 2011	(624,943)	(802,129)	(1,836,671)	(2,691,070)	(5,954,813)
Number of options outstanding as at December 31, 2012	-	-	-	-	-

(*) Determined on the basis of the weighted average price of the voting shares of the Bank between October 1, and December 31, of each year.

(**) Options 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 bonus, share split or/and rights issue of shares during the vesting period, the number of options offered and the prices are suitably amended in line with the accepted market practices.

44. Statutory Reserves

44.1 Statutory Reserve Fund

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	2,740,901	2,338,510	2,062,346	2,740,901	2,338,510	2,062,346
Transfers during the year	504,917	402,391	276,164	504,917	402,391	276,164
Closing balance	3,245,818	2,740,901	2,338,510	3,245,818	2,740,901	2,338,510

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		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	149,404	133,320	101,791	149,404	133,320	101,791
Transfers during the year	38,173	16,084	31,529	38,173	16,084	31,529
Closing balance	187,577	149,404	133,320	187,577	149,404	133,320
Total Statutory Reserves	3,433,395	2,890,305	2,471,830	3,433,395	2,890,305	2,471,830

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.

45. Retained Earnings

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Opening balance	2,588,194	1,348,994	2,547,336	1,515,928
Effect of transitional provision	-	-	-	(153,134)
Adjusted opening balance	2,588,194	1,348,994	2,547,336	1,362,794
Total comprehensive Income	10,050,862	7,937,527	10,098,329	7,882,869
Profit for the year	10,079,829	7,932,062	10,098,329	7,882,869
Other comprehensive Income	(28,967)	5,465	-	-
Transfer to other reserves	(4,355,215)	(3,141,056)	(4,355,215)	(3,141,056)
Dividends	(4,112,370)	(3,557,271)	(4,112,370)	(3,557,271)
Write-back of dividend payable	1,343	-	-	-
Closing Balance	4,172,814	2,588,194	4,178,080	2,547,336

46. Other Reserves

a. Current Year - 2012

	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
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

b. Previous Year - 2011

	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
Revaluation Reserve (Refer Note 46.1)	2,943,222	1,607,614	4,550,836	2,696,171	1,525,883	4,222,054
General Reserve (Refer Note 46.2)	16,361,218	1,528,253	17,889,471	16,361,218	1,528,253	17,889,471
Available-for-sale reserve (Refer Note 46.3)	815,950	(959,919)	(143,969)	815,950	(959,919)	(143,969)
Foreign Currency Translation Reserve (Refer Note 46.4)	(549,738)	(753,908)	(1,303,646)	(554,288)	(754,433)	(1,308,721)
Investment Fund Reserve (Refer Note 46.5)	-	1,194,328	1,194,328	-	1,194,328	1,194,328
Total	19,570,652	2,616,368	22,187,020	19,319,051	2,534,112	21,853,163

46.1 Revaluation Reserve

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	4,550,836	2,943,222	1,533,746	4,222,054	2,696,171	1,286,695
Realised revaluation surplus on disposal of property						
Surplus on revaluation of freehold land and buildings	181,760	1,668,370	1,738,877	–	1,654,327	1,738,877
Deferred tax effect on revaluation surplus on freehold buildings	4,529	(60,756)	(329,401)	121,178	(128,444)	(329,401)
Closing balance	4,737,125	4,550,836	2,943,222	4,343,232	4,222,054	2,696,171

The Revaluation Reserve relates to revaluation of freehold land & buildings and represents the fair value of the land & buildings as at the date of revaluation.

The Bank carried out a revaluation of all its freehold lands & buildings and accounted Rs. 1,654 Mn. as revaluation surplus as at December 31, 2011. (The Bank accounted 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		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	17,889,471	16,361,218	13,807,767	17,889,471	16,361,218	13,807,767
Transfer of translation gains/(losses)	–	–	(16,135)	–	–	(16,135)
Transfer during the year	2,159,518	1,528,253	2,569,586	2,159,518	1,528,253	2,569,586
Closing balance	20,048,989	17,889,471	16,361,218	20,048,989	17,889,471	16,361,218

46.3 Available-for-sale Reserve

Opening balance	(143,969)	815,950	–	(143,969)	815,950	–
Net gains and losses on remeasuring available-for-sale financial assets	619,436	(959,919)	815,950	619,436	(959,919)	815,950
Closing balance	475,467	(143,969)	815,950	475,467	(143,969)	815,950

46.4 Foreign Currency Translation Reserve

Opening balance	(1,303,646)	(549,738)	(371,527)	(1,308,721)	(554,288)	(371,527)
Transfer of translation gains/(losses)	–	–	16,135	–	–	16,135
Net unrealised gains/(losses) from the translation of Financial Statements of foreign operations	548,545	(753,908)	(194,346)	550,827	(754,433)	(198,896)
Closing balance	(755,101)	(1,303,646)	(549,738)	(757,894)	(1,308,721)	(554,288)

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 into the presentation currency (Sri Lankan Rupees) at the rate of exchange ruling at the Balance Sheet date and the Income Statement is translated at the average exchange rate for the period. The exchange differences arising on the translation are taken directly to Foreign Currency Translation Reserve, which is classified as a part of Equity.

46.5 Investment Fund Reserve

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Opening balance	1,194,328	-	-	1,194,328	-	-
Transfer during the year	1,652,607	1,194,328	-	1,652,607	1,194,328	-
Closing balance	2,846,935	1,194,328	-	2,846,935	1,194,328	-

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 payments of income tax to a fund identified as a 'Investment Fund Account' (IFA) as per a proposal made in the Government Budget 2011. The guidelines has 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 the IFA. The details of loans granted under IFA are as follows:

Sector	Amount Granted (Rs. Mn.)	Rate of Interest (%)	Tenure of Loan
Infrastructure development	1,475.540	9.00 - 14.03	14 - 14 1/2 Years
Factory/mills modernisation	167.309	15.62 - 16.05	5 - 5 1/2 Years
Construction of hotels and for related purposes	122.417	16.05 - 16.30	7 - 8 Years
Agriculture	43.495	14.65	5 1/2 Years
	1,808.761		

47. Non-Controlling Interest

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Commercial Development Company PLC	32,141	29,589	26,601	-	-	-
Total	32,141	29,589	26,601	-	-	-

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 Balance Sheet, they do contain credit risk and are therefore form part of the overall risk profile of the Bank.

48.1 Contingencies

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Contingent Liabilities:						
Guarantees	23,997,143	22,749,683	28,282,590	23,997,143	22,749,683	28,282,590
Performance bonds	7,698,090	7,698,090	6,127,722	7,698,090	7,698,090	6,127,722
Documentary credits	19,566,782	22,100,971	20,427,159	19,566,782	22,100,971	20,427,159
Other contingent liabilities [Refer Note 48.1(a)]	29,273,645	29,817,113	23,015,415	29,273,645	29,817,113	23,015,415
Total contingent liabilities	80,535,660	82,365,857	77,852,886	80,535,660	82,365,857	77,852,886

48.1 (a) Other Contingent Liabilities

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Other contingent liabilities:						
Acceptances	16,255,563	15,978,277	11,171,282	16,255,563	15,978,277	11,171,282
Bills for collection	12,251,283	13,287,393	11,321,227	12,251,283	13,287,393	11,321,227
Stock travellers' cheques	766,799	551,443	522,906	766,799	551,443	522,906
Total other contingent liabilities	29,273,645	29,817,113	23,015,415	29,273,645	29,817,113	23,015,415
Forward exchange contracts:						
Forward exchange sales	68,318,546	52,785,302	41,774,845	68,318,546	52,785,302	41,774,845
Forward exchange purchases	68,467,903	51,613,610	38,335,745	68,467,903	51,613,610	38,335,745
Total	136,786,449	104,398,912	80,110,590	136,786,449	104,398,912	80,110,590
Interest rate swap agreements/currency options:						
Interest rate swaps	-	131	2,211	-	131	2,211
Currency options	-	-	-	-	-	-
Total	-	131	2,211	-	131	2,211
Total contingencies	217,322,109	186,764,900	157,965,687	217,322,109	186,764,900	157,965,687

48.2 Commitments

48.2.1 Direct and Indirect Advances:

Undrawn loan commitments	51,021,034	31,640,547	37,679,817	51,021,034	31,640,547	37,679,817
Other commitments	10,853,593	14,758,172	-	10,853,593	14,758,172	-
Total	61,874,627	46,398,719	37,679,817	61,874,627	46,398,719	37,679,817

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 at December 31, as follows:

48.2.1 (a) Capital Expenditure Commitments in relation to Property, Plant & Equipment

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Approved and contracted for	43,986	1,169,775	787,992	43,986	1,169,775	787,992
Approved but not contracted for	312,779	76,150	41,100	312,779	76,150	41,100
Total	356,765	1,245,925	829,092	356,765	1,245,925	829,092

48.2.1 (b) Capital Expenditure Commitments in relation to Intangible Assets

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Approved and contracted for	39,611	141,625	142,570	39,611	141,625	142,570
Approved but not contracted for	-	-	-	-	-	-
Total	39,611	141,625	142,570	39,611	141,625	142,570
Total of capital commitments	396,376	1,387,550	971,662	396,376	1,387,550	971,662
Total commitments	62,271,003	47,786,269	38,651,479	62,271,003	47,786,269	38,651,479
Total contingent liabilities and commitments	279,593,112	234,551,169	196,617,166	279,593,112	234,551,169	196,617,166

48.3 Commitments of Subsidiaries and Associates

(a) Contingencies of Subsidiaries

The Subsidiaries of the Group do not have any contingencies as at the year end.

(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. Once professional advice has been obtained on the certainty of the outcome and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Set out below are unresolved legal claims against the Bank as at the year end for which adjustments to the Financial Statements have not been made due to the uncertainty of its outcome.

- (i) Court action has been initiated by a customer in proceedings No. 25085/MR to recover a sum of US \$ 27,500 alleged to have been paid by the Bank in pursuance of a guarantee issued, by debiting the customer's account without the authority of the customer. Judgment was delivered dismissing the Plaintiff's action. plaintiff has lodged an appeal against the judgment. Argument is fixed for March 04, 2013.
- (ii) Court action has been initiated by two customers in proceedings No. 174/2008/MR to claim Rs. 33.000 Mn. and a further sum of 0.688 Mn. as damages for alleged un-authorised transactions which had not been sanctioned by the Plaintiffs. One of the Plaintiffs has taken up the position that he did not receive the proceeds of the housing loan which had been obtained from the Bank. Further trial is fixed for May 28, 2013.
- (iii) 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 21, 2013.
- (iv) Court action has been initiated by a third party in proceedings No. DMR 02827-11 to claim a sum of Rs. 5.660 Mn. together with interest as damages from the Bank and another party with regard to encashing of a cheque. Trial is fixed for May 09, 2013.
- (v) 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. Settlement of admissions and issues are due on March 27, 2013.
- (vi) Court action has been initiated by a third party in proceedings No. 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. Next hearing of the case is fixed for April 04, 2013.

- (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 case is fixed to be mentioned on March 22, 2013.
- (viii) Court action has been initiated by a third party in proceedings No. 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. Court dismissed plaintiff's application for an interim injunction. The parties have filed their initial pleadings and the 1st witness was called to give evidence. The case was postponed to June 26, 2013 and July 03, 2013 for the cross examination.
- (ix) Court action has been initiated for BDT 9.153 Mn. (approx. Rs. 14.682 Mn.) in proceedings No. 149/05 against the Credit Agricole Indusuez and the Bank for the breach of contract due to improper termination of a contract between Credit Agricole Indusuez and the plaintiff on network facility provided for Electronic Fund Transfer (EFT). As the Bank was not a party to the contract, the Bank has filed a Statement to the court requesting for a dismissal. Next date of the case has been fixed for March 12, 2013.
- (x) Court action has been initiated by a third party in proceedings No. 52/10 to claim a sum of BDT 35.328 Mn. (approx. Rs.56.669 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. Hence, the Bank decided to submit a written Statement to the court in this regard. Next date of the case is fixed for March 18, 2013 for Service Return.
- (xi) Court action has been initiated by an ex customer in proceedings No. DMR 00695/12 to claim Rs. 50.000 Mn. as damages for returning a cheque issued by him to the 2nd defendant of Rs. 1.000 Mn., with the remark 'A/C Closed' instead of 'Stale Cheque'. However, when the cheque was presented to the Bank, the customer had already closed his account and at the same time the cheque was stale. Call to be fixed for trial on March 08, 2013.

50. Maturity Analysis

(a) Group

(i) Maturity analysis of assets of the Group as at December 31, 2012 based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000	Total as at 31.12.2011 Rs. '000
Interest-Earning Assets:							
Cash and cash equivalents	5,188,750	126,486	-	-	-	5,315,236	2,290,527
Balances with Central Banks	3,425	373	-	-	-	3,798	589,419
Placements with banks	16,162,970	-	-	-	-	16,162,970	11,674,363
Derivative financial instruments	-	-	-	-	-	-	-
Other financial assets held for trading	5,718,232	-	-	-	-	5,718,232	6,193,392
Loans and receivables to banks	-	95,000	-	-	-	95,000	104,778
Loans and receivables to other customers	156,613,317	67,572,018	98,572,720	33,821,496	16,277,786	372,857,337	314,326,998
Financial investments - Available-for-sale	23,233,313	20,980,372	9,965,095	2,417,398	1,327,596	57,923,774	61,385,224
As at 31.12.2012	206,920,007	88,774,249	108,537,815	36,238,894	17,605,382	458,076,347	
As at 31.12.2011	165,306,542	89,884,906	85,477,858	41,129,150	14,766,244		396,564,701

	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	Total as at 31.12.2011 Rs. '000
Non-Interest Earning Assets:							
Cash and cash equivalents	14,436,969	–	–	–	–	14,436,969	10,644,468
Balances with Central Banks	12,545,598	4,674,968	289,955	317,678	336,042	18,164,241	16,753,540
Derivative financial instruments	739,406	611,689	–	–	–	1,351,095	39,612
Other financial assets held for trading	322,878	–	–	–	–	322,878	224,618
Loans and receivables to banks	533,760	–	–	–	–	533,760	475,380
Financial investments - Available-for-sale	–	–	–	15,106	24,312	39,418	30,171
Investments in associates	–	–	–	–	93,712	93,712	119,981
Property, plant & equipment	–	–	–	–	8,946,881	8,946,881	8,503,211
Intangible assets	–	–	–	–	506,161	506,161	475,038
Leasehold property	–	–	–	–	111,776	111,776	113,228
Deferred tax assets	–	–	–	458,258	–	458,258	363,711
Other assets	6,038,365	71,001	161,000	148,492	2,760,286	9,179,144	7,290,298
As at 31.12.2012	34,616,976	5,357,658	450,955	939,534	12,779,170	54,144,293	
As at 31.12.2011	27,807,311	4,138,598	526,399	797,986	11,762,962		45,033,256
Total Assets - As at 31.12.2012	241,536,983	94,131,907	108,988,770	37,178,428	30,384,552	512,220,640	
Total Assets - As at 31.12.2011	193,113,853	94,023,504	86,004,257	41,927,137	26,529,206		441,597,957
Percentage - As at 31.12.2012	47.15	18.38	21.28	7.26	5.93	100.00	
Percentage - As at 31.12.2011	43.73	21.29	19.48	9.49	6.01		100.00

(ii) An analysis of the total liabilities and share holders' funds of the Group as at December 31, 2012 based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000	Total as at 31.12.2011 Rs. '000
Interest-Bearing Liabilities:							
Due to banks	1,354,651	–	–	–	–	1,354,651	10,363,416
Due to other customers	240,370,577	99,307,742	5,906,406	5,837,521	7,083,119	358,505,365	292,840,945
Other borrowings	24,066,467	9,206,335	4,393,556	4,585,341	5,314,246	47,565,945	49,455,005
Subordinated term debts	132,806	550	–	972,660	–	1,106,016	1,105,639
As at 31.12.2012	265,924,501	108,514,627	10,299,962	11,395,522	12,397,365	408,531,977	
As at 31.12.2011	239,490,979	88,112,294	10,080,422	7,476,211	8,605,099		353,765,005

	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	Total as at 31.12.2011 Rs. '000
Non-Interest Bearing Liabilities:							
Due to Banks	3,405,679	3,235	–	–	–	3,408,914	1,210,689
Derivative financial instruments	83,123	1,168	–	–	–	84,291	435,171
Due to other customers	32,063,317	–	–	–	–	32,063,317	30,856,683
Current tax liabilities	1,147,300	1,674,675	–	–	–	2,821,975	1,307,079
Deferred tax liabilities	–	–	–	1,889,983	–	1,889,983	1,639,827
Other provisions	2,409	–	–	–	–	2,409	535
Other liabilities	8,675,092	1,190,503	187,803	313,035	50,780	10,417,213	8,213,999
Stated capital	–	–	–	–	18,008,796	18,008,796	16,473,861
Statutory reserves	–	–	–	–	3,433,395	3,433,395	2,890,305
Retained earnings	–	–	–	–	4,172,814	4,172,814	2,588,194
Other reserves	–	–	–	–	27,353,415	27,353,415	22,187,020
Non-controlling interest	–	–	–	–	32,141	32,141	29,589
As at 31.12.2012	45,376,920	2,869,581	187,803	2,203,018	53,051,341	103,688,663	
As at 31.12.2011	36,104,740	4,267,385	1,199,314	2,079,017	44,182,496		87,832,952
Total Liabilities and Equity - As at 31.12.2012	311,301,421	111,384,208	10,487,765	13,598,540	65,448,706	512,220,640	
Total Liabilities and Equity - As at 31.12.2011	275,595,719	92,379,679	11,279,736	9,555,228	52,787,595		441,597,957
Percentage - As at 31.12.2012	60.77	21.75	2.05	2.65	12.78	100.00	
Percentage - As at 31.12.2011	62.42	20.92	2.55	2.16	11.95		100.00

(b) Bank

(i) An analysis of the total assets employed of the Bank as at December 31, 2012, based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000	Total as at 31.12.2011 Rs. '000
Interest-Earning Assets:							
Cash and cash equivalents	5,169,379	126,486	–	–	–	5,295,865	2,266,521
Balances with Central Banks	3,425	373	–	–	–	3,798	589,419
Placements with banks	16,162,970	–	–	–	–	16,162,970	11,674,363
Other financial assets held for trading	5,718,232	–	–	–	–	5,718,232	6,193,392
Loans and receivables to banks	–	95,000	–	–	–	95,000	104,778
Loans and receivables to other customers	156,622,403	67,596,689	98,596,707	33,821,496	16,277,786	372,915,081	314,485,967
Financial investments - Available-for-sale	23,233,313	20,980,372	9,965,095	2,417,398	1,327,596	57,923,774	61,385,224
As at 31.12.2012	206,909,722	88,798,920	108,561,802	36,238,894	17,605,382	458,114,720	
As at 31.12.2011	165,300,411	89,930,315	85,569,711	41,132,983	14,766,244		396,699,664

	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	Total as at 31.12.2011 Rs. '000
Non-Interest Earning Assets:							
Cash and Cash Equivalents	14,436,969	–	–	–	–	14,436,969	10,644,468
Balances with Central Banks	12,545,598	4,674,968	289,955	317,678	336,042	18,164,241	16,753,540
Derivative financial instruments	739,406	611,689	–	–	–	1,351,095	39,612
Other financial assets held for trading	322,878	–	–	–	–	322,878	224,618
Loans and receivables to banks	533,760	–	–	–	–	533,760	475,380
Financial investments - Available-for-sale	–	–	–	15,106	24,312	39,418	30,171
Investments in subsidiaries	–	–	–	–	303,130	303,130	315,444
Investments in associates	–	–	–	–	44,331	44,331	44,331
Property, plant & equipment	–	–	–	–	8,221,118	8,221,118	7,907,030
Intangible assets	–	–	–	–	497,038	497,038	467,014
Leasehold property	–	–	–	–	77,304	77,304	78,246
Deferred tax assets	–	–	–	448,500	–	448,500	359,617
Other assets	6,038,365	71,001	161,000	148,492	2,769,348	9,188,206	7,290,514
As at 31.12.2012	34,616,976	5,357,658	450,955	929,776	12,272,623	53,627,988	
As at 31.12.2011	27,807,527	4,138,598	522,305	797,986	11,363,569		44,629,985
Total Assets - As at 31.12.2012	241,526,698	94,156,578	109,012,757	37,168,670	29,878,005	511,742,708	
Total Assets - As at 31.12.2011	193,107,938	94,068,913	86,092,016	41,930,969	26,129,813		441,329,649
Percentage - As at 31.12.2012	47.20	18.40	21.30	7.26	5.84	100.00	
Percentage - As at 31.12.2011	43.76	21.31	19.51	9.50	5.92		100.00

(ii) An analysis of the total liabilities and shareholders' funds of the Bank as at December 31, 2012 based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs. '000	3 to 12 Months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Total as at 31.12.2012 Rs. '000	Total as at 31.12.2011 Rs. '000
Interest-Bearing Liabilities:							
Due to banks	1,354,651	–	–	–	–	1,354,651	10,363,416
Due to other customers	240,404,347	99,316,446	5,906,406	5,837,521	7,083,119	358,547,839	292,897,852
Other borrowings	24,213,721	9,206,335	4,393,556	4,585,341	5,314,246	47,713,199	49,603,142
Subordinated term debts	132,806	550	–	972,660	–	1,106,016	1,105,639
As at 31.12.2012	266,105,525	108,523,331	10,299,962	11,395,522	12,397,365	408,721,705	
As at 31.12.2011	239,648,023	88,160,294	10,080,422	7,476,211	8,605,099		353,970,049

	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	Total as at 31.12.2011 Rs. '000
Non-Interest Bearing Liabilities:							
Due to Banks	3,405,679	3,235	–	–	–	3,408,914	1,210,689
Derivative financial instruments	83,123	1,168	–	–	–	84,291	435,171
Due to other customers	32,063,709	–	–	–	–	32,063,709	30,856,896
Current tax liabilities	1,126,866	1,674,675	–	–	–	2,801,541	1,305,442
Deferred tax liabilities	–	–	–	1,698,067	–	1,698,067	1,594,086
Other provisions	2,409	–	–	–	–	2,409	535
Other liabilities	8,620,687	1,190,503	187,803	313,035	50,780	10,362,808	8,162,382
Due to subsidiaries	22,264	–	–	–	–	22,264	29,734
Stated capital	–	–	–	–	18,008,796	18,008,796	16,473,861
Statutory reserves	–	–	–	–	3,433,395	3,433,395	2,890,305
Retained earnings	–	–	–	–	4,178,080	4,178,080	2,547,336
Other reserves	–	–	–	–	26,956,729	26,956,729	21,853,163
As at 31.12.2012	45,324,737	2,869,581	187,803	2,011,102	52,627,780	103,021,003	
As at 31.12.2011	36,081,433	4,267,385	1,199,314	2,033,276	43,778,192		87,359,600
Total Liabilities and Equity - As at 31.12.2012	311,430,262	111,392,912	10,487,765	13,406,624	65,025,145	511,742,708	
Total Liabilities and Equity - As at 31.12.2011	275,729,456	92,427,679	11,279,736	9,509,487	52,383,291		441,329,649
Percentage - As at 31.12.2012	60.85	21.77	2.05	2.62	12.71	100.00	
Percentage - As at 31.12.2011	62.48	20.94	2.56	2.15	11.87		100.00

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, 2012, by Mr. M Poopalanathan, AIA, Messers 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

Withdrawal

The withdrawal rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. The same withdrawal rates which were used in the last valuation (December 31, 2011) to determine the liabilities of the active employees in the funded scheme, were used in the actuarial valuation as at December 31, 2012.

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 11% p.a. has been used to discount future liabilities considering anticipated long term rate of inflation.

Salary Increases

A salary increment of 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.

	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
51.1 (c) Movement in the Present Value of Defined Benefit Obligations			
Opening balance	91,937	84,394	72,209
Interest cost	9,194	8,439	7,943
Current service cost	2,325	1,928	1,805
Benefits paid during the year	(7,000)	(5,853)	(5,303)
Actuarial loss	15,558	3,029	7,740
Closing balance	112,014	91,937	84,394

51.1 (d) Movement in the Fair Value of Plan Assets

Fair value as at the beginning of the year	85,845	72,290	61,800
Expected return on plan assets	8,584	7,229	4,697
Contribution paid into plan	1,704	1,446	1,298
Benefits paid by the plan	(7,000)	(5,853)	(5,303)
Actuarial gain on plan assets	5,766	10,733	9,798
Fair value as at the end of the year	94,899	85,845	72,290

51.1 (e) Liability Recognised in the Statement of Financial Position

Present value of defined benefit obligations as at the end of the year	112,014	91,937	84,394
Fair value of plan assets as at the end of the year	(94,899)	(85,845)	(72,290)
Unrecognised actuarial gains/(losses)	-	-	-
Net liability recognised in the Statement of Financial Position	17,115	6,092	12,104

	2012	2011	January 1, 2011
	Rs. '000	Rs. '000	Rs. '000
51.1 (f) Plan Assets Consist of the Following:			
Government Treasury Bills	38,632	29,804	16,258
Deposits held with the Bank	56,267	56,041	56,032
Total	94,899	85,845	72,290

52. Financial Reporting by Segment as per the Provisions of Sri Lanka Financial Reporting Standard (SLFRS) No. 08

The primary segment reporting format is determined to be business segments as the Group's risks and return are affected predominantly by differences in the products and services produced. Secondary information is reported geographically.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

52.1 Primary Segment Information - Business Segments (Group)

The following table presents the income, profit and certain asset and liability information on the Group's business segments for the year ended December 31, 2012 and comparative figures for the year ended December 31, 2011.

For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
External Operating Income:										
Net interest income	21,385,560	15,844,749	911,261	643,550	111,621	1,881,951	443,217	308,150	22,851,659	18,678,400
Foreign exchange profit	2,091,074	1,749,266	-	-	2,595,937	572,357	-	-	4,687,011	2,321,623
Fees and commission income	3,590,315	3,319,440	-	-	8,003	5,810	-	-	3,598,318	3,325,250
Other income	110,871	501,420	1,308,323	778,372	131,168	(139,950)	60,369	15,835	1,610,731	1,155,677
Eliminations/unallocated	-	-	-	-	-	-	-	-	266,169	282,821
Total operating income	27,177,820	21,414,875	2,219,584	1,421,922	2,846,729	2,320,168	503,586	323,985	33,013,888	25,763,771
Credit loss expenses	(3,083,820)	(1,398,292)	(74,471)	(348,453)	-	-	-	-	(3,158,291)	(1,746,745)
Net operating income	24,094,000	20,016,583	2,145,113	1,073,469	2,846,729	2,320,168	503,586	323,985	29,855,597	24,017,026
Segment result	14,453,263	11,168,069	2,145,113	1,073,469	1,617,091	2,062,778	449,652	289,287	18,665,119	14,593,603
Unallocated operating expenses									(4,364,565)	(3,624,262)
Profit from operations									14,300,554	10,969,341
Share of profit of Associates – (before tax)									12,360	10,878
Income tax expense									(4,231,747)	(3,047,918)
Non-controlling interest									(1,338)	(239)
Net profit for the year, attributable to equity holders of the Parent									10,079,829	7,932,062

As at December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Other Information										
Segment assets	291,972,329	251,280,611	25,043,149	21,382,490	132,898,416	118,356,825	3,836,916	3,798,318	453,750,810	394,818,244
Investments in associates	-	-	-	-	-	-	93,712	119,981	93,712	119,981
Unallocated assets	-	-	-	-	-	-	-	-	58,376,118	46,659,732
Total assets	-	-	-	-	-	-	-	-	512,220,640	441,597,957
Segment liabilities	292,636,055	250,824,124	25,043,149	21,382,490	132,898,416	118,356,825	3,930,628	3,918,299	454,508,248	394,481,738
Unallocated liabilities	-	-	-	-	-	-	-	-	4,711,831	2,947,250
Total liabilities	-	-	-	-	-	-	-	-	459,220,079	397,428,988
For the year ended December 31,	Banking		Leasing		Dealing/Treasury		Investments		Total/ Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Information on cash flows										
Cash flows from operating activities	9,863,648	492,975	(3,660,659)	(9,825,905)	(301,398)	(2,781,499)	4,448,539	17,938,271	10,350,130	5,823,842
Cash flows from investing activities	619,260	(711,225)	-	-	-	-	-	-	619,260	(711,225)
Cash flows from financing activities	-	-	-	-	(132,929)	(1,482,153)	-	-	(132,429)	(1,482,153)
Capital expenditure										
Property, Plant & Equipment	-	-	-	-	-	-	-	-	(1,234,473)	(967,997)
Intangible assets	-	-	-	-	-	-	-	-	(205,227)	(147,955)
Eliminations/unallocated									(2,580,051)	2,103,435
Net cash flow generated during the year									6,817,210	4,617,947

52.2 Secondary Segment Information – 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, 2012 together with comparative figures for the year ended December 31, 2011.

	GROUP				BANK			
	2012 Rs. '000	%	2011 Rs. '000	%	2012 Rs. '000	%	2011 Rs. '000	%
Assets								
Sri Lanka operations	471,153,270	91.98	412,640,009	93.44	470,726,049	91.98	412,371,701	93.44
International operations	41,067,370	8.02	28,957,948	6.56	41,016,659	8.02	28,957,948	6.56
Total	512,220,640	100.00	441,597,957	100.00	511,742,708	100.00	441,329,649	100.00
Income								
Sri Lanka operations	58,574,030	92.43	42,344,382	92.38	58,595,750	92.43	42,364,694	92.38
International operations	4,799,723	7.57	3,494,562	7.62	4,799,297	7.57	3,494,523	7.62
Total	63,373,753	100.00	45,838,944	100.00	63,395,047	100.00	45,859,217	100.00
Profit before tax								
Sri Lanka operations	12,416,243	86.75	9,584,433	87.29	12,358,802	86.45	9,467,053	86.88
International operations	1,896,671	13.25	1,395,786	12.71	1,936,531	13.55	1,430,177	13.12
Total	14,312,914	100.00	10,980,219	100.00	14,295,333	100.00	10,897,230	100.00
Profit after tax								
Sri Lanka operations	9,061,030	89.88	7,116,706	89.72	9,038,332	89.50	7,032,883	89.22
International operations	1,020,137	10.12	815,595	10.28	1,059,997	10.50	849,986	10.78
Total	10,081,167	100.00	7,932,301	100.00	10,098,329	100.00	7,882,869	100.00

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 that are listed out on page 316, 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 KMPs of the Group.

53.2.1.1 Compensation of Directors - Bank

	2012 Rs. '000	2011 Rs. '000
Short term employment benefits	92,869	96,101
Post employment benefits	6,459	6,798
Total	99,328	102,899

53.2.1.2 Compensation of other KMPs - Bank

	2012 Rs. '000	2011 Rs. '000
Short term employment benefits	161,328	162,002
Post employment benefits	16,960	15,046
Total	178,288	177,048

53.2.1.3 Compensation of KMPs - Group

	2012 Rs. '000	2011 Rs. '000
Short term employment benefits	93,169	96,263
Post employment benefits	6,459	6,798
Total	99,628	103,061

In addition to the above the Bank/Group provide non-cash benefit to the KMPs.

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	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Assets				
Loans and advances	87,789	93,134	86,625	72,616
Credit cards	1,774	1,651	194	154
Total	89,563	94,785	86,819	72,770
Liabilities				
Deposits	154,173	229,848	175,844	204,864
Securities sold under re-purchase agreements	34,014	264,063	118,872	330,217
Debentures	200	200	200	300
Total	188,387	494,111	294,916	535,381

53.2.2.2 Commitments and Contingencies - Bank

	Year-end Balance		Average Balance	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Letters of credit	-	-	359	550
Undrawn facilities	26,488	32,538	28,757	31,616
Total	26,488	32,538	29,116	32,166

53.2.2.3 Direct and Indirect Accommodation - Bank

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.24%	0.30%

53.2.2.4 Income Statement

	During the Year	
	2012 Rs. '000	2011 Rs. '000
Interest income	8,186	6,615
Interest expenses	26,175	40,286
Other income	111	43
Compensation to KMPs (Refer Note 53.2.1 and 53.2.2)	277,616	279,947

53.2.2.5 Share-Based Benefits to KMPs

	As at the Year End	
	2012	2011
Number of ordinary shares held	4,030,871	9,902,168
Dividends paid (In Rs. '000)	34,158	42,834
Number of cumulative exercisable options under the Employee Share Option Plan (ESOP) 2008 - Tranche I	817,581	817,581
Tranche II	387,828	-

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 Balance Sheet

	Year-end Balance		Average Balance	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Assets				
Loans and advances	343	2,955	1,503	2,161
Lease receivables	57,401	156,494	89,051	183,884
Other	37,859	66,380	52,120	59,977
Total	95,603	225,829	142,674	246,022
Liabilities				
Deposits	42,866	57,120	61,786	62,171
Securities sold under re-purchase agreements	142,721	143,944	113,053	125,733
Other	22,264	14,999	18,632	15,150
Total	207,851	216,063	193,471	203,054

53.3.1.2 Commitments and Contingencies

	Year-end Balance		Average Balance	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Letters of credit	-	419	-	457
Guarantees	-	110	-	78
Undrawn facilities	25,000	50,000	20,833	20,897
Total	25,000	50,529	20,833	21,432

53.3.1.3 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.17%	0.50%

53.3.1.4 Income Statement

	During the Year	
	2012 Rs. '000	2011 Rs. '000
Interest income	20,189	39,591
Interest expenses	19,092	14,996
Other income	70,437	35,609
Expenses paid	246,574	287,187

53.3.1.5 Other Transactions

Payments made to OneZero Company Ltd. in relation to purchase of computer hardware, software and maintenance agreements	168,691	114,290

53.3.2 Transactions with Associates

53.3.2.1 Statement of Financial Position

	Year-end Balance		Average Balance	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Assets				
Loans and advances	11,570	19,645	12,232	23,177
Lease receivables	2,600	4,465	4,962	4,962
Total	14,170	24,110	17,194	28,139
Liabilities				
Deposits	52,707	25,521	83,048	22,659
Securities sold under re-purchase agreements	4,096	23,236	17,393	24,395
Total	56,803	48,757	100,441	47,054

53.3.2.2 Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's Regulatory Capital	0.03%	0.06%

53.3.2.3 Income Statement

	During the Year	
	2012 Rs. '000	2011 Rs. '000
Interest income	2,773	4,239
Interest expenses	11,507	2,252
Other income	55,971	26,087

53.3.2.4 Other Transactions

	During the Year	
	2012	2011
Number of ordinary shares held as at the year end	4,246	4,246
Dividend paid (Rs. '000)	21	18

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	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Assets				
Loans and Advances	-	-	-	-
Credit Cards	-	-	-	-
Other	-	-	-	-
Total	-	-	-	-
Liabilities				
Deposits	1,592,507	1,818,097	1,198,568	894,385
Securities sold under repurchase agreements	141,160	123,937	75,644	1,046,281
Total	1,733,667	1,942,034	1,274,212	1,940,666

53.4.1.2 Income Statement

	During the Year	
	2012 Rs. '000	2011 Rs. '000
Interest expenses	136,174	174,195
Contribution made/taxes paid by the Bank	782,339	683,904

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 Borrowing from International Finance Corporation

In February 2013, International Finance Corporation (IFC), a member of the World Bank Group, invested US \$75 Mn. (approximately Rs. 9.6 Bn.) in Commercial Bank of Ceylon PLC, 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). It is also IFC Asset Management Company's first funding in South Asia, and the largest subordinated debt issued for any bank in Sri Lanka which can be counted for Tier II Capital of the Bank.

54.2 Interim Dividend - 2012

The Bank declared and paid a second interim dividend of Rs. 1.00/- per share on February 18, 2013 to both the voting and non-voting ordinary shareholders of the Bank.

54.3 Final Dividend - 2012

The Directors have recommended that a final dividend of Rs 4.00 per share which consists of Rs 2.00 per share in cash and Rs 2.00 in the form of a scrip dividend, (2011: Rs. 3.50/- per share) on both voting and non-voting shares of the Bank, be paid for the financial year ended December 31, 2012.

Further, this dividend is to be approved at the Annual General Meeting to be held on March 28, 2013. In accordance with the Sri Lanka Accounting Standard No.10, 'Events after the Reporting Period'. This proposed final dividend has not been recognised as a liability as at 31st December 2012. Under the Inland Revenue Act No 10 of 2006, a withholding tax of 10% has been imposed on dividends declared.

Compliance with Section 56 and 57 of Companies Act No 7 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 27, 2013 has been audited by Messrs KPMG.

55. Net Assets Value Per Ordinary Share

	GROUP			BANK		
	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	January 1, 2011 Rs. '000
Amounts used as the numerator:						
Shareholders' Funds	52,968,420	44,139,380	34,202,669	52,577,000	43,764,665	33,964,868
Number of ordinary shares used as the denominator:						
Total number of shares	833,487,980	817,450,166	377,486,582	833,487,980	817,450,166	377,486,582
Net assets value per share	63.55	54.00	90.61	63.08	53.54	89.98

56. Non-Cash Items Included In Profit Before Tax

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Depreciation of property, plant & equipment	942,765	734,115	859,675	648,543
Amortisation of leasehold property	1,452	1,452	942	942
Amortisation of intangible assets	174,104	98,172	174,055	98,118
Impairment losses on loans and advances	3,158,291	1,746,745	3,158,291	1,746,745
Other impairment	-	-	38,469	61,154
Share based payment expense	-	-	-	-
Others	-	-	-	-
Total	4,276,612	2,580,484	4,231,432	2,555,502

57. Change In Operating Assets

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Change in derivative financial instruments	1,311,483	(130,304)	1,311,483	(130,304)
Net increase in debt securities, treasury bills and bonds and equity shares held at fair value through profit or loss	-	-	-	-
Net increase in balances with Central Banks	825,080	5,154,125	825,080	5,154,125
Net increase in placements with banks	4,488,607	9,839,103	4,488,607	9,839,103
Net increase/(decrease) in other financial assets held for trading	(376,900)	(3,958,931)	(376,900)	(3,958,931)
Net increase in loans and receivables to banks	48,602	11,454	48,602	11,454
Net increase in loans and receivables to customers	61,688,630	67,763,696	61,587,405	67,699,765
Net increase/(decrease) in financial investments available for sale	(4,071,639)	(13,979,340)	(4,071,639)	(13,979,340)
Change in other assets	1,908,901	1,555,580	1,871,093	1,566,240
Total	65,822,764	66,255,383	65,683,731	66,202,112

58. Change In Operating Liabilities

	GROUP		BANK	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Change in due to banks	(6,810,540)	5,455,190	(6,810,540)	5,455,190
Change in derivative financial instruments	(350,880)	408,091	(350,880)	408,091
Change in deposits from banks, customers and debt securities issued	66,871,054	60,065,926	66,856,800	60,088,701
Change in other borrowings	(1,889,060)	(4,458,908)	(1,889,943)	(4,429,620)
Change in other provisions	1,874	(1,834)	1,874	(1,834)
Change in other liabilities	2,205,681	830,119	2,200,427	822,591
Change in due to subsidiaries	-	-	(7,470)	(11,714)
Total	60,028,129	62,298,584	60,000,268	62,331,405

59. Explanation of Transition to New Sri Lanka Accounting Standards (SLASs)

As stated in Note 2 (i), these are the Bank's first Financial Statements prepared in accordance with new Sri Lanka Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by The Institute of Chartered Accountants of Sri Lanka (ICASL).

The Accounting Policies set out in Note 3 to 6 have been applied in preparing the Financial Statements for the year ended December 31, 2012, the comparative information presented in these Financial Statements for the year ended December 31, 2011 and in the preparation of an opening Statement of Financial Position as at January 1, 2011 (the Bank's date of transition).

In preparing its opening new SLAS Statement of Financial Position, the Bank has adjusted amounts reported previously in Financial Statements prepared in accordance with previous SLAS. An explanation of how the transition from previous SLASs has affected the Bank's financial position and financial performance is set out in the following tables and notes that accompany the tables.

59.1 Reconciliation of Equity - Group

	Note	January 01, 2011			December 31, 2011		
		Previous	Effect of	New	Previous	Effect of	New
		SLASs	Transition to	SLASs	SLASs	Transition to	SLASs
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS							
Cash and cash equivalents	a	8,316,822	226	8,317,048	12,906,524	28,471	12,934,995
Balances with central banks		12,188,834	–	12,188,834	17,342,959	–	17,342,959
Placements with banks	b	2,287,384	(452,124)	1,835,260	12,128,793	(454,430)	11,674,363
Derivative financial instruments	c	–	169,916	169,916	–	39,612	39,612
Other financial assets held for trading	d	15,037,113	(4,660,172)	10,376,941	11,983,361	(5,565,351)	6,418,010
Loans and receivables to banks	e	–	568,704	568,704	–	580,158	580,158
Loans and receivables to other customers	f	243,497,792	4,812,255	248,310,047	308,177,705	6,149,293	314,326,998
Financial investments - Available for sale	g	75,538,705	815,949	76,354,654	61,559,365	(143,970)	61,415,395
Financial investments - Held-to-maturity		–	–	–	–	–	–
Investments in subsidiaries		–	–	–	–	–	–
Investments in associates	h	79,581	27,278	106,859	85,107	34,874	119,981
Property, plant & equipment		6,589,228	–	6,589,228	8,503,211	–	8,503,211
Intangible assets		425,255	–	425,255	475,038	–	475,038
Leasehold property		114,680	–	114,680	113,228	–	113,228
Deferred tax assets	i	–	128,496	128,496	–	363,711	363,711
Other assets	j	6,182,546	(425,176)	5,757,370	8,058,614	(768,316)	7,290,298
Total Assets		370,257,940	985,352	371,243,292	441,333,907	264,052	441,597,959
LIABILITIES							
Due to banks	k	6,116,521	2,394	6,118,915	11,539,755	34,350	11,574,105
Derivative financial instruments	l	–	27,080	27,080	–	435,171	435,171
Other financial liabilities held for trading		–	–	–	–	–	–
Due to other customers	m	259,744,568	3,887,134	263,631,702	318,404,310	5,293,318	323,697,628
Other borrowings	n	53,913,344	569	53,913,913	49,448,835	6,170	49,455,005
Debt securities issued		–	–	–	–	–	–
Current tax liabilities	o	2,455,002	–	2,455,002	1,139,174	167,905	1,307,079
Deferred tax liabilities	p	992,710	128,496	1,121,206	1,369,570	270,257	1,639,827
Other provisions		2,369	–	2,369	535	–	535
Other liabilities	q	11,367,219	(3,892,629)	7,384,590	13,861,245	(5,647,246)	8,213,999
Due to subsidiaries		–	–	–	–	–	–
Subordinated term debts	r	2,127,030	232,215	2,359,245	973,210	132,429	1,105,639
Total liabilities		336,718,763	295,259	337,014,022	396,736,634	692,356	397,428,988

		January 01, 2011			December 31, 2011		
		Previous	Effect of	New	Previous	Effect of	New
		SLASs	Transition to	SLASs	SLASs	Transition to	SLASs
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
EQUITY							
Stated capital		10,811,193	–	10,811,193	16,473,861	–	16,473,861
Statutory reserves		2,471,830	–	2,471,830	2,890,305	–	2,890,305
Retained earnings	s	1,474,851	(125,857)	1,348,994	2,871,412	(283,218)	2,588,194
Other reserves	t	18,754,702	815,950	19,570,652	22,332,080	(145,060)	22,187,020
Total equity to equity owners of the bank		33,512,576	690,093	34,202,669	44,567,658	(428,278)	44,139,380
Non-controlling Interest	x	26,601	–	26,601	29,615	(26)	29,589
Total equity		33,539,177	690,093	34,229,270	44,597,273	(428,304)	44,168,969
Total liabilities and equity		370,257,940	985,352	371,243,292	441,333,907	264,052	441,597,959
Contingent liabilities and commitments		196,617,166	–	196,617,166	234,551,169	–	234,551,169

59.2 Reconciliation of Equity - Bank

		January 01, 2011			December 31, 2011		
		Previous	Effect of transition to	New	Previous	Effect of transition to	New
		SLASs	SLASs	SLASs	SLASs	SLASs	SLASs
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS							
Cash and cash equivalents	a	8,269,606	226	8,269,832	12,882,518	28,471	12,910,989
Balances with central banks		12,188,834	–	12,188,834	17,342,959	–	17,342,959
Placements with banks	b	2,287,384	(452,124)	1,835,260	12,128,793	(454,430)	11,674,363
Derivative financial instruments	c	–	169,916	169,916	–	39,612	39,612
Other financial assets held for trading	d	15,037,113	(4,660,172)	10,376,941	11,983,361	(5,565,351)	6,418,010
Loans and receivables to banks	e	–	568,704	568,704	–	580,158	580,158
Loans and receivables to other customers	f	243,720,692	4,812,255	248,532,947	308,336,674	6,149,293	314,485,967
Financial investments - Available for sale	g	75,538,705	815,949	76,354,654	61,559,365	(143,970)	61,415,395
Financial investments - Held-to-maturity		–	–	–	–	–	–
Investments in subsidiaries	h	353,898	–	353,898	315,444	–	315,444
Investments in associates		44,331	–	44,331	44,331	–	44,331
Property, plant & equipment		5,929,561	–	5,929,561	7,907,030	–	7,907,030
Intangible assets		419,311	–	419,311	467,014	–	467,014
Leasehold property		79,188	–	79,188	78,246	–	78,246
Deferred tax assets	i	–	117,056	117,056	–	359,617	359,617
Other assets	j	6,191,519	(421,893)	5,769,626	8,053,551	(763,037)	7,290,514
Total Assets		370,060,142	949,917	371,010,059	441,099,286	230,363	441,329,649

	Note	January 01, 2011			December 31, 2011		
		Previous	Effect of	New	Previous	Effect of	New
		SLASs	transition to	SLASs	SLASs	transition to	SLASs
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
LIABILITIES							
Due to Banks	k	6,116,521	2,394	6,118,915	11,539,755	34,350	11,574,105
Derivative financial instruments	l	–	27,080	27,080	–	435,171	435,171
Other financial liabilities held for trading		–	–	–	–	–	–
Due to other customers	m	259,778,911	3,887,136	263,666,047	318,461,431	5,293,317	323,754,748
Other borrowings	n	54,028,907	3,855	54,032,762	49,592,779	10,363	49,603,142
Debt securities issued		–	–	–	–	–	–
Current tax liabilities	o	2,448,039	–	2,448,039	1,137,537	167,905	1,305,442
Deferred tax liabilities	p	892,441	117,056	1,009,497	1,327,580	266,506	1,594,086
Other provisions		2,369	–	2,369	535	–	535
Other liabilities	q	11,322,424	(3,982,635)	7,339,789	13,829,997	(5,647,615)	8,162,382
Due to subsidiaries		41,448	–	41,448	29,734	–	29,734
Subordinated term debts	r	2,127,030	232,215	2,359,245	973,210	132,429	1,105,639
Total liabilities		336,758,090	287,101	337,045,191	396,872,558	692,426	397,564,984
EQUITY							
Stated capital		10,811,193	–	10,811,193	16,473,861	–	16,473,861
Statutory reserves		2,471,830	–	2,471,830	2,890,305	–	2,890,305
Retained earnings	s	1,515,928	(153,134)	1,362,794	2,865,430	(318,094)	2,547,336
Other reserves	t	18,503,101	(815,950)	19,319,051	21,997,132	(143,969)	21,853,163
Total equity to equity owners of the bank		33,302,052	662,816	33,964,868	44,226,728	(462,063)	43,764,665
Non-controlling interest		–	–	–	–	–	–
Total equity		33,302,052	662,816	33,964,868	44,226,728	(462,063)	43,764,665
Total liabilities and equity		370,060,142	949,917	371,010,059	441,099,286	230,363	441,329,649
Contingent liabilities and commitments		196,617,166	–	196,617,166	234,551,169	–	234,551,169

59.3 Reconciliation of Comprehensive Income for the year ended December 31, 2011

For the year ended December 31,

	Note	2011 - Group			2011 - Bank		
		Previous	Effect of	New	Previous	Effect of	New
		SLASs	transition to	SLASs	SLASs	transition to	SLASs
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross income		45,465,380	373,564	45,838,944	45,483,391	375,826	45,859,217
Interest income	f,a,u	37,907,740	406,008	38,313,748	37,947,239	408,304	38,355,543
Less: Interest expenses	m,c	19,627,957	7,391	19,635,348	19,642,938	7,391	19,650,329
Net interest income		18,279,783	398,617	18,678,400	18,304,301	400,913	18,705,214
Fees and commission income	q	3,799,503	(34,428)	3,765,075	3,799,616	(34,428)	3,765,188
Less: Fees and commission expenses		439,825	–	439,825	439,825	–	439,825
Net fees and commission income		3,359,678	(34,428)	3,325,250	3,359,791	(34,428)	3,325,363
Net gain/(loss) from trading	f	(463,588)	1,950	(461,638)	(463,588)	1,950	(461,638)
Net gain/(loss) from financial instruments designated at fair value through profit or loss		–	–	–	–	–	–
Net gain/(loss) from financial investments		38,030	–	38,030	38,030	–	38,030
Other operating income (net)	u	4,183,695	34	4,183,729	4,162,094	–	4,162,094
Total operating income		25,397,598	366,173	25,763,771	25,400,628	368,435	25,769,063
Impairment charges for loans and other losses	f	1,503,227	243,518	1,746,745	1,564,381	243,518	1,807,899
Net operating income		23,894,371	122,655	24,017,026	23,836,247	124,917	23,961,164
Less: Expenses							
Personnel expenses	q,v	6,133,599	212,822	6,346,421	6,076,906	212,787	6,289,693
Other expenses	w	5,178,292	–	5,178,292	5,248,973	2,296	5,251,269
Operating profit before value added tax (VAT)		12,582,480	(90,167)	12,492,313	12,510,368	(90,166)	12,420,202
Less: Value added tax (VAT) on financial services		1,522,972	–	1,522,972	1,522,972	–	1,522,972
Operating profit after value added tax (VAT)		11,059,508	(90,167)	10,969,341	10,987,396	(90,166)	10,897,230
Share of profits/(losses) of associates	h	9,113	1,765	10,878	–	–	–
Profit before income tax		11,068,621	(88,402)	10,980,219	10,987,396	(90,166)	10,897,230
Less: Income tax expense	o	2,973,468	74,450	3,047,918	2,939,567	74,794	3,014,361
Profit for the year		8,095,153	(162,852)	7,932,301	8,047,829	(164,960)	7,882,869
Profit attributable to:							
Equity owners of the bank		8,094,888	(162,826)	7,932,062	8,047,829	(164,960)	7,882,869
Non-controlling interest	x	265	(26)	239	–	–	–
Profit for the year		8,095,153	(162,852)	7,932,301	8,047,829	(164,960)	7,882,869

Explanation of Transition to SLFRS

Notes to the Reconciliations

(a) Cash and Cash Equivalents

The difference in Cash and Cash Equivalents is mainly due to interest receivable on Nostro accounts being recognised as part of the Cash and Cash Equivalents at the end every year as part of the amortised balance according to new SLASs requirement. The respective interest receivable balance was previously classified under other assets.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest receivable on call placement	226	28,471	226	28,471
	226	28,471	226	28,471

(b) Placements with Banks

The interest receivable on time placements was recognised as part of the Placements with Banks at the year end as part of the amortised cost according to new SLASs requirement. The respective interest receivable balance was previously classified under other assets.

A non-interest earning placement which is subject to litigation with another bank hitherto recorded under 'Placements with Banks' has now been categorised under 'Loans Receivable to Banks'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Placement transferred to loans and receivable to Bank	(463,704)	(475,380)	(463,704)	(475,380)
Interest receivable on other placement	11,580	20,950	11,580	20,950
	(452,124)	(454,430)	(452,124)	(454,430)

(c) Derivative Financial Instruments

Forward transactions with the customers were recorded in the Forward Equalisation account and the net balances of those transactions were reported under Other Assets or Other Liabilities. Profits on forward transactions on the assets side of the equalisation account is now reported as a separate line item in the Statement of Financial Position under the above caption.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Reversal of interest on SWAPs	–	(59)	–	(59)
	–	(59)	–	(59)
Consolidated Statement of Financial Position				
Reclassification				
Recognition of profits on forward transactions	169,916	39,612	169,916	39,612
	169,916	39,612	169,916	39,612

(d) Other Financial Assets Held for Trading

The Bank in its ordinary course of business is engaged in speculative activities and investments made on this basis were recorded under various asset categories as per previous SLAS. Eg. Dealing Securities, Government Treasury Bills and Bonds etc. All such items that the Bank purchased with the intention of selling in the short term is now classified as 'Held for Trading' as per new SLAS. Further certain investments previously classified under trading portfolio now have been reclassified to Loans and Receivables on the assumption that they do not have an active market to determine the fair-value of the instrument.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Government US\$ Bonds transferred to loans and receivable	(4,604,673)	(5,482,391)	(4,604,673)	(5,482,391)
Treasury Bills portfolio transferred to loans and receivable	(55,499)	(82,960)	(55,499)	(82,960)
	(4,660,172)	(5,565,351)	(4,660,172)	(5,565,351)

(e) Loans and Receivables to Banks

A non-interest earning placement which is subject to litigation with another bank hitherto recorded under 'Placements with Banks' now classified under 'Loans receivable to Banks'.

Further investments made on debentures of the banks has now have been reclassified under this category.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Placement transferred from placements with banks	463,704	475,380	463,704	475,380
Debentures transferred from loans and receivable from other customers	105,000	95,000	105,000	95,000
Interest receivable on debentures	-	9,778	-	9,778
	568,704	580,158	568,704	580,158

(f) Loans and Receivables to Other Customers

Interest receivable on 'Loans and Receivable' hitherto recorded under Other Assets is now categorised under 'Loans and Receivable to Other customers'.

Regulatory time based provisioning replaced with the impairment provisioning methodology based on the incurred loss model as per new SLAS requirement.

According to Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instrument Recognition and Measurement', the amortised cost of the financial Asset includes the cumulative amortisation using the Effective Interest Rate (EIR) method. Accordingly, the interest receivable has been added to the unwinding value of the Financial Assets.

The un-amortised staff costs arising from the Staff Loans being deducted from loans and receivables and classified under other assets.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Reversal of interest in suspense	-	113,426	-	113,426
Unwinding interest - Reversal of IIS already accrued	-	(174,353)	-	(174,353)
Unwinding interest - Reversal of cash collected (in good funds)	-	(1,028)	-	(1,028)
Accrual of interest on impaired loans	-	285,139	-	285,139
Reversal of MTM loss on UDA Debenture due to reclassification as L&R	-	1,951	-	1,951
Impairment charge for loans and other losses	-	243,517	-	243,517
	-	468,653	-	468,653

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Government US\$ Bonds transferred from financial assets held for trading	4,604,673	5,482,393	4,604,673	5,482,393
Treasury Bills portfolio transferred from financial assets held for trading	55,499	82,960	55,499	82,960
Interest receivable on loans and advances	1,525,801	2,087,148	1,525,801	2,087,148
Interest receivable on investments	334,729	416,305	334,729	416,305
Debentures transferred to loans and receivable to Bank	(105,000)	(95,000)	(105,000)	(95,000)
New SLAS Adjustments				
Reversal of provision for credit losses as per CBSL	4,899,632	5,020,659	4,899,632	5,020,659
Reversal of interest in suspense	6,434,845	6,548,272	6,434,845	6,548,272
Allowance for impairment	(11,346,106)	(11,600,892)	(11,346,106)	(11,600,892)
Unamortised staff cost	(1,591,817)	(1,792,552)	(1,591,817)	(1,792,552)
	4,812,255	6,149,293	4,812,255	6,149,293

(g) Financial Investments - Available-for-Sale

The Bank invests on certain assets with the intention of holding them to maturity. These assets are now categorised under 'Financial Investments Available-for-Sale' and recorded in the Statement of Financial Position at market value. These assets previously carried at cost. The difference between the cost and the fair value is accounted in the Statement of Change in Equity through 'Other Comprehensive Income'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Mark to market valuation on Government Securities		(957,776)		(957,776)
Mark to market valuation on quoted shares	-	(2,143)	-	(2,143)
	-	(959,919)	-	(959,919)
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Mark to market valuation on Government Securities	810,887	(146,889)	810,887	(146,889)
Mark to market valuation on quoted shares	5,062	2,919	5,062	2,919
	815,949	(143,970)	815,949	(143,970)

(h) Investments in Associates

This represents the mark to market gain on the investments made in an Associate Company due to reclassification of the investment as 'Financial Assets Available-for-Sale'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Share of profits - Income Statement		1,765		
Share of other comprehensive income		5,465		
	-	7,230	-	-
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Mark to market valuation of shares by associate company	27,278	34,874		
	27,278	34,874	-	-

(i) Deferred Tax Assets

The 'Deferred Tax Assets' were netted off against the 'Deferred Tax Liabilities' which has been brought as a separate line item under Deferred Tax Assets per the New SLAS.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Reclassified from deferred tax liability	128,496	363,711	117,056	359,617
	128,496	363,711	117,056	359,617

(j) Other Assets

Resulting changes due to the classification as per new SLAS.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest and fees receivable on loans and other investments	(1,874,357)	(2,560,868)	(1,871,074)	(2,559,417)
Reversal of net forward transaction profit	(142,636)	-	(142,636)	-
New SLAS Adjustments				
Unamortised staff cost (Refer Note f)	1,591,817	1,792,552	1,591,817	1,792,552
Prepayments				3,826
	(425,176)	(768,316)	(421,893)	(763,039)

(k) Due to Banks

Interest payable to banks hitherto classified under 'Other Liabilities' has now been added back to 'Due to Banks Balance' as part of amortised cost.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on borrowings	2,394	34,350	2,394	34,350
	2,394	34,350	2,394	34,350

(l) Derivative Financial Instruments

Forward transactions with the customers were recorded in the Forward Equalisation account and the net balances arising from those transactions were reported under Other Assets. Loss on forward transactions which was on the assets side of the equalisation account is now reported as a separate line item in the Statement of Financial Position.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Recognition of forward transaction loss	27,080	435,171	27,080	435,171
	27,080	435,171	27,080	435,171

(m) Due to Other Customers

Interest payable to customers hitherto classified under 'Other Liabilities' has now been added back to 'Due to Other Customers' as part of amortised cost. Further, interest on deposits being recorded using EIR.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
EIR adjustment on Deposits	-	7,332	-	7,332
	-	7,332	-	7,332
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on deposits	4,173,991	5,572,839	4,173,991	5,572,839
New SLAS Adjustments				
EIR adjustment	(286,855)	(279,522)	(286,855)	(279,522)
	3,887,136	5,293,317	3,887,136	5,293,317

(n) Other Borrowings

Interest of refinance borrowings hitherto categorised under 'Other Liabilities' has now been added back to 'Other Borrowings'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on borrowings	569	6,170	3,855	10,363
	569	6,170	3,855	10,363

(o) Current Tax Liabilities

The impact arising due to SLFRS adjustments is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Income tax expense	–	74,450	–	74,450
	–	74,450	–	74,450
Consolidated Statement of Financial Position				
New SLAS Adjustment				
Current tax liability	–	167,905	–	167,905
	–	167,905	–	167,905

(p) Deferred Tax Liabilities

The 'Deferred Tax Assets' which was previously netted off against 'Deferred Tax Liabilities' now being disclosed separately. Further, deferred tax impact due to New SLAS adjustments has been recorded under Deferred Tax liabilities.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Deferred tax asset reclassified	128,496	363,711	117,056	359,617
New SLAS Adjustment				
Deferred Tax Impact	–	(93,454)	–	(93,111)
	128,496	270,257	117,056	266,506

(q) Other Liabilities

Interest payable on Deposits and Other borrowings hitherto recognised under 'Other Liabilities' has now been reclassified under the relevant borrowings. Forward Equalisation balances previously recorded under other liabilities, disclosed separately as 'Derivative Financial Instruments'.

Commission income which hitherto recognised on the cash basis being adjusted to recognise the income over the period of the underlying instrument.

Further, provision has been made for amounts payable o/a leave encashment and recorded under other liabilities.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Comprehensive Income				
Derecognition of commission income	-	(34,428)	-	(34,428)
Provision for leave encashment	-	29,965	-	29,965
	-	(4,463)	-	(4,463)
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on Deposits and other borrowings	(4,412,447)	(5,745,789)	(4,412,453)	(5,749,984)
Forward equalisation	-	(395,668)	-	(395,668)
New SLAS Adjustments				
Provision for leave encashment	302,574	332,539	302,574	332,539
Related party payable	-	-	-	3,826
Deferment of commission income	127,244	161,672	127,244	161,672
	(3,982,629)	(5,647,246)	(3,982,635)	(5,647,615)

(r) Subordinated Term Debts

Under new SLAS interest receivable on borrowings being added back to respective line item in order reflect amortised cost in the statement of financial position.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Consolidated Statement of Financial Position				
Reclassification				
Interest payable on Debentures	232,215	132,429	232,215	132,429
	232,215	132,429	232,215	132,429

(s) Retained Earnings

The impact arising due to new SLAS adjustments is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Reversal of interest in suspense	6,434,845	113,426	6,434,845	113,426
Reversal of provisions	4,899,631	1,479,754	4,899,631	1,479,753
Allowance for impairment	(11,346,106)	(1,613,512)	(11,346,106)	(1,613,512)
EIR adjustment on deposits	286,855	(7,332)	286,855	(7,332)
UDA MTM Provision Reversal due to reclassified as L&R	1,400	1,951	1,400	1,951
Leave encashment	(302,574)	(29,965)	(302,574)	(29,965)
Derecognition of commission income	(127,244)	(34,428)	(127,244)	(34,428)
Interest rate SWAPs	59	(59)	59	(59)
Change in the income tax	-	(167,562)	-	(167,905)
Change in the deferred tax	-	93,110	-	93,111
Share of profit/(loss) from associates	27,277	7,230	-	-
Change in non-controlling interest	-	26	-	-
	(125,857)	(157,361)	(153,134)	(164,960)

(t) Other Reserves

The Bank invests on certain assets with the intention of holding it to maturity. However, these assets are categorised under 'Financial investments available-for-sale' and are recorded in the Statement of Financial Position at fair value. The difference between the cost and the fair value is accounted in the Statement of Change in Equity through 'Other Comprehensive Income'.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Mark to market valuation on Government Securities	810,887	(146,889)	810,887	(146,889)
Mark to market valuation on Quoted shares	5,062	2,919	5,062	2,919
Other movements	-	(1,090)	-	-
	815,950	(145,060)	815,949	(143,970)

(u) Interest Income

Arising due to amortisation of day one difference on Staff loans granted at concessionary rates and due to recording of interest income on prepaid deposits as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Comprehensive Income				
Amortised staff cost - Interest income	-	182,857	-	182,823
Interest on pre-paid Deposits	-	-	-	2,296
	-	182,857	-	185,119

(v) Personnel Expenses

There was a difference as a result of amortisation of day one difference on Staff loans granted at concessionary rates and was duly accounted.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Comprehensive Income				
Amortised staff cost - Personnel expenses	-	182,857	-	182,823
	-	182,857	-	182,823

(w) Other Expenses

Arising due to adjustment on prepaid interest free deposit for rent.

The impact arising from the change is summarised as follows:

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Comprehensive Income				
Rent expense	-	-	-	2,296
	-	-	-	2,296

(x) Non-Controlling Interest (NCI)

Change in the net assets of the subsidiaries due to the SLFRS related adjustments.

	Group		Bank	
	January 1, 2011	December 31, 2011	January 1, 2011	December 31, 2011
	Rs.	Rs.	Rs.	Rs.
Consolidated Statement of Comprehensive Income				
Change in non-controlling income	-	(26)	-	-
		(26)		
Consolidated Statement of Financial Position				
New SLAS Adjustments				
Change in net asset in the Group subsidiary		(26)		
		(26)		

60. Financial Risk Management

The Bank's Risk Strategy focuses on managing principal risks assumed by the Bank while striking a fair balance between the risk return trade-off and the efficient capital allocation across the risk exposures. The Bank's Risk strategy reinforces and supports the organisation in achieving its overall strategic objective within a pre-defined risk environment in alignment with the Bank's overall risk profile.

Integrity and the effectiveness of the Risk Management Organisational Structure is well supported by the Bank's robust Risk Governance Framework which consist of Board and Senior Management oversight, independent risk management function, supporting policy framework, risk related committees etc. The Bank actively encourages the business managers as "risk owners" to assume calculated risk within the stipulated risk appetite and tolerance levels.

The Bank is a major participant in the banking and financial services industry. The financial risks associated with these activities are a significant component of the Bank's overall risk exposure. The key financial risks faced by the Bank are:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

Financial risks are managed and overseen as part of the Bank's broader risk management framework and governance processes.

Based on the exemption granted by The Institute of Chartered Accountants of Sri Lanka on first time adoption of the new Sri Lanka Accounting Standards, the comparative details of quantitative disclosures relating to the key risks faced by the Bank, have not been disclosed in this Note.

Credit Risk

Credit risk is the risk of loss resulting from the failure of borrowers or counterparties to meet their debt or contractual obligations as a result of deterioration in the credit quality of the borrower or counterparty. Exposure to credit risk arises basically from lending and trading activities.

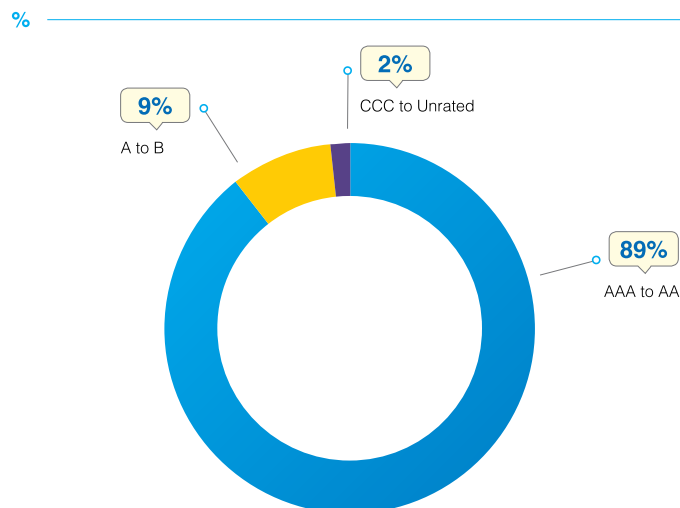
The Bank always considers that credit risk management should be a value enhancing activity that goes beyond regulatory compliance, encompassing:

- I. An appropriate credit risk environment which seeks risk optimisation.
- II. Operating under a sound credit approval and granting process.
- III. Maintaining of an appropriate credit administration, measurement and monitoring process and
- IV. Ensuring of adequate controls over credit risk on a continuous basis.

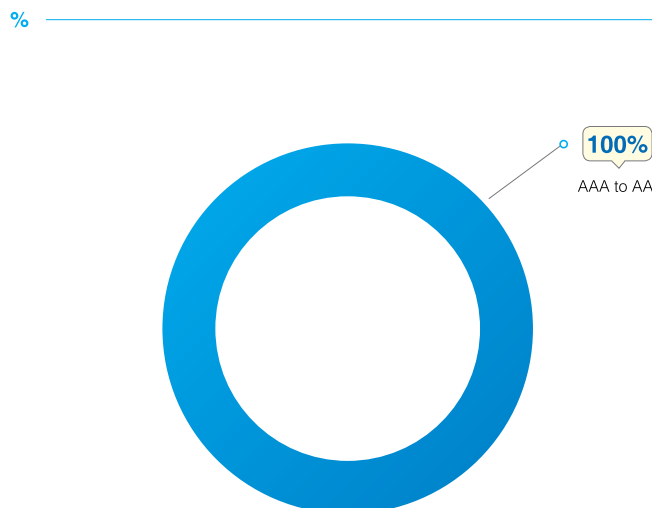
Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), the classification criteria of loans and advances as NPA (impaired) has been changed and a comprehensive explanation of the Bank's policy is given under Note 3.3.10 - Impairment of Financial Assets in the Notes to the Financial Statements].

With the automation of the credit evaluation process during the year 2012, the Bank is working towards its risk grading system with the potential capability of predicting the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD) of a borrower. These indicators would help the Lending Officers to measure the risk profile of the credit portfolios in an objective manner.

Concentration of Counterparty Exposures in Sri Lanka Fitch Ratings-wise as at December 31, 2012



Concentration of Counterparty Exposures in Bangladesh CRAB* Ratings-wise as at December 31, 2012



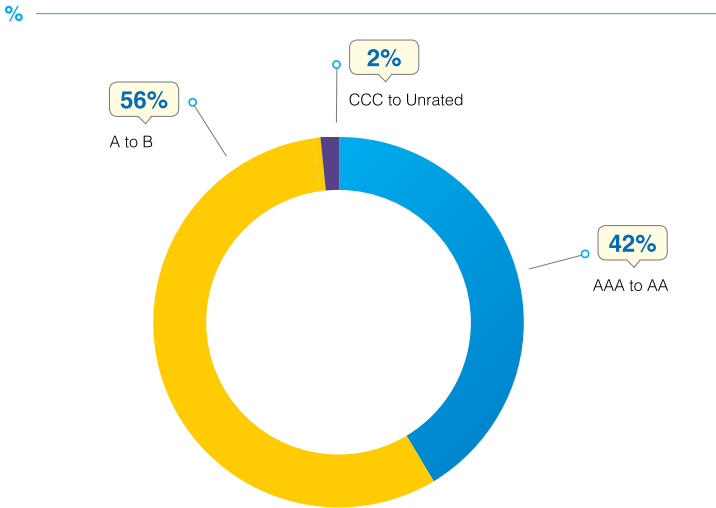
*Equal CRISL ratings are given where CRAB ratings are unavailable.

Segmentation of NPA Portfolio as at December 31, 2012 by Geographic Area

Province/Geographic Area	Total NPA	Rs. '000	
		Specific Provisions for Bad Debts	General Provision
Central	611,314	186,755	68,186
Eastern	163,835	69,763	13,605
North Central	216,714	129,363	20,674
Northern	673,105	205,841	26,724
North Western	737,208	238,537	68,390
Sabaragamuwa	326,928	160,600	25,914
Southern	1,377,643	694,726	62,728
Uva	127,520	56,520	15,514
Western	8,412,005	3,245,594	1,067,816
Bangladesh	205,778	90,048	66,342
Maldives	-	-	-
Other Foreign Geographies	-	-	-
Total	12,852,050	5,077,747	1,435,893

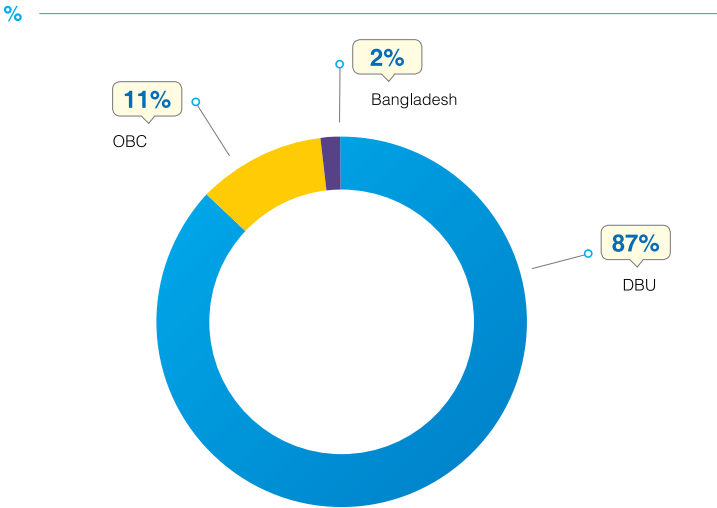
Note: The above figures have been prepared as per SLAS and may differ from SLFRS figures.

Concentration of Foreign Counterparty Exposure
(Sri Lanka & Bangladesh Operations)
Credit Ratings-wise** as at December 31, 2012

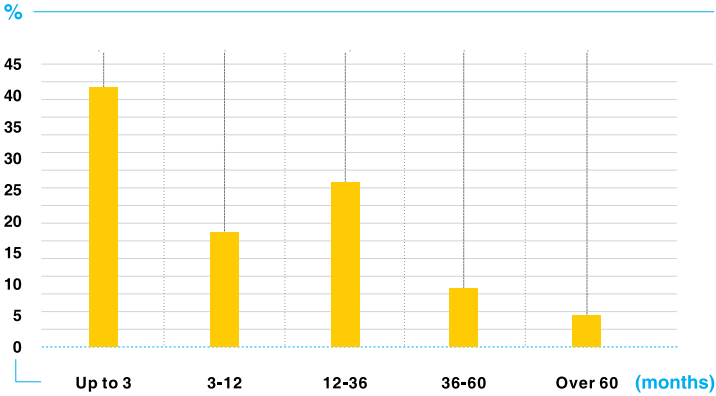


** S&P ratings or other equivalent international credit ratings are given where S&P ratings are unavailable.

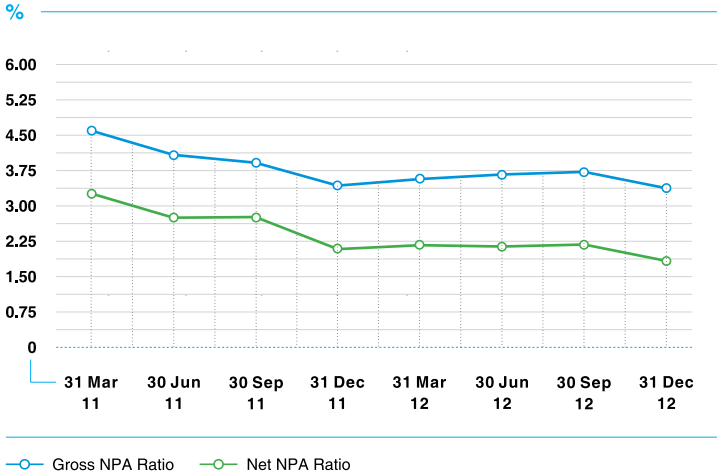
Distribution of Specific Provisions as at December 31, 2012



Tenor-wise Breakdown of Loans and Receivables from
Other Customers as at December 31, 2012



Movement of Gross & Net Non-Performing Advances Ratios
during the years 2011 & 2012



Liquidity Risk

Liquidity risk is the potential vulnerability of a financial institution for not being able to fund increases in assets and meet contractual and contingent financial obligations, on-or off-Balance Sheet, as they come due without incurring unacceptable losses.

Banks in the business of financial intermediation are by nature vulnerable to liquidity and solvency problems resulting from asset and liability mismatches. Thus, the Bank's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective, the Bank continuously analyse and monitor liquidity risk, maintain an adequate margin of safety in liquid resources and access diverse funding sources to meet liquidity requirements.

The Bank's liquidity risk governance process is designed to ensure that its liquidity position remains strong while efficiency of resources is not compromised. Accordingly, the management of funding and liquidity risk is centralised at the Treasury Asset and Liability Management (ALM) desk which approach maximises liquidity access, minimises funding costs and enhances identification and coordination of liquidity risk and involves frequent communication with the business segments, comprehensive market-based pricing of all financial assets and liabilities, continuous Balance Sheet monitoring, frequent stress testing of liquidity sources, and frequent reporting and communication provided to senior management and the Board of Directors regarding the Bank's liquidity position.

Treasury is entrusted with the task of monitoring daily liquidity requirement of the Bank. This process ensures maintenance of sufficient liquidity to meet daily liquidity obligations and ability to withstand a period of Bank specific/market specific liquidity stress and reports through Head of Treasury to Asset and Liability Management Committee (ALCO). ALCO meets at least fortnightly and is responsible for managing and controlling the overall liquidity of the Bank and reviews the impact of strategic decisions on Bank liquidity.

Note 50 (b) to the Financial Statements discloses the maturity analysis of the Bank's assets and liabilities

Market Risk

Market risk is the likelihood of the Bank incurring losses as a result of values of assets and liabilities or revenues being adversely affected by changes in financial market conditions such as movements in interest rates, exchange rates, equity prices, or commodity prices. The Banks' exposure to market risk arises as a result of dealing in financial products including loans, deposits, securities, short term borrowings, long term debt etc., to facilitate both customer-driven and proprietary transactions.

Market Risk Management Unit (MRMU) of the Integrated Risk Management Department (IRMD) works in close relationship with various business units and control/monitoring units of the Bank in order to identify, measure, monitor, and report market risk related exposures thereby providing transparency into Banks' market risk profile. Treasury Middle Office, an integral part of MRMU, independently evaluates and monitors transactions carried out by the Banks' Treasury from a risk perspective.

Based on the exemptions granted on First-time Adoption in SLFRS 7 - Financial Instruments Disclosures, quantitative disclosures of market risk have not been provided in this Note.

Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. The legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The Bank recognises that operational risk is inherent in all business activities and can bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, or legal or regulatory penalties if such risks are not objectively managed.

The management of operational risk is therefore, an important priority of the Bank. The Bank has a comprehensive operational risk programme that enables the identification, measurement, monitoring, controlling and reporting of inherent and emerging operational risks.

The Bank's operational risk governance structure includes the Board Integrated Risk Management Committee (BIRMC) which is overseeing the operational risk management programme maintains by the Executive Integrated Risk Management Committee (EIRMC). The business units of the Bank are responsible for implementing the framework as well as the day-to-day management of operational risk, creating a partnership that ensures close monitoring and increasing awareness for operational risk.

Capital Management

The Regulatory Capital requirements are set by the Central Bank of Sri Lanka are based on Basel II framework.

The details of the computation of capital and the ratios of the Group as at December 31, 2012 are given below:

	2012 Rs. '000	2011 Rs. '000
Computation of Capital		
Tier I: Core Capital		
Paid-up ordinary shares	18,008,797	17,945,271
Statutory reserve fund	3,245,819	2,740,902
Published retained profits/(accumulated losses)(+/-)	1,557	43,865
General and other reserves	24,307,575	17,856,434
Minority interests (consistent with the above capital constituents)	32,141	29,615
Less:		
Other intangible assets	(506,160)	(475,038)
Advances granted to employees of the Bank for the purchase of shares of the Bank (ESOP)	(1,548)	(2,105)
50% Investments in the capital of other banks and financial institutions	(402)	(402)
Total eligible core capital (Tier I capital)	45,087,778	38,138,542
Tier II : Supplementary Capital		
Revaluation reserves (as approved by Central Bank of Sri Lanka)	2,034,231	651,037
General provisions	1,500,098	1,201,991
Approved subordinated term debt	778,238	972,880
Less:		
50% Investments in the capital of other banks and financial institutions	(402)	(402)
Total Eligible Supplementary Capital (Tier II capital)	4,312,165	2,825,506
Total capital base	49,399,944	40,964,048
Computation of Ratios		
Total risk-weighted assets (RWA)		
Total risk-weighted assets for credit risk	319,302,207	280,074,154
Total risk-weighted assets market risk	3,082,784	3,635,371
Total risk-weighted assets operational risk	34,562,622	31,262,271
Sub total	356,947,613	314,971,795

	2012	2011
	Rs. '000	Rs. '000
Minimum Capital Charge		
Minimum capital charge for credit risk	31,930,221	28,007,415
Minimum capital charge for market risk	308,278	363,537
Minimum capital charge for operational risk	3,456,262	3,126,227
Sub total	35,694,761	31,497,180
Total Capital available to meet the Capital Charge for credit risk		
Total eligible core capital (Tier I capital)	45,087,778	38,138,542
Total eligible supplementary capital (Tier II capital)	4,312,165	2,825,506
Total capital base	49,399,944	40,964,048
Core Capital Ratio (minimum requirement 5%)		
Total eligible core capital (Tier I capital)	45,087,778	38,138,542
Total risk-weighted assets	356,947,613	314,971,795
	12.63%	12.11%
Total Capital Ratio (minimum requirement 10%)		
Total capital base	49,399,944	40,964,048
Total risk-weighted assets	356,947,613	314,971,795
	13.84%	13.01%

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 19 to the Financial Statements - Measurement of Financial Instruments.	Page 349
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 Note 3.3.4.1 - Financial liabilities at fair value through profit or loss	Page 324 Page 326
(ii) Reclassifications of financial instruments from one category to another.	Significant Accounting Policies: Note 3.3.5 - Reclassification of Financial Instruments	Page 327
(iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Not disclosed.	
(iv) Reconciliation of the allowance account for credit losses by class of financial assets.	Notes to the Financial Statements: Note 26 (2) - Movement in Allowance for Individual and Collective Impairment	Page 365
(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:	Pages 341 to 344
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 7 - Interest income	Page 341
(ii) Fee income and expense.	Note 08 to the Financial Statements: Net fees and commission income	Page 342
(iii) Amount of impairment losses by class of financial assets.	Note 12 to the Financial Statements: Impairment for loans and others losses	Page 343
(iv) Interest income on impaired financial assets.	Notes to the Financial Statements: Note 7.3 - Interest income on impaired financial assets	Page 341

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.	Page 323
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 assets held for trading Note 27 - Financial investments - for sale Note 36 - Derivative financial instruments	Page 352 Page 353 Page 371 Page 391
	(ii) Description of how fair value was determined.	Significant Accounting Policies: Note 3.3.9 - Determination of fair value	Page 328
	(iii) The level of inputs used in determining fair value.	Significant Accounting Policies: Note 3.3.9 - Determination of fair value	Page 328
	(iv) (a) Reconciliations of movements between levels of fair value measurement hierarchy.	There were No movements between levels of fair value hierarchy during the period under review.	
	(b) Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	Significant Accounting Policies: Note 3.3.2.1 - 'Day 1' profit or loss	Page 323
	(v) Information if fair value cannot be reliably measured.	Note 27 to the Financial Statements: Financial Investments - Available-for-Sale	Page 371
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.	Pages 229 to 268
2.1.3	Changes from the prior period.	There was no major policy change during the period under review.	

Disclosure Requirements	Description	Page No.															
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'.	Pages 229 to 268															
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'.	Pages 229 to 268															
(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.	The gross credit risk exposure on performing advances as at December 31, 2012, broken down by the credit quality is as follows: <table> <tr> <th>Risk Grade</th><th>Description</th><th>Value (Rs. Mn.)</th></tr> <tr> <td>A0</td><td>Cash & Gold</td><td>27,820.16</td></tr> <tr> <td>A1-A2</td><td>Very Good</td><td>10,077.55</td></tr> <tr> <td>A3-A5</td><td>Good</td><td>245,554.06</td></tr> <tr> <td>A6</td><td>Average</td><td>30,915.02</td></tr> </table> 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'.	Risk Grade	Description	Value (Rs. Mn.)	A0	Cash & Gold	27,820.16	A1-A2	Very Good	10,077.55	A3-A5	Good	245,554.06	A6	Average	30,915.02	Pages 229 to 268
Risk Grade	Description	Value (Rs. Mn.)															
A0	Cash & Gold	27,820.16															
A1-A2	Very Good	10,077.55															
A3-A5	Good	245,554.06															
A6	Average	30,915.02															
(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.	The gross credit risk exposure on non-performing advances as at December 31, 2012, broken down by the credit quality is as follows: <table> <tr> <th>Risk Grade</th><th>Description</th><th>Value (Rs. Mn.)</th></tr> <tr> <td>B6-B9</td><td>Non-performing</td><td>13,342.78</td></tr> </table> Factors considered in determining as impaired are discussed under Note 3.3.10 - Impairment of Financial Assets.	Risk Grade	Description	Value (Rs. Mn.)	B6-B9	Non-performing	13,342.78	Page 328									
Risk Grade	Description	Value (Rs. Mn.)															
B6-B9	Non-performing	13,342.78															
(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'.	Pages 229 to 268															
(ii) Liquidity Risk																	
(a) A maturity analysis of financial liabilities.	Note 50 to the Financial Statements - Maturity Analysis	Page 403															
(b) Description of approach to risk management.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268															
(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'.	Pages 229 to 268															

Disclosure Requirements	Description	Page No.
(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'.	Pages 229 to 268
(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'.	Pages 229 to 268
(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'.	Pages 229 to 268
(v) Equity Risk in the Banking Book		
(a) Qualitative Disclosures		
- 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 - Held to maturity financial investments Note 3.3.3.5 - Available for sale financial investments	Page 325 Page 325
(b) Quantitative Disclosures		
- 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 gain/loss from Financial Investments	Page 371 Page 376 Page 378 Page 343
(vi) Interest Rate Risk in the Banking Book		
(a) Qualitative Disclosures		
Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268
(b) Quantitative Disclosures		
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'.	Pages 229 to 268
2.2.3 Information on concentrations of risk.	Please refer the section relating to 'Managing Risk at Commercial Bank'.	Pages 229 to 268

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.	'Managing Risk at Commercial Bank' section in the Annual Report.	Pages 229 to 268
	(ii) Quantitative Disclosure		
	(a) The amount of Tier 1 capital, with separate disclosure of:	Notes to the Financial Statements: Note 60 - Financial Risk Management	Page 432
	• 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		
	(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.	'Managing Risk at Commercial Bank' section in the Annual Report.	Pages 229 to 268
	(ii) Quantitative Disclosures		
	(a) Capital requirements for credit risk, market risk and operational risk	Notes to the Financial Statements: Note 60 - Financial Risk Management	Page 432
	(b) Total and Tier 1 capital ratio		



444	—	446	—	447	—	448	—	458	→		
Independent Assurance Statement on Non-Financial Reporting		Independent Assurance Statement		Key Performance Indicators (Sustainability Reporting) ("KPI")		GRI Content Index		Awards and Accolades			
459	—	460	—	461	—	464	—	467	—	468	→
Group Structure		Historical Landmarks		Correspondent Banks		Glossary of Financial and Banking Terms		Alphabetical Index		Corporate Information	
469	—	471	—	Enclosed				→			
Notice of Meeting		Circular to Shareholders		Form of Proxy (Voting Shareholders)		Form of Proxy (Non-Voting Shareholders)		Investor Feedback Form			

Annexes



Introduction

Det Norske Veritas AS ('DNV') has been commissioned by the management of Commercial Bank of Ceylon PLC ('Commercial Bank' or 'the Company') to carry out an independent assurance engagement (Type 2, Moderate level) on the sustainability performance reported in Company's Annual report - 2012 ('the Report') in its printed format. This engagement focused on underlying management and reporting processes for the qualitative and quantitative information provided in the Report. The engagement was carried out against AccountAbility's AA 1000 Assurance Standard 2008 (AA 1000AS), the DNV Protocol for Verification of Sustainability Reporting (VeriSustain) and adherence to principles of the Global Reporting Initiative (GRI) 2011, Sustainability Reporting Guidelines Version 3.1 (G3.1).

The intended users of this assurance statement are the readers of Commercial Bank's 2012 Sustainability Report. The Management of Commercial Bank is responsible for all information provided in the Report as well as the processes for collecting, analyzing and reporting that information. DNV's responsibility in performing this work is regarding the verification of the Report only, in accordance with the agreed scope of work. The assurance engagement is based on the assumption that the data and information provided to us is complete, sufficient and authentic. Our assurance engagement was planned and carried out in February - March 2013.

Scope of Assurance and limitation

The scope of the assurance as agreed upon with Commercial Bank included the verification of the content of the Report. In particular the assurance engagement included:

- The external verification of the non-financial data prepared using the GRI G3.1 guidelines, covering economic, environmental and social performance for the activities undertaken by Commercial Bank over the reporting period 1st January 2012 to 31st December 2012 and reported in this Report;
- Review of the policies, initiatives, practices and performance described in the Report pertaining to sustainability performance;
- Evaluation of the disclosed information in the Report, the systems and the processes Commercial Bank has in place for adherence to the three Accountability Principles (Inclusivity, Materiality and Responsiveness) as required for a Type 2, moderate level of assurance, in accordance with AA1000AS (2008) detailed below:
 - Information relating to company's sustainability issues, responses, performance data and underlying systems for the management of such information and data;
 - Information relating to company's materiality assessment and stakeholder engagement processes;
- Evaluation of the adherence to the principles set out in the Global Reporting Initiative Sustainability Reporting Guidelines 2011 (GRI G3.1) and the additional principles of Completeness and Neutrality, as set out in DNV's Protocol for Verification of Sustainability Reporting; and
- Confirmation of the Commercial Bank's declared Application level i.e. B+.

The reporting boundary is as set out in the report and during the assurance process; we did not come across limitations to the scope of the agreed assurance engagement. 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) and the DNV Protocol for Verification of Sustainability Reporting. The Report has been evaluated against the following criteria:

- Adherence to the principles of Inclusivity, Materiality and Responsiveness as set out in the AA1000AS (2008); the Reliability of specified sustainability performance information, as required for a Type 2, moderate level assurance engagement,
- Adherence to the additional principles of Completeness and Neutrality as set out in DNV's Protocol, and
- The principles and requirements of the GRI G3.1 for an application level B+.

As part of the engagement, DNV has 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 company's 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;
- Visited the head office and two branches in Colombo, Sri Lanka;
- Conducted interviews with key representatives including data owners and decision-makers from different functions of the Company;
- Performed sample-based reviews of the mechanisms for implementing the company's 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.

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:

- Implement a continuous and systematic quality assurance procedure for data management system to further improve the quality of reported sustainability performance data;

- To include the supply chain sustainability performance and develop a management process to identify and mitigate risks (if any) due to labor, human rights issues especially in supply chain activities and outsourced processes;
- Further Strengthen the Governance process to monitor Environmental and Social performance.

Conclusions

In DNV's opinion, based on the scope of this assurance engagement the Report provides a fair representation of the Company's sustainability-related strategies, management system and performance and we confirm that the Report generally meets the requirements for GRI application level B+. We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

AA1000AS (2008) principles

Inclusiveness: The Company demonstrates engagement with stakeholders through different channels. The material issues emerging from the stakeholder engagement were collected and prioritized, and the results are reflected in the Report. In our view, the level at which the Report adheres to the principle of inclusivity is "Good".

Materiality: The Company has reported its material issues of significance at the macro level and has not missed out any know material issues, but the process needs to be strengthened to bring out all material aspects related to financial sector with respect to national and international guidelines, so as to further evolve suitable sustainability strategy to effectively address the short, medium and long term impacts. In our view, the level at which the Report adheres to the principles of Materiality is "Acceptable".

Responsiveness: We consider that the Company's response to key stakeholder concerns, through its policies and management systems are fairly reflected in the Report. In our view, the level at which the Report adheres to the principle of Responsiveness is "Good".

Reliability: The majority of data and information verified at head office and site were found to be 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 generally reliable and acceptable.

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 reliably. We also assessed the reported progress against the company's commitments as disclosed in its previous Report and observed that the Report presents a faithful description of the sustainability activities and the goals achieved.

Additional principles as per GRI and DNV's protocol

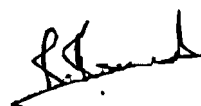
Completeness: The Report has fairly attempted to report the sustainability strategy, management approach and sustainability performances against the GRI G3.1 core indicators and financial sector supplement that are material within the Company's reporting boundary for application level B; In our view, the level at which the Report adheres to the Principle of Completeness is "Good".

Neutrality: The Company has reported its sustainability issues and performance in a neutral tone, in terms of content and presentation. In our view, the level at which the Report adheres to the principle of Completeness is "Good".

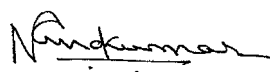
DNV's Competence and Independence

DNV is a global provider of sustainability services, with qualified environmental and social assurance specialists working in over 100 countries. DNV was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement on Non-financial reporting. DNV maintains complete impartiality towards any people interviewed. DNV expressly disclaims any liability or co-responsibility for any decision a person or entity would make based on this Assurance Statement.

For Det Norske Veritas AS



Ramesh Rajamani
Project Manager,
Det Norske Veritas AS, India.



Vadakepatth Nandkumar
Assurance Reviewer,
National Head - Sustainability & Business Excellence Services,
Det Norske Veritas AS, India.

4th March' 2013,
New Delhi, India





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Introduction

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ("the Company") to provide assurance on the following elements of the Sustainability Reporting incorporated in the Integrated Annual Report 2012 ("Report") for the year ended December 31, 2012:

- Reasonable assurance on the data on financial performance, as reported on page 5 of the Report.
- Limited assurance on Key Performance Indicators ("KPI") specified on page 447 of the Report 2012;

Managements' Responsibilities and the Criteria Applied

Management is responsible for the preparation and presentation of the Report in accordance with the GRI Sustainability Reporting Guidelines as described in pages 15 to 16 of the Report and the information and assertions contained within it: for determining the Company'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

Financial Data

A reasonable assurance engagement on financial performance reported on page 5 of the Report involves verification that they were properly derived from the Audited Financial Statements of the Company for the year ended December 31, 2012.

Key Performance Indicators

A limited assurance engagement on Key Performance Indicators in the Report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report,

and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of the Company's processes for determining the material issues for the Company'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 the 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 the Report.
- Comparing the information presented in the 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 the Report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of the Company.
- 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 page 5 of the Report 2012 are properly derived from the Financial Statements of the Company for the year ended 31 December 31, 2012 for which the Independent Auditors have issued an unqualified audit opinion dated February 27, 2013 on page 303 of this Report.
- Nothing has come to our attention that causes us to believe that the Performance Indicators presented in the Report are not fairly presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines as described in pages 15 to 16 of the Report.

Chartered Accountants
Colombo

February 27, 2013

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
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

Ms. M.P. Perera 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. Abeyaratne ACA
R.M.D.B. Rajapakse ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

Key Sustainability Areas	Key Performance Indicators Verified	Page No.
Product and Service Impact	Number of loans granted to Micro Agriculturists - 364 (48.330 Mn.)	117
	Number of loans granted to the North and the East - 2,597 (Rs. 527.646 Mn.)	118
	Number of financial literacy and entrepreneurship development programmes held during the year - 5	119
	Number of customer centres opened during the year - 14	4
	Number of ATMs established during the year - 55	4
Economic Performance	Statement of sources and distribution of Income	48
Environmental Responsibility	Number of Kg of e-waste disposed/recycled by the Bank in environment-friendly manner - 13,200 kg	125
	Number of ATMs purchases during the year conforming to RoHS - 51	126
	Number of energy efficient equipment replaces during the year	126
	Electricity usage saving during the year water usage saving during the year.	126
Labour Practice and Decent Work Responsibility	Location-wise, category-wise, age-wise, gender-wise, service-wise and full time/ part time and outsource staff analysis	98-102
	Return to work and retention rate after maternity leave -	106
	Average hours of training per year per employee by employee category and gender in Sri Lanka	109-110
Societal Responsibility	Bank's contribution to CSR trust during the year - 50 Mn.	120
	Number of CSR project completed during the year - 67	119
	Average cost of a CSR project completed - Rs. 900,000/-	119
	Number of undergraduates received grants during the year under 'Sarasaviyata Nawa Saviyak' - 54	122
	Number of health care projects carried out during the year - 11	122
	Number of computers and printers handed over during the year - 222 Computers and 36 Printers	121
Product Responsibility	Number of customer Satisfaction surveys carried out during the year - 1	29

Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
STANDARD DISCLOSURES PART I: PROFILE DISCLOSURES								
1.	Strategy and Analysis							
1.1	Statement from the most senior decision-maker of the Organisation, regarding the relevance of sustainability to the organisation and its strategy	Chairman's Letter			✓			Page 6
1.2	Description of key impacts, risks and opportunities	Our approach to sustainability			✓			Page 18
2.	Organisational Profile							
2.1	Name of the Organisation				✓			Commercial Bank of Ceylon PLC Page 15
2.2	Primary Brands, Products and/or Services				✓			Pages 58 and 94
2.3	Operational Structure of the Organisation				✓			Page 148
2.4	Location of Organisation's Headquarters				✓			Page 3
2.5	Number of countries where the Organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report				✓			Page 58
2.6	Nature of ownership and legal form				✓			Page 3
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)				✓			Page 58
2.8	Scale of the Reporting Organisation				✓			Page 58
2.9	Significant changes during the reporting period regarding size, structure or ownership				✓			Page 61
2.10	Awards received during the reporting period				✓			Page 136
3	Report Parameters							
	Report Profile							
3.1	Reporting period				✓			Page 15
3.2	Date of most recent previous report				✓			Page 15
3.3	Reporting cycle				✓			Page 15
3.4	Contact point for questions regarding the Report or its Contents				✓			Page 15
	Report Scope and Boundary							
3.5	Process for Defining Report Content		✓	✓	✓			Page 16
3.6	Boundary of the Report		✓	✓	✓			Page 15
3.7	Any specific limitations on the scope or boundary of the Report		✓	✓	✓			Page 15
3.8	Basis for reporting on joint ventures, subsidiaries,leased facilities, outsourced operations and other related entities		✓	✓	✓			Page 15
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques		✓	✓	✓			Page 15
3.10	Explanation of the effect of any restatement of information provided in earlier reports and the reason for such restatement		✓	✓	✓			There were no restatement of information provided in earlier reports
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report		✓	✓	✓			Page 15
	GRI Content Index							
3.12	Table identifying the location of the Standard Disclosures in the report.				✓			This table serves above purpose
3.13	Policy and current practice with regard to seeking external assurance for the Report				✓			Page 16

Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
4	Governance, Commitments and Engagement							
	Governance							
4.1	Governance Structure of the Organisation, including committees under the highest governance body responsible for specific tasks				✓			Governance Structure of Commercial Bank. Page 147
4.2	Indicate whether the Chair of the highest governance body is also an Executive Officer				✓		✓	Page 147
4.3	For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or Non-Executive members				✓			Annual Report of the Board of Directors. Page 147
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body				✓			Page 149
4.5	Linkage between compensation for members of the highest governance body, senior managers, and Executives and the Organisation's performance				✓			Page 150
4.6	Processes in place for the highest governing body to ensure conflicts of interests are avoided				✓			Page 150
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity				✓			Page 147
4.8	Internally developed statements of mission or values, Codes of Conduct, and Principles relevant to economic, environmental, and social performance and the status of their implementation				✓			Page 151
4.9	Procedures of the highest governance body for overseeing the Organisation's identification and management of economic, environmental, and social performance.				✓			Page 151
4.10	Processes for evaluating the highest governance body's own performance particularly with regard to economic, environmental, and social performance				✓			Page 151
	Commitments to External Initiatives							
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the Organisation				✓			Page 152
4.12	Externally developed economic, environmental and social charters and principles, or other initiatives to which the Organisation subscribes or endorses				✓			Page 152
4.13	Memberships in associations and/or national/international advocacy organisations				✓			Page 153
	Stakeholder Engagement							
4.14	List of stakeholder groups engaged by the Organisation				✓			Page 153
4.15	Basis for identification and selection of stakeholders with whom to engage				✓			Page 153
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group				✓			Page 153
4.17	Key topics and concerns raised through stakeholders engagement and how the Organisations responded to them				✓			Page 153

Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
STANDARD DISCLOSURES: PART II AND III: MANAGEMENT APPROACH & PERFORMANCE INDICATORS								
Product and Services Impact								
	Management Approach		✓	✓	✓			Page 31
	Goals and Performance		✓	✓	✓			Page 32
	Policy		✓	✓	✓			Page 31
	Organisational Responsibility		✓	✓	✓			Page 32
	Training and Awareness		✓	✓	✓			Page 32
	Monitoring and Follow-up		✓	✓	✓			Page 33
Product and Service Impact Disclosure on Management Approach								
	Aspect: Product Portfolio							
FS1	Policies with specific environmental and social components applied to business lines.		✓	✓	✓			Page 32
FS2	Procedures for assessing and screening environmental and social risks in business lines.		✓	✖		✓		Page 32
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.		✓	✖		✓		Page 33
FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines.		✓	✖		✓		Page 33
FS5	Interactions with clients/investees/business partners regarding environmental and social risks and opportunities.		✓	✖		✓		Page 33
Product and Services Impact Performance Indicators								
	Aspect: Product Portfolio							
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector.						✓	
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose.		✓	✖		✓		Page 117
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose.		✓	✖		✓		Pages 117 and 118
	Aspect: Audit							
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures.						✓	
	Aspect: Active Ownership							
FS10	Percentage and number of companies held in the Institution's portfolio with which the reporting organization has interacted on environmental or social issues.						✓	
FS11	Percentage of assets subject to positive and negative environmental or social screening.						✓	
FS12	Voting polic(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting.						✓	
Economic Dimension of Sustainability								
	Management Approach		✓	✓	✓			Page 22
	Goals and Performance		✓	✓	✓			Page 22
	Policy		✓	✓	✓			Page 22

Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
Economic Performance Indicators								
	Aspect: Economic Performance							
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and Governments		✓	✓	✓			Page 47
EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change		✓	✗		✓		Page 52
EC3	Coverage of the Organisation's defined benefit plan obligations		✓	✗		✓		Page 52
EC4	Significant financial assistance received from Government		✓	✗		✓		Page 53
	Aspect: Market Presence							
EC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation			✓		✓		Page 114
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation		✓	✓	✓			Page 53
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation		✓	✓	✓			Page 114
	Aspect: Indirect Economic Impacts							
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or <i>pro bono</i> engagement		✓	✗		✓		Page 53
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts						✓	
Environmental Dimension of Sustainability								
	Management Approach		✓	✓	✓			Page 22
	Goals and Performance		✓	✓	✓			Page 22
	Policy		✓	✓	✓			Page 22
	Organisational Responsibility		✓	✓	✓			Page 22
	Training and Awareness		✓	✓	✓			Page 23
	Monitoring and Follow up		✓	✓	✓			Page 23
Environmental Performance Indicators								
	Aspect: Materials							
EN1	Materials used by weight or volume						✓	
EN2	Percentage of materials used that are recycled input materials						✓	
	Aspect: Energy							
EN3	Direct energy consumption by primary energy source						✓	
EN4	Indirect energy consumption by primary source		✓	✓	✓			Page 126
EN5	Energy saved due to conservation and efficiency improvements						✓	
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives		✓	✓	✓			Page 126
EN7	Initiatives to reduce indirect energy consumption and reductions achieved		✓	✗		✓		Page 127
	Aspect: Water							
EN8	Total water withdrawal by source		✓	✓	✓			Page 126
EN9	Water sources significantly affected by withdrawal of water						✓	
EN10	Percentage and total volume of water recycled and reused						✓	

Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
	Aspect: Biodiversity							
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		✓	✓	✓			Page 127
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas		✓	✓	✓			Page 127
EN13	Habitats protected or restored		✓	✓	✓			Page 127
EN14	Strategies, current action and future plans for managing biodiversity		✓	✓	✓			Page 127
EN15	Number of IUCN Red List Species and National Conservation List Species with habitats in areas affected by operations, by level of extinction risk		✓	✓	✓			Page 127
	Aspect: Emissions, Effluents and Waste							
EN16	Total direct and indirect greenhouse gas emissions by weight						✓	
EN17	Other relevant indirect greenhouse gas emissions by weight						✓	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved						✓	
EN19	Emissions of ozone-depleting substances by weight						✓	
EN20	NO, SO, and other significant air emissions by type and weight						✓	
EN21	Total water discharge by quality and destination						✓	
EN22	Total weight of waste by type and disposal method		✓	x		✓		Page 125
EN23	Total Number of and Volume of significant spills						✓	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, & VIII, and percentage of transported waste shipped internationally						✓	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff						✓	
	Aspect: Products and Service							
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation						✓	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category						✓	
	Aspect: Compliance							
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		✓	✓	✓			Page 130
	Aspect: Transport							
EN29	Significant environmental impacts of transporting products and other goods and materials used for the Organisation's operations, and transporting members of the workforce						✓	
	Aspect: Overall							
EN30	Total environmental protection expenditures and investments by type						✓	

Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
Social Dimension of Sustainability								
Labour Practices and Decent Work Dimension								
	Management Approach		✓	✓	✓			Page 23
	Goals and Performance		✓	✓	✓			Page 23
	Policy		✓	✓	✓			Page 23
	Organisational Responsibility		✓	✓	✓			Page 23
	Training and Awareness		✓	✓	✓			Page 24
	Monitoring and Follow-up		✓	✓	✓			Page 25
Labour Practices and Decent Work Performance Indicators								
Aspect: Employment								
LA1	Total workforce by employment type, employment contract, and region, broken down by gender		✓	✓				Page 98
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region		✓	✓	✓			Page 102
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations		✓	✓	✓			Page 105
LA15	Return to work and retention rates after parental leave, by gender.		✓	✓	✓			Page 106
Aspect: Labour/Management Relations								
LA4	Percentage of employees covered by collective bargaining agreements		✓	No Unions	✓			Page 106
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements		✓	✓	✓			Page 107
Aspect: Occupational Health and Safety								
LA6	Percentage of total workforce represented in formal joint management - worker health and safety committees that help monitor and advice on occupational health and safety programmes		✓	✗		✓		Page 107
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region and by gender		✓	✗		✓		Page 108
LA8	Education, training, counselling, prevention of diseases, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases		✓	✓	✓			Page 108
LA9	Health and safety topics covered in formal agreements with trade unions		✓	✗		✓		Page 108
Aspect: Training and Education								
LA10	Average hours of training per year per employee by gender, and by employee category		✓	✗		✓		Page 108
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings		✓	✗		✓		Page 111
LA12	Percentage of employees receiving regular performance and career development reviews by gender		✓	✓	✓			Page 112
Aspect: Diversity and Equal Opportunity								
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity						✓	
Aspect: Equal Remuneration for Women and Men								
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation		✓	✓	✓			Page 112

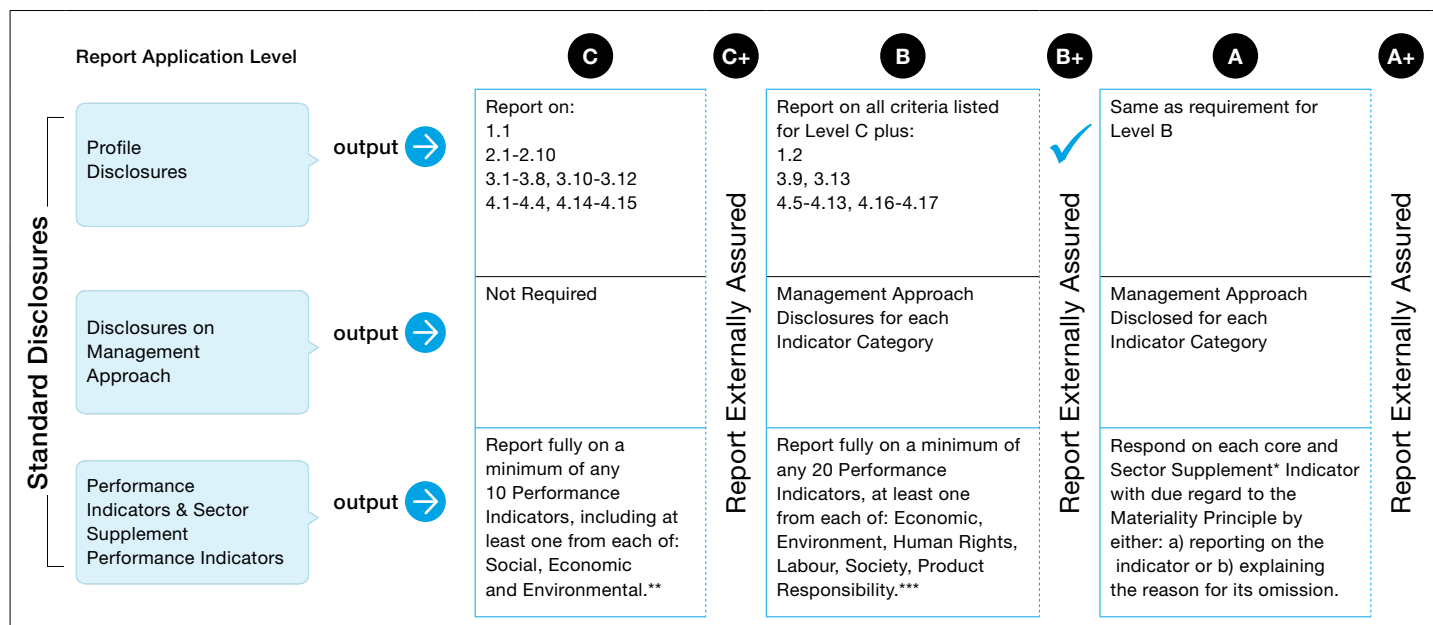
Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
Human Rights Dimension								
	Management Approach		✓	✓	✓			Page 25
	Goals & Performance		✓	✓	✓			Page 26
	Policy		✓	✓	✓			Page 26
	Organisational Risk Assessment		✓	✓	✓			Page 26
	Impact Assessment		✓	✓	✓			Page 26
	Organisational Responsibility		✓	✓	✓			Page 26
	Training and Awareness		✓	✓	✓			Page 27
	Monitoring, Follow-up & Remediation		✓	✓	✓			Page 27
Human Rights Performance Indicators								
HR1	Aspect: Investment and Procurement Practices Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening						✓	
HR2	Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken						✓	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained		✓	✓	✓			Page 115
HR4	Aspect: Non-discrimination Total number of incidents of discrimination and actions taken		✓	✓	✓			Page 115
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights		✓	✓	✓			Page 115
HR6	Aspect: Child Labour Operations and significant suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour		✓	✓	✓			Page 115
HR7	Aspect: Forced and Compulsory Labour Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour		✓	✓	✓			Page 115
HR8	Aspect: Security Practices Percentage of security personnel trained in the Organisation's policies or procedures concerning aspects of human rights that are relevant to operations		✓	✓	✓			Page 116
HR9	Aspect: Indigenous Rights Total number of incidents of violations involving rights of indigenous people and actions taken		✓	✓	✓			The Bank does not involve in incidents that lead to violations involving rights of indigenous people.
HR10	Aspect: Assessment Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.		✓	✓	✓			There were no operations that have been subjected to human rights reviews and/or impact assessments.

Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
	Aspect: Remediation							
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms		✓	✓	✓			There were no grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.
Society Dimension								
	Management Approach		✓	✓	✓			Page 27
	Goals and Performance		✓	✓	✓			Page 27
	Policy		✓	✓	✓			Page 27
	Organisational Responsibility		✓	✓	✓			Page 28
	Training and Awareness		✓	✓	✓			Page 28
	Monitoring, Follow-up and Remediation		✓	✓	✓			Page 28
Society Performance Indicators								
	Aspect: Local Communities							
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes		✓	✓	✓			Page 119
FS13	Access points in low-populated or economically disadvantage areas by type						✓	
FS14	Initiatives to improved access to financial services for disadvantaged people		✓	✗		✓		Page 118
SO9	Operations with significant potential or actual negative impacts on local communities						✓	
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities						✓	
	Aspect: Corruption							
SO2	Percentage and total number of business units analysed for risks related to corruption		✓	✓	✓			Page 124
SO3	Percentage of employees trained in Organisation's anti-corruption policies and procedures					✓		Page 124
SO4	Actions taken in response to incidents of corruption		✓	✓	✓			Page 125
	Aspect: Public Policy							
SO5	Public policy positions and participation in public policy development and lobbying		✓	✓	✓			Page 125
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country		✓	✓	✓			Page 125
	Aspect: Anti-Competitive Behaviour							
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes		✓	✓	✓			Page 130
	Aspect: Compliance							
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		✓	✓	✓			Page 130

Profile Disclosure	Description	Reported In	Scope of Reporting by Country		Level of Disclosure			Reference Pages or Explanations
			Sri Lanka	Bangladesh	Fully	Partial	Not Disclosed	
Product Responsibility Dimension								
	Management Approach		✓	✓	✓			Page 28
	Goals and Performance		✓	✓	✓			Page 28
	Policy		✓	✓	✓			Page 30
	Organisational Responsibility		✓	✓	✓			Page 30
	Training and Awareness		✓	✓	✓			Page 30
	Monitoring, Follow-up and Remediation		✓	✓	✓			Page 31
Product Responsibility Performance Indicators								
FS15	Aspect: Product and Service Labelling Policies for the fair design and sale of financial products and services		✓	✓	✓			Page 31
PR1	Aspect: Customer Health and Safety Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures		✓	✓	✓			Page 128
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services		✓	✓	✓			Page 128
PR3	Aspect: Products and Service Labelling Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements		✓	✓	✓			Page 128
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes		✓	✓	✓			Page 128
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction		✓	✓	✓			Page 128
PR6	Aspect: Marketing Communications Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship		✓	✓	✓			Page 129
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		✓	✓	✓			Page 129
PR8	Aspect: Customer Privacy Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data						✓	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		✓	✓	✓			Page 128

UNGC Principles - GRI Indicators Cross Reference

Issue Areas	GC Principles	Relevant GRI Indicators
Human Rights	<i>Principle 1</i>	
	Businesses should support and respect the protection of internationally-proclaimed human rights	EC5, LA4, LA6-LA9, LA14, HR3-HR8, SO5
	<i>Principle 2</i>	
	Businesses should make sure that they are not complicit in human rights abuses	HR3-HR8, SO5
Labour	<i>Principle 3</i>	
	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	LA4, LA5, HR3, HR5, SO5
	<i>Principle 4</i>	
	Businesses should uphold the elimination of all forms of forced and compulsory labour	HR 3, HR 7, SO 5
	<i>Principle 5</i>	
	Businesses should uphold the effective abolition of child labour	HR 3, HR 6, SO 5
Environment	<i>Principle 6</i>	
	Businesses should uphold the elimination of discrimination in respect of employment and occupation	EC7, LA2, LA14, HR3, HR4, SO5
	<i>Principle 7</i>	
	Businesses should support a precautionary approach to environmental challenges	EC2, SO5
	<i>Principle 8</i>	
Anti-Corruption	Businesses should undertake initiatives to promote greater environmental responsibility	EN22, EN28
	<i>Principle 9</i>	
	Businesses should encourage the development and diffusion of environmentally-friendly technologies	EN 22, SO 5
	<i>Principle 10</i>	
	Businesses should work against corruption in all its forms, including extortion and bribery	SO2-SO4



* Sector supplement in final version

** performance Indicators may be selected from any finalised Sector Supplement, but 7 of the 10 must be from the original GRI Guidelines

*** Performance Indicators may be selected from any finalised Sector Supplement, but 14 of the 20 must be from the original GRI Guidelines

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
• Ratings by Fitch Ratings Lanka Ltd. Senior Debt	AA (lka)	AA (lka)	AA (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (lka)	AA+ (sri)	AA+ (sri)	SL AA +
• Ratings by Ram Ratings Lanka Ltd. Long term financial institution ratings	AA+	AA+								
• Ratings by Ram Ratings Lanka Ltd. Short term financial institution ratings	P1	P1								
• Only Sri Lankan Bank amongst the Top 1000 Banks of the world - The Banker, UK	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	Winner
• Award for Excellence by Euro Money Magazine (UK) Best Bank in 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						
• 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		Joint 2nd R. up	Winner	1st R. up		Joint Winner	1st R. up	Winner	Winner	Winner
Banking Sector		Winner	Winner	1st R. up	Joint 1st R. up	Winner	Winner	Winner	Winner	Winner
Corporate Governance Disclosure		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			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	2nd R. up				Winner		
• National Business Excellence Awards by the National Chamber of Commerce of Sri Lanka										
Overall			Winner			N/A	Winner			
Large Scale Investments			N/A			Winner	N/A	N/A		
Extra Large Sector			Winner			N/A	Winner	2nd R. up		
Banking Sector			Winner			N/A	Winner	Winner		
Excellence in Performance Management Practices			Winner							
Block Buster Performance			N/A			N/A	Winner	N/A		
Business and Financial Sustainability						N/A	Winner	Winner		
• Awards by Ministry of Labour Relations and Manpower together with ILO Office in Sri Lanka - National Decent Work Award				Gold						
• Human Resource Management (HRM) Awards										
National/Overall/Gold				Winner		Winner				
Overall (Large Sector)								Winner		
Most Innovative HR Practice (Large Sector)								Winner		
• National Best Quality Software Awards by The British Computer Society (Sri Lanka Section)										
Financial Sector (Com e-Load Product)							Silver			
Financial Sector (Com Bank Online Product)							Merit			
• Awards by the Association of HR Professionals										
HR Awards 2010 - Super 10			Gold							
Award for Talent Supply			Winner							
Bank's Achievements in Bangladesh Operations										
• Credit Ratings by Credit Rating Information Services Ltd.	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							

	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 2, 2008 in Italy	August 8, 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	S.D. Bandaranayake	H.D.S. Amarasuriya	M.P. Jayawardena
Director	A.L. Gooneratne	A.R.M. Muttiah	S.M.R. Rodrigo	Deshabandu S.E. Captain	D.M.D.K. Thilakaratne
Director	A.T.P. Edirisinghe	S. Renganathan		J.B. Adu Baker	W.M.R.S. Dias
Director	L.D.A. Jayasinghe	M.E.C. Abeywardena		J.D. Peiris	R.A.M. Senevirathne
Director	U.I.S. Tillakawardana	M.E.P. Perera		W.I. Arambage Appointed w.e.f. 15.02.2012)	
Director	D.M. de Silva Wijeyeratne (Resigned w.e.f. 16.11.2012)	K.S.A. Gamage		L.A. Rajapakse (Appointed w.e.f. 29.03.2012)	
Company Secretary	L.W.P. Indrajith	M.P. Dharmasiri	Anthonia Capolla (Commercerlista)	Mrs. R.R. Dunuwille	Mrs. A. Kularathne

Summary of Financial Information

	2012 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.	2011 Rs. Mn.
Total assets	1,513.245	1,327.086	85.235	93.577	50.711	50.170	280.575	407.000	215.312	220.416
Total liabilities	314.597	246.535	23.488	27.574	55.200	36.818	5.861	27.245	51.366	71.970
Net assets	1,198.648	1,080.551	61.747	66.003	(4.489)	13.352	274.714	379.755	163.946	148.446
Total revenue	199.979	219.366	165.184	111.217	0.426	0.039	52.378	45.397	172.734	165.175
Profit before tax	334.878	360.685	29.200	21.364	(39.860)	(34.391)	33.974	29.231	25.166	22.912
Profit after tax	234.360	338.341	20.744	19.037	(39.860)	(34.391)	33.897	29.152	19.604	19.243
Dividend (per share) (Rs.)	4.00	3.00	50.00	3.00	-	-	0.70	1.20	6.00	4.00

Historical Landmarks

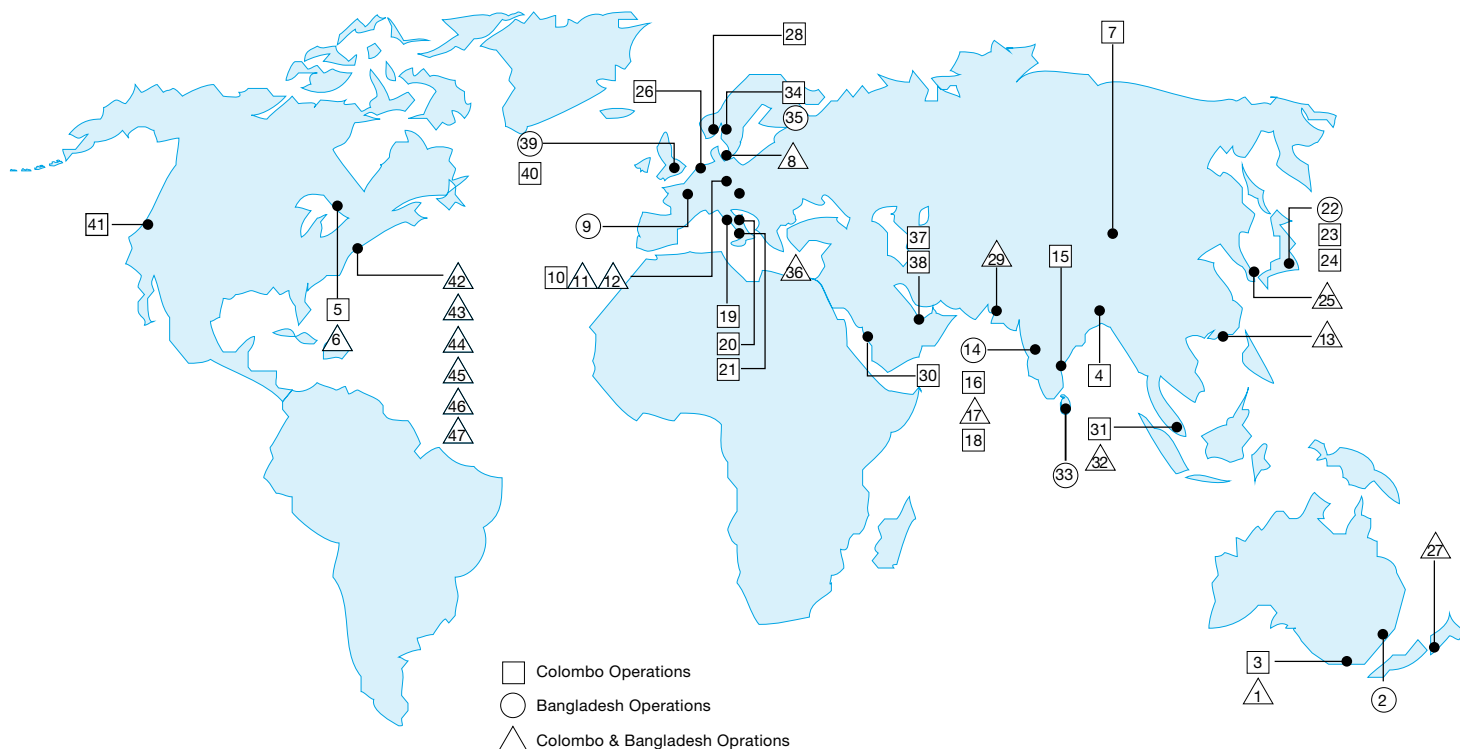
This is Commercial Bank
Operating Highlights
Financial Highlights
Letter from the Chairman
Managing Director's Review
Management Discussion and Analysis
Stewardship
Financial Reports

Commercial Bank of Ceylon PLC
Annual Report 2012

✓ Annexes

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	Bank 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 1,000 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. Became the only Sri Lankan bank to be ranked among the 'Top 1,000 Banks in the World' for the 2nd time. Opened the 200th delivery point at Kataragama and extended the number of delivery points in Sri Lanka to 213.
2011	Added 100 ATMs during the year and installed its 500th ATM at the Maradana railway station and became the first Bank to have ATMs at railway stations bringing more convenience to customers. Set up Islamic Banking Unit and Elite Branch for high network 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 second consecutive year. Adjudged as Sri Lanka's 'Best Bank' for the 14th consecutive year by one of the world's most respected financial publications, 'Global Finance (USA)'. Adjudged as the 'Best Bank in Sri Lanka' by 'Finance Asia' for the fourth consecutive year. Adjudged for the 3rd time by UK based 'Trade Finance' magazine (published by Euromoney PLC) as the 'Best Local Trade Bank' in Sri Lanka.



Country, Name and Address of the Bank	BIC Code/ Swift	CCY	Account No.
Australia			
1. Citibank NA Citigroup Centre, 120, Collins Street, Melbourne, Victoria 3000 - Australia www.citibank.com.au	CITIAU2X	AUD	205636005*
		AUD	232603003
2. HSBC Bank Australia Ltd. 580, George Street, Sydney, NSW 2000 www.hsbc.com.au	HKBAU2S	AUD	011-796323-041*
3. National Australia Bank 500, Bourke Street, Melbourne VIC 3000 - Australia www.national.com.au	NATAAU33	AUD	1803020052500
Bangladesh			
4. Commercial Bank of Ceylon PLC Corporate Branch and Head Office, Hadi Mansion, 2 Dilkusha C/A, Dhaka 1000 www.combank.net	CCEYBDDH	AC\$	2802000017
Canada			
5. Bank of Nova Scotia Global Wholesale Services, 720, King Street West, Toronto www.scotiabank.com	NOSCCATT	CAD	0072214
6. Canadian Imperial Bank of Commerce Int'l Dept. Head Office, Commerce Court, Toronto, M5L 1H1, Canada www.cibc.com	CIBCCATT	CAD	1733117
		CAD	1751514*

*Accounts of Bangladesh Operations.

Country, Name and Address of the Bank	BIC Code/ Swift	CCY	Account No.
China			
7. Standard Chartered Bank 22nd Floor, Standard Chartered Tower, 201, Century Avenue, Pudong, Shanghai www.standardchartered.com	SCBLCNSX	CNY	501510533540
Denmark			
8. Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen, Denmark www.nordea.com	NDEADKKK	DKK	5000408909
		DKK	5000017703*
France			
9. Credit Agricole SA 75710 Paris Cedex 15, CCP, Paris 702 U 020 France www.credit-agricole.fr	AGRIFRPP	EUR	20533624000*
Germany			
10. Bayerische Hypo und Vereins Bank AG D-80311, Muenchen, Germany www.hypovereinsbank.de	HYVEDEMM	EUR	69101429
11. Commerz Bank AG ZTB BC Mitte 6.4, Mainzer Landstrasse 277-293, 60261, Frankfurt AM Main, Germany www.commerzbank.com	COBADEFF	EUR	400872103701
		EUR	400871436200*
12. Standard Chartered Bank Data & Exposure Control, P.O. Box 110162, Theodor - Heuss - Allee 112, D60036, Frankfurt AM Main, Germany www.standardchartered.de	SCBLDEF	EUR	018109406
		EUR	018109205
		EUR	018112204*

Country, Name and Address of the Bank	BIC Code/ Swift	CCY	Account No.
Hong Kong			
13. Standard Chartered Bank	SCBLHKHH	HKD	41109468048
P.O. Box 21, 9th Floor, 4-4A,		HKD	44709419107*
Des Voeux Road,		CNY	44709448344
Central Hong Kong			
www.standardchartered.de			
India			
14. Axis Bank Ltd.	AXISINBB	USD	910020049396568*
4th Floor, Axis House,			
Bombay Dyeing Mills Compound,			
Pandurang Budhkar Marg,			
Mumbai - 400 025, India			
www.axisbank.com			
15. Bank of Ceylon Chennai	BCEYIN5M	AC€	1-119
1090, Poonamallee High Road,			
Chennai 600 084, India			
www.boc.lk			
16. Deutsche Bank AG	DEUTINBB	AC\$	0212878-05-0
Ground Floor, CSD Area, Kodak House,			
225, D.N. Road, Fort, Mumbai, India			
www.db.com			
17. ICICI Bank Ltd.	ICICINBB	AC\$	000406000181
ICICI Bank Towers, Bandra-Kurla Complex,		AC\$	000406000220*
Bandra (East), Mumbai 400 051, India			
www.icicibank.com			
18. Standard Chartered Bank	SCBLINBB	AC\$	22205031885
23-25, Mahatma Gandhi Road,		AC€	22205394120
P.O. Box 558, Mumbai 400 001, India			
www.standardchartered.com			
Italy			
19. Banca Intesa BCI	BCITITMM	EUR	100100003820
#2612, Head Office,			
Int'l Money Transfer Dept.,			
Piazza Della Scala 6, 20121 Milan, Italy			
www.bancaintesa.it			
20. Banco Popolare Society Cooperation	BAPPIT22	EUR	000400000082
Piazza Nogara 2, 37121, Verona, Vr, Italy			
www.bancopopolare.it			
21. Unicredit Italiano SPA	UNCRITMM	EUR	0995 4268
Viale, Mberto, Tupini, 180, 1-00144,			
Rome, Italy			
www.unicreditgroup.eu			
Japan			
22. Bank of Tokyo Mitsubishi Ltd.	BOTKJPJT	JPY	653-0461318*
P.O. Box 191, Nihonbashi, Tokyo, Japan			
www.bk.mufg.jp			
23. Standard Chartered Bank	SCBLJPJT	JPY	2168531110
P.O. Box 9997, 21st Floor, Sanno Park,			
Tower 2-11-1, Nagata-cho, Chiyoda-ku,			
Tokyo 100-6155, Japan			
www.standardchartered.com			
24. Sumitomo Mitsui Banking Corporation	SMBCJPJT	JPY	4395
International Business Operations Dept.,			
1-5-3, Kudanminami, Chiyoda-ku, Tokyo,			
102-0074 Japan			
www.smbc.co.jp			
Korea			
25. Kookmin Bank	CZNBKRSE	US\$	7598USD010
9-1, 2GA, Namdaemun - RO, Jung - GU,			7618USD013*
Seoul 100-703, Korea			
www.kbstar.com			

* Accounts of Bangladesh Operations

Country, Name and Address of the Bank	BIC Code/ Swift	CCY	Account No.
Netherlands			
26. Ing Bank N.V.	INGBNL2A	EUR	0050908928
P.O. Box 1800, 1000 BV, Amsterdam,			
Netherlands			
www.ing.com			
New Zealand			
27. Bank of New Zealand	BKNZNZ22985	NZD	2659680000
P.O. Box 2392, 1, Willis Street, Wellington,			2690700000*
New Zealand			
www.bnz.co.nz			
Norway			
28. Den Norske Bank	DNBANOKK	NOK	7002.02.04808
Stranden 21, 0021, Oslo, Norway			
www.dnbnor.com			
Pakistan			
29. Standard Chartered Bank	SCBLPKK	AC\$	15000297601USD
1.1, Chundrigar Road, Karachi 75600,			15000288701USD*
Pakistan			
www.standardchartered.com			
Saudi Arabia			
30. The National Commercial Bank	NCBKSJAE	US\$	55535150090301
International Banking Division,			
Banking Relations, 20th Floor,			
P.O. Box 3555, Jeddah 21481, Saudi Arabia			
www.alahli.com			
Singapore			
31. Citibank NA	CITISGSG	US\$	00851122001
3, Temasek Avenue, #14-00,			
Sennial Tower, Singapore 039190			
www.citibank.com			
32. Standard Chartered Bank	SCBLSGSG	SGD	0109344561
P.O. Box 1901, 6, Battery Road,			102318735*
7th Storey, Singapore 049909			
www.standardchartered.com.sg			
Sri Lanka			
33. Commercial Bank of Ceylon PLC	CCEYLKIX	AC\$	1420825031*
Commercial House,			
21, Sir Razik Fareed Mawatha,			
P.O. Box 856, Colombo 1, Sri Lanka			
www.combank.net			
Sweden			
34. Skandinaviska Enskilda Banken	ESSESESS	SEK	52018529803
Utlandsreskontran Stockholm S 106 40,			
Sweden			
www.seb.se/mb			
35. Svenska Handelsbanken Stockholm, Sweden	HANDESSA	SEK	40324079*
www.handelsbanken.com			
Switzerland			
36. UBS A.G.	UBSWCHZH	CHF	023000000085408050000W
P.O. Box CH-8098, Zurich, Switzerland			023000000036535050000N*
www.ubs.com			
United Arab Emirates			
37. Blom Bank France	BLOMAEAD	AED	0510035395784101010
P.O. Box 4370, Al Maktoum Street,			
Deira, Dubai, UAE			
www.blombank.com			
38. Mashreq Bank	BOMLAEAD	AED	0195511268
P.O.Box 1250, Dubai, UAE			
www.mashreqbank.com			

Country, Name and Address of the Bank	BIC Code/ Swift	CCY	Account No.
United Kingdom			
39. HSBC Bank PLC	MIDLGB22	GBP	58335536*
8, Canada Square, London - UK		GBP	59398188*
www.hsbc.co.uk		EUR	59448448*
40. Standard Chartered Bank	SCBLGB2L	GBP	01804813401
City Office, Branch No. 37,			
Grace Church Street, London			
EC3V OBX, UK			
www.standardchartered.com			
United States of America			
41. Bank of America NT & SA	BOFAUS6S	US\$	6290890098
International Deposit Services,			
1850, Gateway BL VD,			
6th Floor, Concord CA 94520, USA			
www.bankofamerica.com			
42. Citi Bank	CITIUS33	US\$	36141446
111, Wall Street, 19th Floor,		US\$	36241316*
New York 10043, USA		US\$	36242538*
www.citibank.com			

*Accounts of Bangladesh Operations

Country, Name and Address of the Bank	BIC Code/ Swift	CCY	Account No.
43. Deutsche Bank Trust Company Americas	BKTRUS33	US\$	04034566
P.O. Box 318, Church Street Station,		US\$	4447395*
New York, NY 10008, USA			
www.db.com			
44. HSBC Bank USA	MRMDUS33	US\$	0000045829
500, Stanton Christiana Road,		US\$	000147605*
New York, Delaware 19713, NY - USA			
www.hsbcusa.com			
45. JP Morgan Chase Bank	CHASUS33	US\$	400808625
Head Office, 270, Park Avenue,			400809176*
New York, NY 10017, USA			
www.jpmorganchase.com			
46. Standard Chartered Bank	SCBLUS33	US\$	3582052360001
One Madison Avenue, New York,			3582052360002
NY 10010-3603, USA			3582052637001*
www.standardchartered.com			
47. Wells Fargo Bank N.A.	PNBPUS3NNYC	US\$	2000191002407
11, Penn Plaza, 4th Floor, New York,			2000193003365*
NY 10038, USA			
www.wellsfargo.com			

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.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Available-for-Sale

All assets not in any of the three categories, namely, held to maturity, Fair Value through Profit or Loss and Loans & Receivable. It is a residual category - does not mean that the entity stands ready to sell these all the time.

B

Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Bonus Issue (Scrip Issue)

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) into stated capital and hence does not involve an infusion of cash.

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.

Capital Reserves

Reserves identified for specific purposes and considered not available for distribution.

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 Balance Sheet date.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost/Income Ratio

A ratio expressing Bank's cost effectiveness which sets operating expenses including Financial Value Added Tax and excluding Loan Loss Provision in relation to operating income.

Cost Method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

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.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derivatives

Financial Instruments whose values derives largely from the price, price fluctuations and expectations of an underlying. (Ex. Options, Swaps and Futures).

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

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

E

Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Tax Rate

Provision for taxation excluding deferred tax 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.

ESOP (Employee Share Option Plan)

A method of giving employees shares in the business for which they work.

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 contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

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.

Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Free Capital

Excess of equity capital over net book value of Property, Plant & Equipment, Intangible Assets and Investments.

G

Group

A group is a Parent and all its Subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (Interest Rate, Prices and Commodities, etc.).

Held-to-Maturity

Debt assets acquired by the entity with positive intention to be held to maturity.

Human Resource Accounting

Is a method of accounting under which the human resource is considered as an asset (although not brought into the Balance Sheet) and the value is thus computed to focus attention of the management on this valuable asset.

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 Allowances

Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss. An impairment allowance 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 Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Non-Controlling Interest

Equity in a subsidiary not attributable, directly or indirectly, to a parent.

O

Off-Balance Sheet Transactions

A method of financing a company's activities so that some or all of the finance and the corresponding assets do not appear on the Balance Sheet of the Company. They would be recognised as an asset or liability, which give rise to contingencies and commitments.

Open Credit Exposure Ratio

Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

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.

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

Risk-Adjusted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per-Rupee among all types of assets. The risk inherent in Off-Balance Sheet instruments is also recognised, first by adjusting notional values to Balance Sheet (or credit) equivalents and then by applying appropriate risk-weighting factors.

Risk-Weighted Assets

The sum total of On-Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk-weighting factors.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

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.

Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

S

Segment Reporting

Disclosure of Bank's assets, income and other information, broken down by activity and geographical area.

Shareholders' Funds

Total of stated capital and capital and revenue reserves.

Single Borrower Limit (SBL)

33% of the regulatory capital base.

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).

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

V

Value Added

Value of wealth created by providing banking and other-related services less the cost of providing such services.

Y

Yield to Maturity

Discount rate at which the present value of future cash flows would equal the security's current price.

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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 2013 series and 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)
Telex: 21520 COMEX CE
Facsimile: 2449889
SWIFT Code - Sri Lanka: CCEYLKX
SWIFT Code - Bangladesh: CCEYBDDH
E-mail: email@combank.net
Web: http://www.combank.net,
http://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 2012
- AA+ was affirmed by Ram Ratings Lanka Ltd. in 2012

Bangladesh Operation

- AAA was re-affirmed by Credit Rating Information Services Ltd. in 2012

Compliance Officer

Mr. S.M. Richard Rodrigo

Lawyers

Messrs Julius & Creasy,
No. 41, Janadhipathi Mawatha,
Colombo 01, Sri Lanka.

Auditors

Messrs 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)
Appointed as the Managing Director/
CEO w.e.f. April 27, 2012

Prof. U.P. Liyanage
Mr. L. Hulugalle
Mr. M.P. Jayawardena
Mr. S. Swarnajothi - Appointed
w.e.f. August 20, 2012
Mr. J. Durairatnam - Appointed
w.e.f. April 28, 2012

Company Secretary

Mrs. R.R. Dunuwille

Board Subcommittees

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)
Mr. J. Durairatnam (By Invitation)

Board Integrated Risk Management Committee

Mr. K.G.D.D. Dheerasinghe (Chairman)
Prof. U.P. Liyanage
Mr. L. Hulugalle
Mr. M.P. Jayawardena
Mr. S. Swarnajothi -
(Appointed w.e.f. August 20, 2012)
Mr. W.M.R.S. Dias
Mr. J. Durairatnam
(Appointed w.e.f. April 28, 2012)
Mr. K.D.N. Buddhipala (Chief Financial Officer/Secretary)
Mr. S.C.U. Manatunga (Chief Risk Officer - by Invitation)

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)
Appointed w.e.f. August 20, 2012
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 Information Technology Committee

Prof. U.P. Liyanage (Chairman)
Mr. L. Hulugalle
Mr. R. Muttiah (Chief Information Officer)
Mr. H. Munasinghe (Deputy General Manager - Marketing)
Mr. P. Perera (Assistant General Manager - Operations)

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 write to:

The Chief Financial Officer
Commercial Bank of Ceylon PLC,
'Commercial House',
No. 21, Sir Razik Fareed Mawatha,
P.O. 856, Colombo 01, Sri Lanka.
Telephone: +94 (0) 11 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.

Notice is hereby given that the Forty Fourth 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 28, 2013, at 11.30 a.m. for the following purposes:

1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2012, 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. 3,334,434,148/- based on the issued ordinary (voting) and (non-voting) shares as at February 26, 2013 (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, 2012, be recommended to the Shareholders of the Company by the Board of Directors of the Company for due declaration at the Annual General Meeting (AGM) of the Company to be held for the year 2013.

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 Company 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 resolution is passed, which dividend would comprise 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 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 26, 2013, such being the market date immediately prior to that 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; and
- The allotment and issue of new ordinary (voting) and (non-voting) shares in satisfaction of the balance Rs. 2/- dividend entitlement.

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. 1,560,269,578/-, 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. 106,947,496/- 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, 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. 1,560,269,578/-, 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; and
- Rs. 106,947,496/-, to which the ordinary (non-voting) Shareholders are entitled,

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 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 59.722222 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 26, 2013, being the market date immediately prior to that 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 50 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 26, 2013, being the market date immediately prior to that date on which the Board formally resolved to recommend the dividend to the shareholders.

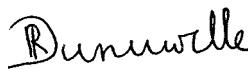
THAT the ordinary (voting) and (non-voting) share fractions, respectively, arising in pursuance of the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares, be aggregated, and the ordinary (voting) and (non-voting) shares, respectively, arising consequent to such aggregation 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 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) and (non-voting) shares, 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. Kankanam Gamage Don Dharmasena Dheerasinghe
 - (b) Prof. Uditha Pilane Liyange
 - (c) Mr. Jegatheesan Durairatnam
 - (d) Mr. Sembakuttige Swarnajothi
4. (a) To appoint Messrs KPMG as recommended by the Board of Directors, as Auditors to the Company for the ensuing year.
(b) To authorise the Board of Directors to determine the remuneration of the Auditors for the ensuing year.
5. To authorise the Board of Directors to determine donations for 2013.

By Order of the Board,



Mrs. R.R. Dunuwille
Company Secretary

March 05, 2013
Colombo

Notes

- i. A Shareholder entitled to attend, speak and vote at the Meeting is entitled to appoint a proxyholder to attend, speak and vote in his/her stead and a Shareholder who is entitled only to attend and speak at the Meeting is entitled to appoint a proxyholder to attend and speak on his/her behalf.
A proxyholder need not be a Shareholder of the Company.
- ii. A Form of Proxy is sent along with this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, 'Commercial House', No. 21, 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.

March 05, 2013

Circular to Shareholders

Dear Shareholder/s,

FINAL DIVIDEND FOR THE YEAR ENDED DECEMBER 31, 2012 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 28, 2013. 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. 1,667,217,074/-, based on the issued ordinary shares as at February 26, 2013. 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. 1,667,217,074/-, based on the issued ordinary shares as at February 26, 2013. 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 26, 2013, 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 26, 2013, (such being the market date immediately prior to that 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 26, 2013 (such being the market date immediately prior to that 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 59.722222 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 26, 2013, such being the market date immediately prior to that 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 50 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 26, 2013, such being the market date immediately prior to that 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 2012 will be utilised for the issue and allotment of new shares, in the event the Shareholders' approval is obtained for the aforesaid distribution scheme.

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 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, 2012 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 28, 2013 and setting out in item 2 thereof, the relevant resolution to be passed by the Shareholders in the above regard.

Shareholders who are unable to attend the 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 05, 2013

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 Fourth Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC to be held on March 28, 2013 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)

	For	Against
1. To receive, consider and adopt the Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance and the Financial Statements for the year ended December 31, 2012 with the Report of the Auditors thereon.	☐	☐
2. To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the requisite resolution. (A separate circular is attached)	☐	☐
3. To re-elect Directors in place of those retiring by rotation or otherwise, as given below:		
(a) Mr. Kankanam Gamage Don Dharmasena Dheerasinghe	☐	☐
(b) Prof. Uditha Pilane Liyanage	☐	☐
(c) Mr. Jegatheesan Durairatnam	☐	☐
(d) Mr. Sembakuttige Swarnajothi	☐	☐
4. (a) To appoint Messrs KPMG as recommended by the Board of Directors, as Auditors to the Company for the ensuing year.	☐	☐
(b) To authorise the Board of Directors to determine the remuneration of the Auditors for the ensuing year.	☐	☐
5. To authorise the Board of Directors to determine donations for 2013.	☐	☐

Signed on this day of Two Thousand and Thirteen.

..... 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) 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.

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 Fourth Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on March 28, 2013 and at any adjournment thereof.

Signed on this day of Two Thousand and Thirteen.

..... Folio Number	 Signature/s of Shareholder	 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.

REQUEST TO SHAREHOLDERS

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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.

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 (formerly known as Bristol Street),
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 Reports via e-mail?

Would you like to receive news and press releases of Commercial Bank via e-mail?

Would you like to receive any news on our products/services?

Yes No

☐	☐

☐	☐

☐	☐



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ANNUAL REPORT
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This Annual Report is published within three months of the date of the Statement of Financial Position. The web and mobile versions are also published online on the same date as the date of issue of this Annual Report at www.combank.lk